

The Treasury

Budget 2024 Information Release

September 2024

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- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
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Joint Report: Budget 2024: Social Development Savings Options

Date:	28 March 2024	Report No:	T2024/624
			REP/24/3/291
		File Number:	SH-3-7-2-13

Action sought

	Action sought	Deadline
Minister of Finance (Hon Nicola Willis)	Agree to the recommendations.	None
Minister for Social Development and Employment (Hon Louise Upston)	Agree to the recommendations.	None

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
James Adams	Analyst, Welfare and Oranga Tamariki, The Treasury	N/A (wk)	<input checked="" type="checkbox"/>
Sacha O'Dea	Deputy Chief Executive, Strategy and Insights, Ministry of Social Development	N/A (wk)	<input type="checkbox"/>
Laura King	Acting Manager, Welfare and Oranga Tamariki, The Treasury	N/A (wk)	<input type="checkbox"/>

Minister's Office actions (if required)

Return the signed report to Treasury and the Ministry of Social Development.

Enclosure: Yes

Joint Report: Budget 2024: Social Development Savings Options

Purpose of report

1. Following the Social Development Budget 2024 bilateral meeting on Wednesday 20 March 2024 (the bilateral), Ministers requested further advice on a number of initiatives. This report provides advice on these initiatives, and seeks decisions to inform the fourth Budget Ministers' Meeting (BM 4) on 8 April 2024 and the Budget Cabinet paper on 29 April.
2. Officials have agreed an approach to recognise savings from changes to emergency housing settings of \$350.545 million over the forecast period (OFP), including continued investment in support services. The overall impact of the time-limited funding decisions sought in this paper would add \$90.632 million (operating) and \$4.132 million (capital) OFP to the draft Budget 2024 package. A further \$6.894 million in capital spending would also be added to the package.
3. ^[33]
4. Finally, this report also provides the Minister for Social Development and Employment with additional material regarding specific initiatives as requested, to support further Ministerial engagement (attached as Annexes II – IV).

Recommended Action

It is recommended that you:

1. **note** that, at the bilateral meeting, Ministers discussed the Social Development Budget 2024 package – agreeing to progress some initiatives as submitted, and seeking further information regarding others
2. **note** that Ministerial decisions on these remaining initiatives are sought in this report – to then be confirmed at BM 4 on 8 April 2024, and finalised in the Budget Cabinet paper on 29 April

Departmental and programme savings

3. **note** that, at the bilateral, Ministers agreed to progress departmental savings of \$154.652 million over the forecast period (OFP) from the Ministry of Social Development (MSD), and \$0.212 million OFP from the Social Workers Registration Board

4. **note** that Ministers also agreed to progress savings from community programmes, totalling \$93.773 million in operating expenditure and \$10.001 million in capital expenditure OFF

Savings from changes to housing policy settings

5. **agree** to count the housing contribution from all boarders when calculating eligibility for housing subsidies (Accommodation Supplement, Temporary Additional Support, grandparented Special Benefit and the Income-Related Rent Subsidy) from 1 April 2026, with an estimated total fiscal saving of \$150.955 million over the forecast period, and to count the saving towards MSD’s baseline savings target

Agree/disagree *Agree/disagree*

6. **agree** to manage the fiscal impacts of tightening emergency housing gateway settings through Budget 2024 and to continue funding MSD’s emergency housing support services for two further years, at a total cost of \$83.460 million, to achieve targeted policy savings of \$350.545 million (i.e. 60 percent of originally estimated savings)

Agree/disagree *Agree/disagree*

7. **agree** to forward supporting materials regarding housing initiatives (to be provided separately from this report) to the Minister of Housing and Associate Minister of Housing (Social Housing)

Agree/disagree *Agree/disagree*

8. **agree to:**

[33]

9. [33]

10.

11.

Time-limited savings

12. **agree** to recognise the time-limited savings outlined in Table 8, resulting in a total fiscal saving of \$90.632 million (operating) and \$4.132 million (capital) OFP

Agree/disagree

Agree/disagree

13. **note** that the time-limited savings agreed in recommendation 12 above, plus the \$399.592 million in Baseline Savings already submitted, result in MSD meeting its baseline Savings Target, when viewed across the forecast period (\$12.264 million above target)

Agree/disagree

Agree/disagree

14. **agree** to recognise additional time-limited savings from:

[38]

Additional policy savings

15. [33]

16.

[33]

New spending initiatives

18. **note** that Ministers agreed the Welfare that Works initiative will not progress as part of Budget 2024 – but initiatives to support young people into work should be funded through reprioritisation next financial year, and:

- could be announced as part of the wider Budget 2024 communications
- [33]

19. **note** that MSD will continue to work through options regarding scaling and funding sources, and will provide further advice to the Minister for Social Development and Employment

20. **note** that Ministers agreed that the initiative for Historic Claims of Abuse in Care would be scaled to \$98.869 million, [33], along with new funding of \$81.869 million

Early announcements

21. **agree** to seek approval through the Budget Cabinet paper on 29 April 2024 to communicate decisions for the following initiatives in advance of Budget Day (*MSD recommendation*):

[38]

Agree/disagree

Agree/disagree

Laura King
**Acting Manager,
Welfare and Oranga Tamariki
The Treasury**

Sacha O’Dea
**Deputy Chief Executive
Strategy and Insights
Ministry of Social Development**

Hon Nicola Willis
Minister of Finance

Hon Louise Upston
Minister for Social Development and Employment

_____/_____/_____

_____/_____/_____



Joint Report: Budget 2024: Social Development Savings Options

Background

5. Following the Budget 2024 bilateral meeting between the Minister of Finance and Minister for Social Development and Employment on Wednesday 20 March 2024, Ministers requested further advice on a number of initiatives. This report provides advice on these initiatives and seeks decisions to inform the fourth Budget Ministers' Meeting (BM 4) on 8 April 2024 and the Budget Cabinet paper on 29 April.
6. Officials have agreed an approach to recognise savings from changes to emergency housing settings of \$350.545 million over the forecast period (OFP), including continued investment in support services. The overall impact of the time-limited funding decisions sought in this paper would add \$90.632 million (operating) and \$4.132 million (capital) savings over the forecast period (OFP) to the draft Budget 2024 package. A further \$6.894 million in capital spending would also be added to the package.
7. The Minister of Finance had previously sought further information on additional savings opportunities within Vote Social Development. To that end, an additional policy saving option is discussed below. ^[33]
8. Finally, this report also provides the Minister for Social Development and Employment with additional material regarding specific initiatives as requested, to support further Ministerial engagement (attached as Annexes II – IV).

Departmental and programme savings

Departmental savings

9. In the bilateral, Ministers agreed to progress departmental savings of \$154.652 million OFP from MSD – including savings from:
 - contractors and consultants
 - operational expenditure, and
 - workforce expenditure.
10. Departmental savings will also include an additional \$0.212 million OFP from the Social Workers Registration Board.

Savings from community programmes

11. Ministers also agreed to progress total savings of ^[33] in operating expenditure and ^[33] in capital expenditure OFP from the following community programme initiatives:
 - Minimum Wage Exemption – discontinuation of the wage supplement
 - ^[38]
 -
 -
 - Community Innovation Fund – return of funding.

Savings from changes to housing policy settings

Initiative #15564 – Including housing contributions from all boarders when assessing entitlement to housing subsidies

12. This initiative would reduce the cost of housing subsidies by changing how much homeowners and tenants are entitled to receive when they have one or more boarders. At present, any financial contributions made by one or two boarders¹ towards housing costs do not reduce the amount of Accommodation Supplement (AS), Temporary Additional Support (TAS), grand parented Special Benefit (SpB) or Income Related Rent Subsidy (IRRS) a person can receive. This is inconsistent with the treatment of other sources of income. It also means that where boarders also receive a housing subsidy, the government can be paying two subsidies for the same housing costs.
13. The change would reduce the amount of housing subsidies households with boarders are entitled to, resulting in a fiscal saving. However, it could discourage some lower-income households from taking on boarders (compared to the status quo), although many boarding arrangements reflect family responsibilities (e.g. adult children or elderly parents), and such arrangements may be more likely to continue regardless of changes to housing subsidies than market-based arrangements.
14. MSD estimates that the total saving from this initiative may amount to approximately \$161 million over the forecast period. This costing does not incorporate any adjustment for possible changes in households' willingness to take on boarders. Any behavioural effect would tend to reduce the savings from the change. However, the costing is based on MSD's data for households where both the homeowner or primary tenant and one or more boarders receive AS, which means that savings have not been counted from households where the homeowner or primary tenant receives AS but there are one or two boarders who do not.
15. In other words, the lack of data on households where boarders do not receive AS means that savings from the change may be under-counted, just as the possibility of a behavioural response suggests that the anticipated savings may be undercounted. Given that MSD have no way to reliably quantify either effect, consider that the existing costing is acceptably robust. MSD will need to work through administrative processes that will assist in identifying households who apply for housing subsidies and who have additional adult residents.
16. We therefore recommend that the following saving can be recognised at Budget 2024, with no change to the current draft Budget 2024 package:

Table One: Including income from boarders when assessing entitlement to housing supports – Total Opex savings

	\$ million – increase / (decrease)					
Summary	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears	Total
Costs	-	2.017	3.969	2.407	2.274	8.650
Savings	-	-	(14.962)	(66.422)	(80.238)	(161.622)
Total	-	2.017	(10.993)	(64.015)	(77.964)	(150.955)

¹ Current policy provides that housing contributions from the third or subsequent boarders are included in the assessment of housing subsidies. There are, however, very few households who have three or more boarders.

17. Note the above savings of \$150.955 are inclusive of \$21.416 million in savings from the Income Related Rent Subsidy (Vote Housing and Urban Development) – as outlined below.

Table Two: Including income from boarders when assessing entitlement to housing supports – Vote Housing and Urban Development Opex savings

Summary	\$ million – increase / (decrease)					Total
	2023/24	2024/25	2025/26	2026/27	2027/28	
Income Related Rent Subsidy (Vote Housing and Urban Development)	-	-	-	(6.040)	(15.376)	(21.416)

18. MSD also advise that implementing this change would require \$6.894 million in new capital funding, including for MSD IT. This was included in MSD's submission on 16 February 2024, however, was inadvertently left out of the Treasury's draft Budget package. The Treasury supports this new funding.

Table Three: Including income from boarders when assessing entitlement to housing supports – Total Capex costs

Initiative	\$ million – increase / (decrease)					Total
	2023/24	2024/25	2025/26	2026/27	2027/28	
Total Capex	-	1.575	5.319	-	-	6.894

Initiative #15551 – Tightening the gateway to emergency housing and extending scaled-down support services

19. In the bilateral, Ministers sought further information on this initiative, which identifies savings over the forecast period from:
- making policy and legislative changes to tighten the emergency housing gateway settings which facilitate a reduction in expenditure on emergency housing grants (MSD estimates this to save \$712.554 million over the forecast period), and
 - stopping the Housing Support Product Pilot (reprioritising time-limited funding of \$6.489 million from 2023/24 financial year).
20. The initiative, as originally proposed, would re-invest some of these savings (costing \$99.817 million) in extending scaled-down emergency housing support services to sustain a reduction of households in emergency housing over the forecast period; and implementing system changes to give effect to the policy changes to the gateway (\$1.194 million). After this reallocation, the initiative proposed a net saving of \$618.043 million over the forecast period.
21. The initiative seeks to address the large-scale and long-term emergency housing motel use, reduce cases of perverse incentives associated with the Priority One Fast-Track process, and help achieve the Government's priority target for emergency housing.

22. The Treasury had concerns about the methodology used to estimate these savings, and advised against progressing this initiative. Further detail was required on how MSD proposed to change gateway settings (aside from 'introducing obligations' and removing the ability to make recoverable grants), as Cabinet decisions on the policy are expected only after Budget 2024.
23. Since submitting this initiative, on 6 March 2024, the Social Outcomes Committee agreed that officials undertake policy and legislative design to tighten the gateway to emergency housing and reduce cases of perverse incentives created by the Priority One fast-track (SOU-24-MIN-0008 refers). MSD has also undertaken further policy work with HUD officials on the changes to gateway settings. Policy changes propose to shift from an emergency housing grant regime with broad discretionary powers to a more rules-based regime.
24. A report to Housing Ministers on the detailed policy and legislative design of the gateway changes to emergency housing is due on 18 April 2024.

Officials' recommendation

25. MSD expects tightening the gateway to emergency housing will directly contribute to a reduction in households in emergency housing and reduce cases of perverse incentives associated with the Priority One fast-track process. These assumptions are based on the recent experience of emergency housing services contributing to a reduction in the numbers of emergency housing grants, and previous instances where MSD shifted from a discretionary to a rules-based approach for administering support (e.g. in respect of Temporary Additional Assistance (TAS)).
26. MSD expects that continuing to fund support services will also contribute to continued reductions in Emergency Housing use. The savings estimates are largely based on an extrapolation of current trends and monitoring client outcomes for those receiving certain support services.
27. The Treasury agrees that continuing support services and tightening the gateway will likely result in reductions in Emergency Housing use and, as a result, fiscal savings. However, there is no causal evidence to assess the effect of the support services, nor directly applicable prior experience for tightening the gateway settings. There would also likely be some offsetting effects, which are not accounted for in MSD's costings (e.g. increased demand for other emergency benefits and housing supports). For these reasons, we are not confident that the savings MSD anticipate will be realised, although we agree that continuing the support services in some form is likely to be necessary if the Government is to achieve its targeted reduction in emergency housing use.
28. Officials therefore agree that the savings from this initiative should be somewhere between MSD's original estimate (\$712.554 million OFP) and the current forecast track (i.e. zero). Because MSD's significant savings are more likely than zero savings, we recommend recognising 60 percent of the original estimate (\$427.532 million). This approach is consistent with previous instances where the Treasury has recommended a midpoint between two costings with similar levels of uncertainty – however, the approach being recommended by officials in this instance should not influence the way savings are recognised in other instances.
29. To this, the entirety of the savings from ending the Housing Support Pilot can be added (an additional \$6.489 million in the current financial year), for a total saving of \$434.021 million. However, these savings are contingent on continuing MSD's support services.

We recommend these services should continue for two years at their current level, costing \$83.476 million in total.

30. Thus, the net saving from this initiative is \$350.545 million over the forecast period, as shown below:

Table Four: Recommended savings from tightening the gateway to emergency housing and extending support services

Initiative	\$ million – increase / (decrease)					Total
	2023/24	2024/25	2025/26	2026/27	2027/28	
Tightening the gateway to emergency housing and extending support services	6.489	19.403	53.700	126.352	144.602	350.545

[33]

Time-limited savings

48. MSD submitted ten baseline savings initiatives, totalling \$400 million over the forecast period, with a shortfall of \$78 million over the forecast period, largely falling in the first two financial years (2024/25 and 2025/26). Minister Upston's letter, which accompanied the submitted initiatives, explained that further savings from returning time-limited funding would address this shortfall.
49. We seek your agreement to consider the following changes as further baseline savings to make up this shortfall:

Table Eight: Summary of Additional Time-Limited Savings Initiatives

Initiative	2023/24	2024/25	2025/26	2026/27	2027/28	Total
COVID-19 departmental funding	-	-	20.000	20.000	20.000	60.000
Growing the Capability of the Social Sector Fund	5.800	-	-	-	-	5.800
Growing a Diverse and Resilient Social Sector	4.400	0.900	-	-	-	5.300
[33]						
Community Connectors – scaling to 50 FTEs	-	7.400	-	-	-	7.400
Russian Pensions Programme – operating	0.921	1.162	0.315	-	-	2.398
Russian Pensions Programme – capital	1.870	1.795	0.467	-	-	4.132
Minimum Wage Exemption 2023/24 only	2.405	-	-	-	-	2.405
Equitable Transitions Programme	0.630	0.325	0.200	-	-	1.155
Early Learning 20 Hours – departmental funding	1.079	-	-	-	-	1.079
Total Operating	[33]					
Total Capital						

50. Further information about these initiatives is provided at **Annex I**. Subject to your agreement, these will be submitted for consideration by Cabinet as part of the Budget 2024 Significant Initiatives package. [33]

[33]

[38]

Additional policy savings

53. ^[33]

54.

55.

⁵ Note that this includes savings that accrue in other Votes and does not include two targeted savings initiatives.

⁶ Note this includes Opex but not Capex, as capital expenditure does not count towards the baseline savings target.

[33]

56.

[33]

New spending initiatives

Welfare that Works

- 62. Ministers agreed at the bilateral that the Welfare that Works initiative will not progress as part of Budget 2024 – but will be funded through reprioritisation in the first year, likely at a lower level than originally intended. This could be announced as part of the wider Budget 2024 communications, so long as plans are sufficiently developed by that point. Further funding may also be sought through future Budgets.
- 63. MSD will continue to work through options regarding scaling and funding sources, and will provide further advice to the Minister for Social Development and Employment in due course. MSD will also work with the Treasury on efforts to improve the targeting and effectiveness of employment programmes generally.

Historic Claims of Abuse in Care

- 64. Ministers also agreed that the budget for Historic Claims of Abuse in Care would be scaled to ^[33] \$81.869 million.

Early announcements

- 65. MSD intended to seek decisions for three initiatives as part of the planned early Budget decisions Cabinet paper for 18 March 2024. Given that early decisions were not sought from Cabinet, MSD recommends that approval to communicate decisions for the following initiatives in advance of Budget Day is included in the Budget Cabinet paper on 29 April 2024:
 - [38]

 -

 -

Annex I: Further information on time-limited funding initiatives

COVID-19 funding

This funding was appropriated in the early months of the COVID-19 pandemic, primarily to support MSD to meet additional demand. \$40 million that had been appropriated in 2023/24 and 2024/25 was returned in late 2021.

Growing the Capability of the Social Sector Fund

This funding was appropriated at Budget 2022 to support the establishment and strengthening of Māori and Pacific collectives to engage more proactively and participate in the Social Sector Commissioning work programme via a Social Sector Capability Fund.

Growing a Diverse and Resilient Social Sector

This funding was appropriated at Budget 2023 to help strengthen the capability, resilience and diversity of the social sector by funding community, provider, and sector groups, especially those that work with Māori, Pacific and Ethnic communities.

[33]

Community Connectors – scaling

Community Connectors were originally funded as a COVID-19 response, allowing providers to respond flexibly to the needs of their communities. This funding was appropriated at Budget 2023 to extend the programme for a smaller number of connectors, who would support New Zealanders with other sorts of need, in addition to those impacted by COVID-19. The proposed savings initiative would reduce the number of connectors from 100 FTEs to 50 FTEs in the 2024/25 financial year.

Russian Pensions Programme

This funding was appropriated in June 2023 to support New Zealanders who were unable to access their Russian pensions due to international sanctions on Russia's banking system.

[34]

Minimum Wage Exemption – 2023/24 funding

This funding was appropriated at Budget 2023 to fund the delivery of a wage subsidy scheme that would support employers to pay disabled employees the minimum wage (where those employees have a minimum wage exemption). A related initiative at Budget 2024 returns the remainder of the funding for this scheme.

Equitable Transitions Programme

This funding was drawn down from the Climate Emergency Response Fund (CERF) in August 2022 to develop an Equitable Transitions Strategy.

Early Learning 20 Hours Free Programme – Departmental Funding

This funding was appropriated at Budget 2023 to support MSD to implement the extension of the 20 Hours Free programme to two-year-olds.

[38]

Annex III: Information on MSD baseline savings initiatives – Minimum Wage Exemption

Proposal	Savings (\$m)		Estimated timeframe (from decision)	Cost to implement (\$m)	Client and staff impacts	Alignment with Government priorities
	Per Year	Over forecast period				
<p>Minimum Wage Exemption – discontinuation of the wage supplement</p> <p>This initiative returns funding for the wage supplement that replaces Minimum Wage Exemption permits.</p> <p>Section 8 of the Minimum Wage Act 1983 allows Labour Inspectors to issue Minimum Wage Exemption permits to individual employees if a Labour Inspector is satisfied that the employee is 'significantly and demonstrably limited by a disability' in carrying out their work. An employer can pay an employee named in a Minimum Wage Exemption permit the wage named in the permit, sometimes as little as \$1 to \$2 an hour.</p> <p>The current Minimum Wage Exemption scheme has been criticised by the Disability community and the United Nations because it discriminates against disabled people, allowing some disabled people to be paid less than a non-disabled person due to their disability. However, the proposed solution to implement a wage supplement is not satisfactory. The wage supplement is a costly intervention that will not address the issue of segregated employment or support employment of disabled people more broadly.</p> <p>Returning funding means that current settings for Minimum Wage Exemption will remain.</p>	<p>Opex savings: 23/24: (2.405) 24/25: (9.708) 25/26: (11.593) 26/27: (12.973) 27/28: (12.242) & outyears</p> <p>Capex savings: 23/24: (8.334) 24/25: (1.667)</p> <p>Note that Opex savings factor in a reduction in tax revenue from stopping the wage supplement.</p>	<p>Opex savings: (48.921)</p> <p>Capex savings: (10.001)</p> <p>Note that Opex savings factor in a reduction in tax revenue from stopping the wage supplement.</p>	<p>Savings can be returned immediately.</p>	<p>No costs required to implement these savings – this is a return of all funding appropriated through Budget 2023.</p>	<p>Clients: Stopping the wage supplement will mean that the existing Minimum Wage Exemption scheme will continue, allowing some disabled people to be paid less than a non-disabled person due to their disability. As at 30 May 2023, there were 927 disabled people named in Minimum Wage Exemption permits, most of whom worked in Business Enterprises.</p> <p>Whilst the Minimum Wage Exemption scheme has been criticised by the Disability community and the United Nations, the proposed wage supplement was not a perfect solution and did not address the issue of supporting employment of disabled people more broadly.</p> <p>MSD will provide advice to the Minister for Social Development and Employment on exploring alternative approaches to the use of Section 8 of the Minimum Wage Act 1983 in New Zealand.</p> <p>Staff: All work to date on this initiative has been undertaken by existing staff and within baseline – no new FTE have been employed.</p>	<p>Addressing the Minimum Wage Exemption scheme is a concluding observation under the United Nations Convention on the Rights of Persons with Disabilities (UNCRPD) and the Disability Action Plan. By not implementing the wage supplement, New Zealand may not be meeting obligations under the UNCRPD.</p> <p>However, the wage supplement is a costly intervention, and returning funding aligns with the Government's priority of delivering effective and fiscally sustainable public services.</p> <p>MSD will provide further advice to the Minister for Social Development and Employment on exploring alternative approaches to Minimum Wage Exemption permits.</p>

