

# Reducing Long-Term Benefit Dependency

## Recommendations

*“E tipu e rea mō ngā rā o tōu ao. Ko tōu ringa ki ngā rākau a te Pākehā hei oranga mō tōu tinana.  
Ko tōu ngākau ki ngā taonga a ō tīpuna hei tikitiki mō tōu māhunga.  
Ko tōu wairua ki te Atua, nāna nei ngā mea katoa.”*

Grow up and seek your destiny and stretch forth your hands for the tools of the western world to sustain you.  
Turn your heart to the treasures of your ancestors, your plumage,  
and place your spirit unto God to whom all things belong.

Sir Apirana Ngata  
Pōtaka School  
1949

## Acknowledgements

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## Preface

E te Minita o Te Manatu Whakahiato Ora, tēnei te pūrongo kōrero, kua oti, kua tutuki, kua tau, kua rite.

Ka huri atu ngā mihi me ngā tangi whakakurepe ki ngā mate o te wā, rātau kua rūpeke atu ki te whare tapu o Hinenuitepō. Haere, e moe, takoto i raro i ngā manaakitanga o te Runga Rawa, te puna o te kōrero, te puna o te aroha. Tātau ngā kanohi ora o ngā whakairotanga mai a kui mā, a koro mā. Ko tātau te urupa kōrero o rātau mā.

E ki ana te kōrero “Mā tōu kete mātauranga, mā tōku kete mātauranga, te waka ka tae ki uta”.

The Welfare Working Group was asked to make practical recommendations on how to reduce long-term welfare dependency for people of working age, in order to achieve better social and economic outcomes for people on welfare, their families and the wider community.

There is no simple solution to long-term welfare dependency, and there are difficult trade-offs which must be faced. We need to ensure that people are treated with compassion when they cannot support themselves, but they also have a responsibility to prepare for and move into paid work, where that is possible. We need to be conscious of costs to the taxpayer, but we should also be willing to invest early to reduce avoidable welfare dependency.

Our welfare system has major deficiencies that need to be corrected if we are to achieve the outcomes New Zealanders expect from the welfare system. Addressing these issues requires innovation and fundamental change to the welfare system, rather than further piecemeal change. Significant changes in other areas of Government activity, including health and education, are also vital. Fundamental change will require the commitment of individuals, families and whānau, employers and communities, working alongside Government.

The Working Group would like to thank everyone who wrote to us, debated with us and shared how the welfare system affects their lives and suggested ways to improve their opportunities. This has been invaluable as we have formed our recommendations.

As Chair, I would like to acknowledge the contribution of each member of the Working Group, who brought valuable perspectives and expertise to the challenges facing the welfare system in New Zealand. I also want to thank the Secretariat which has skilfully supported the Working Group.

*Paula Rebstock  
Chair of the Welfare Working Group*

# **Welfare Working Group**

## **Chair of the Welfare Working Group**

Paula Rebstock CNZM

## **Welfare Working Group Members**

Associate Professor Ann Dupuis

Professor Des Gorman

Catherine Isaac

Professor Kathryn McPherson

Enid Ratahi-Pryor QSO

Adrian Roberts

Sharon Wilson-Davis

# Contents

<b>Glossary of terms and concepts.....</b>	<b>vii</b>
<b>Executive Summary.....</b>	<b>1</b>
The Terms of Reference.....	1
Key themes for welfare reform .....	1
A single work-focused payment - Jobseeker Support .....	3
The establishment of Employment and Support New Zealand.....	4
Cross-Government leadership to reduce long-term welfare dependency .....	6
Improved employment outcomes for Māori.....	7
More effective support.....	8
Clear reciprocal obligations.....	12
Managing the transition.....	16
What could be achieved from the new approach.....	18
Conclusion.....	18
<b>Key Conclusions and Recommendations.....</b>	<b>19</b>
<b>Chapter 1. Introduction.....</b>	<b>36</b>
1.1 The Terms of Reference.....	36
1.2 The review process.....	36
1.3 The purpose of the welfare system .....	36
1.4 Key principles underpinning the welfare system.....	37
1.5 The current benefit system in New Zealand.....	38
1.6 Public feedback about the effectiveness of the existing benefit system.....	39
1.7 The design of the benefit system is outdated .....	40
1.8 Current arrangements create high levels of long-term benefit dependency .....	41
1.9 Current welfare policies will not deliver good outcomes in the future.....	43
1.10 Benefit dependence among Māori is high .....	45
1.11 Too many young people are at risk of long-term benefit dependency .....	47
1.12 Parents and children in the benefit system.....	48
1.13 Additional difficulties faced by sick people and disabled people.....	49
1.14 Summary.....	50
<b>Chapter 2. A new model of welfare.....</b>	<b>51</b>
2.1 Introduction.....	51
2.2 Feedback on the Options Paper .....	51
2.3 Future strategic options for welfare.....	54
2.4 Replacing the existing benefit system with a new approach called work-focused welfare.....	55
2.5 The components of our proposed new model of welfare for the 21st century.....	57
2.6 How the new approach would work in practice.....	59
2.7 A target is needed to guide welfare reform.....	60
2.8 A partnership to achieve better outcomes for Māori .....	60
2.9 Summary.....	62

<b>Chapter 3. Active work-focused expectations .....</b>	<b>63</b>
3.1 Introduction .....	63
3.2 Default work expectations .....	64
3.3 Strengthening work expectations and clear reciprocal obligations .....	73
3.4 Regular monitoring of job search activities .....	74
3.5 An effective process to encourage compliance .....	74
3.6 Special conditions to address substance abuse .....	75
3.7 Additional children while in the welfare system .....	76
3.8 Non-custodial parents and child support .....	78
3.9 Summary .....	79
<b>Chapter 4. Active Support .....</b>	<b>82</b>
4.1 Introduction .....	82
4.2 Spending on support .....	82
4.3 The approach to service delivery .....	83
4.4 Assistance before being granted Jobseeker Support .....	84
4.5 Assessing ability to work and service needs .....	85
4.6 Streaming into services .....	87
4.7 Public and private sector employment support .....	91
4.8 Sole parents and further training or study .....	95
4.9 Improving the availability and lowering the cost of childcare .....	96
4.10 Summary .....	98
<b>Chapter 5. Jobseeker Support .....</b>	<b>100</b>
5.1 Introduction .....	100
5.2 Principles for work-focused financial assistance .....	100
5.3 Overall design of the structure of financial support .....	101
5.4 Jobseeker Support .....	102
5.5 Supplementary payments .....	103
5.6 A new approach to address hardship .....	106
5.7 A single abatement regime for Jobseeker Support .....	107
5.8 Complaints procedures .....	109
5.9 Reducing fraud and abuse of welfare payments .....	109
5.10 Summary .....	110
<b>Chapter 6. Support for sick people and disabled people with long-term needs .....</b>	<b>113</b>
6.1 Introduction .....	113
6.2 Principles for reform of the supports for sick people and disabled people with long-term needs .....	114
6.3 Better delivery of financial support .....	115
6.4 Better delivery of support services .....	116
6.5 Summary .....	118
<b>Chapter 7. Promoting the well-being of children .....</b>	<b>119</b>
7.1 Introduction .....	119
7.2 General requirements on parents who receive Jobseeker Support .....	120
7.3 Parenting programmes for teenage parents and other at-risk families .....	122
7.4 Mandatory reporting of child abuse .....	123
7.5 Budgeting activities and income management .....	123
7.6 Summary .....	126

<b>Chapter 8. Implementing work-focused welfare .....</b>	<b>128</b>
8.1 Introduction .....	128
8.2 Overview of what the new system will need to achieve .....	128
8.3 The current model.....	130
8.4 Forward looking and transparent approach to cost.....	131
8.5 Outcomes-based contracting and contestability .....	133
8.6 A local risk sharing approach to welfare .....	135
8.7 A forward looking agency to manage the new welfare system .....	136
8.8 Independent evaluation.....	140
8.9 Managing the transition .....	141
8.10 Summary.....	145
<b>Chapter 9. A Government and community-wide approach.....</b>	<b>148</b>
9.1 Introduction .....	148
9.2 A cross-Government plan to reduce long-term dependency .....	148
9.3 Policies to improve results for young people .....	149
9.4 Re-integration of offenders and recently released prisoners.....	153
9.5 Health services to support the new welfare system.....	154
9.6 Wider economic policies to support more jobs for people leaving welfare .....	155
9.7 Summary.....	158
<b>Chapter 10.What could be achieved from the new approach? .....</b>	<b>160</b>
10.1 Introduction .....	160
10.2 The policy foundation for the assessment .....	161
10.3 The evidence for the potential large impact of welfare reform .....	162
10.4 Modelling a scenario of reform .....	168
10.5 Adjusting for the number of partners.....	173
10.6 Assessing the impact of the welfare reform proposals.....	174
<b>List of Figures .....</b>	<b>180</b>
<b>List of Tables .....</b>	<b>180</b>

Working papers and reference are available on the Working Group website at  
<http://ips.ac.nz/WelfareWorkingGroup/Index.html>





## Glossary of terms and concepts

**Abatement rate** – The rate at which a person’s benefit or payment is reduced for each dollar of income received, including earnings in paid work. For example, an abatement rate of 30 cents means that every dollar earned in paid work reduces the payment received by 30 cents.

**Actuarial funding** – A statistical method for calculating the cost of a particular activity or risk, and provision of funding to cover that cost.

**Disabled people** – People with impairments that experience disadvantage in participating in life roles and meaningful activity within society.

**Effective marginal tax rates** – An effective marginal tax rate is the proportion of additional earned income that is lost from the abatement of benefits, tax credits and income tax when a person’s earnings increase by one dollar.

**Financial incentive to take up paid work** – The amount of additional income that a person receives from working compared to not working (which depends on the wage rate available to them). It is often measured using a **replacement rate**, which is the ratio of the person’s income while on benefit to their income while in work.

**Income management** – When the day-to-day management of a person’s income is controlled by a third party. This can also involve the use of payment cards which are programmed for use only on essential items.

**Long-term costs (forward liability)** – The expected costs associated with an individual being in the welfare system over their working life.

**Long-term dependency** – Individuals who have been in the welfare system for six or more consecutive months.

**Main benefit** – These are ongoing payments in the current system and comprise Unemployment Benefit, Sickness Benefit, Invalid’s Benefit, Domestic Purposes Benefit, Emergency Maintenance Allowance, Widow’s Benefit, Emergency and Hardship Benefits, and Independent Youth Benefit. Main benefits form the **first tier** of income support.

**Passported benefits** – In the current system, passported benefits are paid to people when they are not working and may be continued when they move into work. These payments are usually provided for the initial period in work, for example 13, 26 or 52 weeks.

**Second tier payments** – In the current system, these payments provide ongoing assistance for specific ongoing costs and include Accommodation Supplement, Disability Allowance, Child Disability Allowance and Childcare Assistance. Second and third tier payments are also referred to as **Supplementary Assistance**.

**Sick people** – People with a health condition that may or may not result in impairment or disability.

**Third tier payments** – In the current system, these one-off or temporary payments provide assistance for hardship and include Temporary Additional Support, Special Needs Grants, Advance Payment of Benefit and Recoverable Assistance Payment.

**Welfare system** – In this Report, we generally refer to the current system as the benefit system and the proposed system as the welfare system. The wider social service system, which includes health, education and other social services, is sometimes also referred to as the welfare system in this Report and other literature. When we have referred to the welfare system in this context, we have tried to be explicit about the intended meaning.

**Work ability assessment** – Identification of the constraints an individual faces when obtaining employment, including physical impairments, skills and childcare responsibilities.

**Working age** – Individuals who are between 18 and 64 years old (inclusive).



# Executive Summary

## The Terms of Reference<sup>1</sup>

The Welfare Working Group was established in April 2010 to examine ways to reduce long-term benefit dependency in New Zealand for people of working age. In particular, it was asked to focus on promoting better work outcomes for sole parents, sick people, disabled people and other people at risk of long-term benefit dependency.

In August 2010, following a forum, a significant review of the evidence, and consultation with a cross section of New Zealanders, we presented an Issues Paper. This Report highlighted that the long-term costs of benefit dependency for New Zealanders and their children, for Māori and for the most disadvantaged in New Zealand, are significant. There are few incentives and little support for too many welfare dependent people to move into paid work. The resulting long-term benefit dependence is avoidable. Enabling people to move into paid work reduces the risk of poverty, improves outcomes for children and supports social and economic well-being.

In November, following another round of consultation and consideration of submissions on the Issues Paper, we presented an Options Paper. This paper broadly canvassed the options for reform to improve work outcomes and reduce long-term benefit dependency. These options ranged from large scale change with the introduction of a guaranteed minimum income or social insurance through to a range of potential changes to the current system.

Following consultation on the Options Paper, we now present our final recommendations. While these recommendations have been the subject of significant debate within the Working Group, we have reached a consensus that fundamental change is needed. The social and economic costs of the current system are unacceptably high, and the potential improvements in outcomes from reform are so significant, that to continue with the status quo is not an option.

We would like to thank all the people who have shared their time, personal experiences and insights with the Working Group over the past nine months. In the long run, welfare reform should not be about marginal changes to services or entitlements, but about making a positive, meaningful, long-term difference for New Zealanders both within and outside the welfare system. We hope that the reform package we outline here will make that positive difference.

## Key themes for welfare reform<sup>2</sup>

In this Report we present 43 recommendations. These recommendations are centred on eight key reform themes to improve life time outcomes for people at risk of long-term welfare dependency.

- *A stronger work focus for more people* – A new system needs to send early, strong signals about the importance of paid work and it needs to assume that most people of working age can work, not that they cannot work. This requires a proactive approach focused on providing active support as well as financial support. For sick people and disabled people with long-term needs, a compassionate approach is needed, coupled with a comprehensive assessment to determine the extent of support they require and whether or not it is reasonable to provide them with long-term financial assistance without work obligations.

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<sup>1</sup> The Welfare Working Group's Terms of Reference, Issues Paper and Options Paper are available at <http://ips.ac.nz/WelfareWorkingGroup/Index.html>.

<sup>2</sup> References and discussion of the evidence is provided in the chapters of the Report. In the Executive Summary we provide a cross-reference to the relevant chapters. For this section, see Chapter 2 for a detailed discussion of the themes of welfare reform.

- *Reciprocal obligations* – Most working age people successfully provide for their own well-being through paid work. Individuals who enter the system who can work should take all reasonable steps to secure paid work and they should be supported and encouraged by policy settings and a responsive service delivery agency to find paid work. Individuals, Government, whānau and family, employers and the broader community can all contribute to achieving good outcomes for people seeking to move from the welfare system into paid work.
- *A long-term view* – The welfare system needs to recognise the value of investing early to reduce the long-term social, economic and fiscal costs of welfare dependency. Adopting an actuarial approach to measuring the forward liability will therefore be an important feature of any reform.
- *Committing to targets* – Setting an achievable numerical target for reducing the number of people dependent on welfare will assist in directing attention to the scale of the problem, ensure a sharper focus across Government and the community on outcomes from reform, and provide a clear yardstick for measuring progress. Such a target will require promoting and encouraging better choices that enable people to maintain or secure paid work rather than enter the welfare system.
- *Improving outcomes for Māori* – The social and economic costs of having 31 per cent of working age Māori on welfare are intolerable (see Chapter 1). It is imperative that all available options and opportunities are used including partnerships with Māori leadership, greater accountability for delivery to Māori, and commitment to lifting Māori education, training and employment outcomes.
- *Improving outcomes for children* – The social and intergenerational consequences of having 222,000 children growing up in benefit dependent households are deeply concerning.<sup>3</sup> Welfare reform options must explicitly consider the potential impacts on the well-being of children. Reducing the unacceptably high incidence of child poverty in New Zealand through a particular focus on at-risk jobless households and whānau must be a high priority of reform.
- *A cross-Government approach* – Many of the solutions to reducing long-term welfare dependency lie outside the welfare system. Cross-Government and community leadership, focused on prevention and early intervention, is critical. We are particularly concerned about the performance of the education system in meeting the needs of at-risk, under-achieving children and young people. Significant shortcomings in core health services, such as mental health, rehabilitation and generic managed health care providers and systems, must be addressed if injured and ill New Zealanders are to recover as quickly and well as possible and if any consequent morbidity is to be minimised. These health service shortcomings have a direct and adverse effect on welfare dependency.
- *More effective delivery* – An outcomes-focused delivery agency will need new skills and capacity to deliver effective services to people at risk of long-term welfare dependency. Responsiveness can be increased through a greater focus on community-based solutions (including for Māori, Pacific people, migrants, refugees and young people). Contracted not-for-profit and private sector providers also need to be part of the solution and such contracts need to be rigorously designed and managed. The delivery agency needs to be accountable for reducing the forward liability and the associated reduction in long-term welfare dependency.

The Welfare Working Group has considered alternative approaches to funding and organising welfare, including a social insurance and a guaranteed minimum income. The Working Group has

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<sup>3</sup> See Chapter 3 from Welfare Working Group Issues Paper.

concluded, however, that while these have some merits, they are greatly outweighed by the large costs and transitional problems. On balance, we believe that New Zealand should continue with a social assistance approach because it ensures everyone who has no other means of support has access to assistance, rather than coverage being based on their prior contributions. Nevertheless, our social assistance system needs substantial reform if it is to be socially and economically sustainable. We propose two fundamental changes to welfare in New Zealand:

- the establishment of a new single work-focused welfare payment to replace all existing categories of benefit, to be called Jobseeker Support; and
- the establishment of a delivery agency, Employment and Support New Zealand, which will implement the new approach.

Achieving sustained success in reducing welfare numbers and assisting people at risk of long-term welfare dependency into employment will require both a single work-focused welfare payment *and* effective and targeted service delivery.

We have heard concern from some that welfare reform should not proceed because the overall labour market remains challenging. It is important to acknowledge that the unemployment rate in 2011 is higher than it was in the mid-2000s and that many people are finding it hard to find jobs. However, the evidence suggests that requiring active and effective job search significantly improves the chances of people finding work (see Chapter 10). It should be noted that before the recent economic downturn, when many firms were reporting serious difficulty in finding workers at all skill levels, 10 per cent of the working age population were on welfare. Even in 2008, when there was high and rising unemployment, there were more than 300,000 new hires from job openings in each quarter.<sup>4</sup> It is critical that the welfare system prepares and positions jobseekers for the opportunities when they emerge.

### A single work-focused payment - Jobseeker Support<sup>5</sup>

Most working age people are able to participate in paid work, either immediately or after some period of preparation and transition support. The initial presumption in the welfare system should therefore be that people can work, not that they cannot work. The system and its related services need to enable people rather than disable them, and should not make assumptions about them based on external criteria unrelated to their ability and desire to participate in the workforce.

We propose that all people seeking welfare support would apply for Jobseeker Support. This common support would start with the assumption that people can work and would send strong signals about the value of paid work.

- *Jobseeker stream* – Most people who enter the system and apply for Jobseeker Support would be expected to take steps immediately to move into paid work, including applying for job vacancies. There would be clear signals about the consequences of not actively looking for work and the expectation that any reasonable job offer is to be accepted. A range of targeted support would be available, such as childcare support and job search assistance.
- *Transition to work stream* – For people with significant vocational and non-vocational barriers to securing and maintaining paid work there would still be the strong default expectation that they would transition into paid work, but there would be a more flexible, tailored approach to

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<sup>4</sup> See Chapter 2 of Welfare Working Group Options Paper

<sup>5</sup> See Chapter 3 for a detailed discussion of work expectations associated with Jobseeker Support and Chapter 5 for a discussion of the payments.

take account of their particular circumstances. Work-focused interviews, action plans and work related activity would be fundamental.

- *Active support*: Most people with significant vocational and non-vocational barriers would be actively supported and engaged to move towards and then into paid work. This would include people with significant health, disability and family related barriers.
- *Parents with young children (sole parents and partners of primary welfare recipients)*: For parents (sole parents and partners of primary welfare recipients) with young children there would be clear signals about the expectations of paid work when their youngest child reaches three years of age. There would be support available to help them prepare for when they need to look for a job. There would also be active engagement to support better outcomes for themselves and their children.
- *Long-term support stream* – For people with permanent and severe impairment the initial presumption would be that they may have ability to work, if appropriately supported, not an assumption of no ability to do so. Significant support would need to be available to help these individuals find paid work. However, if after this effort or in the process of assessment, employment is found to be inappropriate, they would be provided with long-term support. This long-term support would be based on the principles outlined in the New Zealand Disability Strategy with support to achieve social participation.
  - *Long-term support fast track*: People with terminal illness, carers of the sick and infirm and disabled children, and a small minority of people with demonstrable impairment which significantly and permanently limits their ability to work would be fast tracked into the long-term support stream.

We propose that the common support would be set at the rates of the current Unemployment Benefit. To stay within our Terms of Reference, which excluded consideration of the core rates, we propose that the current variations in rates that exist between categories would be captured in a range of supplementary supports. We consider that these supplementary supports should in due course be reviewed with the aim of simplifying the system and promoting a greater focus on paid work.

### The establishment of Employment and Support New Zealand<sup>6</sup>

Service delivery needs to be focused on improving work outcomes for people at risk of long-term welfare dependency and reducing the long-term costs of welfare dependency. We propose a new approach to welfare delivery in New Zealand – Employment and Support New Zealand.

Employment and Support New Zealand would:

- be held accountable for improving work outcomes for people of working age at risk of long-term welfare dependency and reducing the long-term costs of welfare dependency (as measured by the forward liability);
- be measured against the achievement of a reduction in the number of people on welfare through increased employment (including achieving significant improvements for Māori) of at least 100,000 by 2021, and an equivalent reduction in the forward liability;
- need new organisational skills and a new culture especially in service contract management;

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<sup>6</sup> See Chapter 8 for a detailed discussion of Employment and Support New Zealand.

- be required to provide effective, tailored and innovative support to those people at risk of long-term welfare dependency through the use of contracted not-for-profit, private sector and community responses;
- have strict accountability arrangements for delivering improved outcomes for Māori. It would be expected to introduce new approaches to reduce long-term welfare dependency amongst Māori, particularly in working with Iwi, Māori service providers, employers and using whānau-centred approaches;
- have access to the full range of instruments to support people into paid work, including contracting employment, training, health and other support that would be required to support people into work;
- be expected to develop efficient and effective contracting arrangements for the delivery of support to welfare recipients based on the principles of contestability, focus on outcomes and strong accountability arrangements that reallocate services away from those providers that are under-performing;
- be expected to provide comprehensive assessments of individuals' work ability, particularly for sick people or disabled people, to identify and tailor support and expectations to individuals' needs;
- be required to operate respectfully within a clearly defined set of rules about what support welfare recipients (and their children) can expect to receive, with strong external dispute resolution processes; and
- be a delivery agent responsible for intervening early to reduce long-term costs. It would be held accountable through a Governance Board that had expertise in managing to a forward liability.

There is value in considering a Crown entity model for the agency. Unlike a Department, a Crown entity is at arm's length from central Government, has external expertise through its Board, and its performance management is based on delivering contracted outcomes. Thus, it may deliver sustained change in the operation and culture of the welfare system, a long-term focus on performance (including through a potential Welfare Fund), more robust contracting for outcomes and greater transparency.

We would expect that when people enter the welfare system, there would be clear expectations and a range of tailored support including:

- flexible and early intervention approaches that are focused on reducing the risk that people will spend long periods on assistance;
- contracting for a range of innovative approaches that look comprehensively at an individual's vocational and non-vocational barriers and provide multi-disciplinary approaches to addressing their barriers to getting a job;
- forming partnerships with Iwi and other Māori organisations to support better outcomes for Māori;
- forming strong partnerships within the medical and health system, and with doctors and medical professionals, to promote better health outcomes and the health benefits of work. It is important to highlight the health risks of long-term inactivity, as well as the consequences of a failure to improve coverage of some essential health services;
- forming strong partnerships with employers and employer organisations to promote better outcomes for welfare recipients, and finding ways to encourage employers to take a chance on employees who they may otherwise not consider, by providing job placement and in-work support for such employees until they are well established in the job; and

- introducing positive incentives to encourage people to move from low employment to high employment regions and to re-train for new job skills.

The Ministry of Social Development would be responsible for strategic welfare policy, overseeing the independent assessment of the forward liability, monitoring performance of Employment and Support New Zealand against the forward liability, evaluating effectiveness of policy settings and administrative performance. It needs to provide clear direction to Government on how changes in policy will affect the achievement of the reduction in working age New Zealanders on welfare by 100,000 people by 2021. The Ministry of Social Development needs to have a sound understanding of the drivers of long-term welfare dependency and leverage cross-Government initiatives to reduce the need for individuals to use welfare.

### Cross-Government leadership to reduce long-term welfare dependency<sup>7</sup>

We have heard a clear message that long-term welfare dependency is driven by many factors outside of the welfare system itself, including the economy, the labour market, the education and training system and the health system.

Improving outcomes requires commitment and action from within and beyond the welfare system. Without this, the problem of long-term welfare dependency and joblessness will remain. Families and whānau, employers, Government agencies, community organisations, education providers, Iwi and other Māori organisations all need to step up.

A renewed focus needs to be placed on developing cross-Government approaches to improving the outcomes for people most at risk of poor life outcomes and long-term welfare dependency. This means changes in the education system, the health system and elsewhere.

The Ministry of Social Development needs to provide leadership in advice on strategic policy settings, monitoring Employment and Support New Zealand, brokering better policy settings and supports across Government and engaging with the community on solutions. Other Departments also need to take ownership of the outcomes in their areas of responsibility. There needs to be a commitment across Government on areas where there are shared outcomes and a high level focus across Government on reducing welfare dependence. Particularly important areas for change across Government are:

- the focus of the education and training system on improving the life chances of the most at-risk children and young people by equipping them with a good quality, relevant education that prepares them for the workforce, particularly through:
  - innovative approaches that potentially range from best practice teaching methods for at-risk children to allowing the funding to follow the student to enable more choice over opportunities for study and diversity in the type of school available;
  - strong support for vocational training and alternative pathways;
- allocation of training resources (for example, the Training Opportunities Programme) across portfolios to actively support the goal of better employment outcomes, with stronger accountability arrangements for the delivery of these outcomes;
- the focus in the health system on providing preventative and rehabilitative health services (including primary mental health services) to people at risk of long-term welfare dependency. In particular:

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<sup>7</sup> See Chapter 9 for a detailed discussion of a community-wide approach to reduce welfare dependency.



- General Practitioners have a key role promoting the longer-term health benefits of being in employment and supporting their patients to return to work where possible. We support a co-ordinated patient-employer-General Practitioner programme to facilitate this (similar to ACC's Better@Work);
  - significant shortcomings and lack of capacity in core health services such as mental health, drug and alcohol treatment services, rehabilitation and in generic managed health care providers and systems, must be addressed if long-term benefit dependency of injured and ill New Zealanders is to be tackled;
  - consideration of how health funding decisions can better take into account the impact of health conditions on a person's ability to work;
- improving the effectiveness and co-ordination of policies for young people;
  - aligning economic and labour market settings (including labour market regulation) to generate more jobs growth and enable more people to move out of long-term welfare dependency; and
  - improving the levels of employment support for ex-offenders.

We would also expect that Employment and Support New Zealand would play a proactive role in creating a focus on cross-Government approaches to reduce long-term welfare dependency. They will have a strong incentive to engage with Government policy and delivery agents (particularly labour market, education and health) to reduce the numbers who are at risk of long-term welfare dependency. There will be many circumstances where Employment and Support New Zealand will contract directly with other Government and private sector delivery agencies.

### Improved employment outcomes for Māori<sup>8</sup>

If welfare reform is going to work, it needs to work for Māori. Around 31 per cent of working age Māori are currently on a benefit, compared with 10 per cent of the rest of the New Zealand population. Approximately 41 per cent of all women receiving the Domestic Purposes Benefit are Māori. The overall target of achieving better employment outcomes by reducing benefit numbers by 100,000 can only succeed if there is significant progress for Māori. It is reasonable to conclude that between a third and a half of the reductions in numbers of people on welfare will need to be Māori.

Too many Māori children are spending the crucial early years in poverty and appear to access critical educational resources less than the wider population. The consequences of so many Māori children growing up in households without adults in work should be a major concern for Māori and New Zealanders as a whole. The poverty and poor social outcomes associated with this level of benefit receipt are not acceptable. The solution is not a simple fix such as increasing benefit provision. It is complex and we must confront this complexity. In order to address this, we propose:

- a commitment between Iwi, other Māori organisations and the Government to provide the leadership to establish and reach a goal of reducing the number of Māori in the welfare system and increasing the number of Māori in employment;
- strong accountability on Employment and Support New Zealand to deliver better outcomes for Māori;

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<sup>8</sup> See Chapter 1 for a discussion of the issues underlying Māori welfare dependency and Chapter 2 for the partnership approaches to achieve better outcomes for Māori.

- an expectation of partnerships being formed with Iwi and service delivery agencies to produce better outcomes for Māori;
- piloting risk sharing approaches that bring together local voluntary, private and Government organisations to provide more effective services for those needing support into paid work;
- the development of a range of efficient and effective services that empower Māori and promote a whānau-centred approach; and
- a range of services for Māori, building on the existing capability within Māori communities and Whānau Ora, which are whānau-centred, culturally appropriate and holistic.

### More effective support<sup>9</sup>

It is important that a greater focus on paid work is provided through more effective and more targeted support for people who enter the welfare system. This support should be as early and well-timed as is possible. With the reform package outlined in this Report, the proportion of people receiving welfare who are actively supported to find paid work would increase from the current 37 per cent of all working age welfare recipients to 77 per cent when the system is fully implemented. In the reform agenda, we would expect that reforming intensive support services, childcare, supplementary support and financial incentives will be critical to reducing long-term welfare dependency. Indeed if these elements are not effectively changed they will undermine the other key elements of the reform package that we present.

### Intensive support services

The new model of Employment and Support New Zealand is fundamentally about ensuring that the level of support available reflects an individual's risk of long-term welfare dependence. For people who are at low risk of getting stuck on welfare, cost-effective and timely support to move into employment is key. For people who are at high risk of long-term welfare dependence there would be an increasing level of work-focused and work-related intensive support.

Work-focused and work-related intensive support services must be professional, flexible and sensitive to the participant's circumstances and background. A comprehensive assessment of an individual's vocational and non-vocational barriers and strengths associated with moving into employment would be undertaken. These intensive services would then involve regular contact between the delivery agent and the jobseeker for a sustained period (13, 26 weeks or longer if required) to identify and address labour market barriers. The service would need to be outcomes-focused with an emphasis on supporting people into sustained paid work. People referred to intensive support may be referred on to additional longer term support to prepare for paid work including:

- work readiness courses;
- education and training;
- health and rehabilitation support; and
- support to overcome specific issues, such as drug and alcohol abuse, financial mismanagement, gambling, family breakdown, domestic violence, homelessness and social isolation.

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<sup>9</sup> See Chapter 4 for a discussion of the proposals for improved active support for people at-risk of long-term welfare dependency, Chapter 5 for a discussion of the proposals for improved financial support and incentives and Chapter 9 for a discussion of proposals to disseminate employer best practice.

A flexible pool of funds to enable service delivery to respond rapidly to individual circumstances and improve the targeting of support is required. These funds could be used to increase the likelihood that welfare recipients would move into and then remain in sustained employment. They could be used for:

- wage subsidies and jobseeker incentives;
- workplace modification and interpreters;
- clothing and work equipment;
- short-term work-related training courses; and
- transport costs and support to move to jobs in other regions.

In order to provide innovative and tailored responses that meet the needs of individuals we would expect that the capability and expertise of community, private providers and not-for-profit providers would need to be drawn in. Currently, contracted services are engaged to deliver a range of work-focused social services. Contracted services are a mix of outcome-based agreements, as well as programmes that enhance employability. We would expect that Employment and Support New Zealand would develop contracting arrangements that ensure all welfare recipients received high quality service with innovative and individualised supports based on individual circumstances and issues, and that are flexible to different individual’s needs and changing economic conditions.

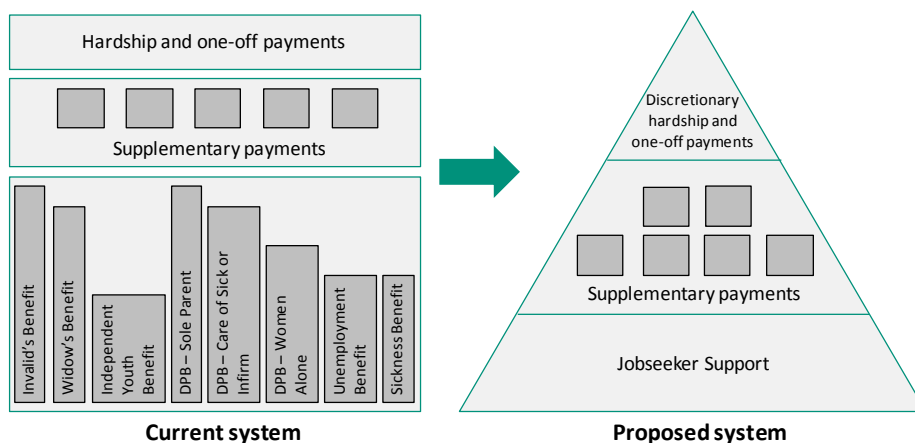
We would expect that many services and initiatives that are currently provided may need to be consolidated to realise a new model of welfare in a cost-effective way.

**The structure of financial support, supplementary payments and hardship**

One of the two major reforms outlined in this Report is the introduction of Jobseeker Support. We argue that a common and integrated set of financial supports is critical in order to promote a greater focus on paid work and work ability and to remove the need to have categories of benefit related to personal circumstance.

We propose a tiered system with a first tier which consists of a common main payment that is made to all welfare recipients. It also comprises a second tier of supplementary payments that are responsive to individual circumstances and that reinforce the work focus. There is a third tier of payments that provide hardship support to those people who temporarily need additional financial assistance to avoid hardship. The following diagram illustrates the proposal for a new, work-focused system of financial assistance.

**Figure E.1: A new system of financial assistance**



Our Terms of Reference precluded consideration of rates of payment in the welfare system. Therefore, with the single Jobseeker Support, we propose that additional payments to reflect personal circumstances that are currently in the main benefit (for example, for sole parents, people caring for the sick and infirm, Widow's, Women Alone and for people on the Invalid's Benefit) would become supplementary payments. Taking these payments out of the basic benefit rates and paying them as separate supplementary payments would make them more transparent.

There will continue to be a need for a range of supplementary payments. However, they need to be better designed to support the focus on paid work. The supplements should reflect higher costs associated with ongoing sickness, disability, living in high cost regions, caring for a person who would otherwise be in hospital or a severely disabled child, and costs faced by sole parents caring for children. We propose that support with accommodation should be provided through a regional supplement. We propose increasing the transparency of support for people with long-term needs by combining the additional Invalid's Benefit component with a flat rate disability allowance.

It is important to acknowledge that people who have no other means of support may experience times when they need to adjust following the loss of a partner. Therefore, we propose a transitional payment to cover basic living costs where there is the loss of a partner.

We do not consider that the suite of third tier assistance currently provided by the benefit system effectively supports people to live within their means. We acknowledge the need for hardship support from time to time, but the current entitlement-based approach has meant that for some people this temporary support has become almost permanent. We propose that existing third tier assistance should be replaced by a new system of support that encourages people to manage their own resources. A discretionary fund allocated on a regional basis would enable hardship payments to better reflect the differences in need across communities.

While financial incentives should not be the sole motivating factor to move off welfare and into paid work, they do need to be considered when designing welfare payments. When a person has regular, substantive income through paid work it is important that they are off welfare (receiving supplements that they are eligible for). This reinforces the expectation that the welfare system is predominately a temporary means of support during periods of financial difficulty. We propose an abatement regime that encourages people to work a greater number of hours. This would complement the Working for Families Tax Credits designed to make sole parents better off by leaving the welfare system when they work at least 20 hours a week.

A structure of payments that undermines work incentives and has a range of unintended consequences will weaken other efforts to reduce long-term welfare dependency. It is therefore fundamental to the reform outlined in this Report that the structure of financial incentives in the welfare system is aligned with the objectives of increasing paid work and independence from the welfare system. In order to achieve this there should be an in-depth consideration of supplementary payments, hardship and financial incentives (while holding average levels of financial support constant), which should reform the system to:

- send clear signals about the value of paid work, and align with the work and participation expectations of all people receiving assistance;
- be simple, transparent and require as few transactions as possible;
- be neutral to family structure and encourage personal responsibility by supporting individuals to make reasonable changes to their circumstances;
- minimise fraud and abuse; and
- target supplementary support to people facing significant hardship.

## *Childcare*

Affordability and accessibility of childcare remain issues for parents within the benefit system, despite considerable Government investment in childcare through Early Childhood Education (ECE) and targeted subsidies, especially for those on low pay. Problems with availability of childcare services in rural areas and for disabled children have been raised in the feedback we have received. Improving the availability of out-of-school care, particularly in the school holidays, is a high priority. This would enable more parents with school-aged children to have more flexibility in their hours of work, while providing opportunities for children to have a range of enriching experiences, including technology-based educational programmes. Our key proposals are that:

- the Government consider directing some of current Early Child Education funding (which reduces the cost of care for all families, irrespective of income) towards further reducing the cost of childcare and increasing the number of hours of support for working parents on the lowest incomes;
- the Ministry of Education give urgent priority to examining ways to increase the availability of out-of-school services utilising school infrastructure, and consider improving its value by supporting the use of education-based programmes within Out of School Care and Recreation (OSCAR) (for example, interactive computer-based programmes specifically designed to improve literacy and numeracy);
- the level of OSCAR subsidy be raised to reduce the cost of out-of-school care for parents on low incomes and those with at-risk children; and
- a payment which significantly lowers the transitional costs of being in work or training be introduced for some sole parents as a further incentive to engage in paid work or training. Sole parents with young children under three years of age who want to be in paid work or long-term training, and those assessed as having a higher risk of long-term dependency may be two groups who could qualify for this temporary support.

## *Sharing best practice in workplace flexibility*

In a competitive economy like New Zealand's, employers have a strong incentive to have in place workplace and employment policies and programmes that enable them to attract and retain the staff they need to succeed as a business. Depending on the nature of the business these may include flexible working hours to accommodate family issues and a disability-friendly workplace. It also makes good sense for employers to have policies that promote good health and safety among staff, and to support workers to get back to work quickly following sickness or an accident. However, in some instances there may be value in supporting employers to make arrangements that help to support an ongoing position for welfare recipients. Some employers may have had limited experience in hiring and managing people with caring responsibilities, or people with illness or disabled people. Similarly some welfare recipients may have little knowledge or experience in how to negotiate terms and conditions with employers. The welfare system can help to bridge the gap between what employers want and what welfare recipients are able to offer.

While many businesses do provide flexible work arrangements for their workers, some of the submissions received have emphasised that wider provision of flexible hours and arrangements could help more sole parents, sick and disabled people to enter paid work and can benefit employers as they have access to loyal and effective employees. We have made some specific recommendations regarding how to disseminate information on the ways employers practise workplace flexibility, including:

- disseminating best practice guidance to employers on promoting a healthier workforce (an approach being adopted with success both here and overseas);

- further investigation of a co-ordinated early intervention approach for patients, doctors and employers (similar to ACC’s Better@Work pilots) for use in the welfare system; and
- contracted services need to be able to demonstrate their ability to support these initiatives as an integral component of their in-work support.

### **Clear reciprocal obligations<sup>10</sup>**

Most working age people successfully provide for their own well-being through paid work. Individuals who can work should take all reasonable steps to secure paid work and they should be supported by policy settings and a service delivery agency to find paid work. Individuals, Government, whānau and family, employers and the broader community all have a role to play in improving paid work outcomes.

The signals that a welfare system sends are critical. It needs to send a strong signal about the value and importance of being in paid work, that welfare is temporary for most and that people who require long-term support will be supported well. We consider that the welfare system needs to be re-framed and focused on supporting people into paid work.

The welfare system needs to provide more effective support for people to move into paid work, particularly for those people at risk of long-term dependency. In return for receiving support from the community, welfare recipients have a range of obligations to the community.

### ***Preventing the need for people to enter the welfare system***

The initial phase when people apply for welfare is also critical. More needs to be done to support people into paid work and independence, and to send strong signals about expectations in the welfare system. This means a stronger focus on activities prior to being granted a welfare payment, such as support for people to stay in work or to get early entry into a job, preparation for job interviews, and addressing other personal constraints to being in paid work, such as health issues. This often means better collaboration with employers and health professionals as part of a systematic approach to prevention.

### ***Comprehensive assessment and gateways***

The welfare system needs to have comprehensive, rigorous gateways to tailor support and expectations to fit personal circumstances, support strong early intervention approaches and to send signals about the integrity and consistency of the system. For most people who use the welfare system, assessments need to be focused on what they can do and their work ability, rather than their impairment or personal circumstances. For the smaller group that needs long-term support, there may be a role for an independent assessment of an individual’s physical and/or psychiatric condition (and related personal circumstances) and whether it is reasonable to have work obligations.

### ***Promoting better decision making among at-risk teenagers***

New Zealand has one of the highest rates of births to teenage mothers in the OECD. We need to intervene early with teenagers to help them create a better future for themselves and their

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<sup>10</sup> See Chapter 1 for a discussion of the evidence of current working patterns in New Zealand. See Chapter 3 for a discussion of the expectations of the welfare system and welfare recipients. See Chapter 5 for a discussion of approaches to promote the use of the tax system. See Chapter 7 for a discussion of proposals to place a greater emphasis on child well-being and Chapter 9 for a discussion of approaches to address New Zealand’s high rate of teen pregnancy.

families. In our view, there should be a stronger emphasis on measures to prevent teenage pregnancy. Evidence suggests that informing school students of both the consequences and responsibilities that come with teenage pregnancy, including the responsibilities of a non-custodial parent, making information available on how to avoid it, and providing access to effective and cheap contraception, including long-acting reversible contraception, should form part of a strategy to reduce teenage pregnancy. Likewise we see a critical role for the welfare system to engage with whānau and families to support better outcomes for at-risk young people.

### *Encouraging young people's participation in education, training and employment*

The Working Group is strongly of the view that the new welfare system must not allow teenagers to conclude that welfare dependence is more attractive than education, training or paid work. We propose that all 16 and 17 year olds in the welfare system:

- be required to be in training, education or paid work;
- be required to live with a responsible adult or in an adult supervised environment, because most still need some adult support. Where it does not put children at risk of harm, we need to reaffirm the responsibilities that parents and whānau have for their children;
- would have their welfare payments paid to a responsible adult as the default with ongoing evaluation and monitoring of the payments and the supervision provided;
- in the case of 16 and 17 year old sole parents, that they are required to undertake parenting and budgeting programmes and that their welfare payments be managed as part of this process until these programmes have been completed and participants have demonstrated that they can manage their budget themselves and support their children.

### *Creating incentives for people to move into the tax system*

Another critical signalling phase is when people are leaving the welfare system. Currently the welfare system allows people to combine paid work and welfare receipt for long periods. Many of these people may be able to work more hours and leave the welfare system if the incentives were right. Incentives need to send strong signals that when people move into paid work, the expectation is that most people will leave the welfare system. We propose that once a person in the new welfare system is regularly working 20 hours per week, they should be required to receive their income supplements from the tax system rather than the welfare system. Planned improvements in Inland Revenue's ability to estimate income on a real-time rather than annual basis is an important element of smoothing the transition between the benefit and tax systems, and in our view should be given a high priority.

### *Removing the disabling nature of the welfare system*

The current welfare system often begins with the presumption that disabled people and people with ill-health cannot lead an ordinary life. It also disempowers people with health issues by presuming that they are unable to work. We consider that these disabling assumptions need to be removed as far as possible whilst ensuring appropriate support is provided for those who cannot work. Important to this concept is that accommodation and supports will be available to help disabled people and people with health issues lead an ordinary life.

We consider that it is critical that the starting point for the welfare system is that disabled people can be in employment. A common Jobseeker Support is therefore important to ensure a focus on what they can do. Ultimately, however, for some people it is unreasonable to place significant obligations on them to find paid work.

A critical phase for disabled people is when they leave the education system. Currently, 16 and 17 year olds receive an Invalid's Benefit. This sends a signal that they should have different expectations from those of people without impairment. The default expectation should be that young disabled people will be provided support and investment to participate, rather than be on welfare.

For people who need long-term support, the process needs to move from service contracts and rules-based allowances to Individualised Support Plans. These Individualised Support Plans should identify the assessments required and the needs that should be addressed in order for the person to participate. These plans should describe how people's needs would be met and set dates where possible when the person can reasonably expect to regain independence by returning to full-time work, resuming normal social activities, no longer requiring home help or meeting other outcomes that are consistent with their circumstances. For those with long-term and unremitting need for support, Individual Support Plans would be revised regularly, not with a view to removing support, but to review appropriateness to changing needs.

### *Focusing on work capacity not benefit categories*

We consider that benefit names and conditions often send strong signals. A strong message that we have heard is that the name 'Invalid's Benefit' is offensive and disempowering for disabled people. Removing the disabling concepts that underpin 'Invalid's Benefit', 'Widow's Benefit', and 'Domestic Purposes Benefit' is critical. The types and names of benefits and payments need to convey that for most people the welfare system is there to provide support for people to move towards and then into paid work or participation.

### *Providing signals and support about the importance of the well-being of children*

In our discussions with the wider community there was strong support for ensuring the well-being of children within the welfare system. While the vast majority of parents in the system understand their responsibilities to care for their children, we know there are many at-risk children in households supported by the welfare system.

One specific proposal is that every parent within the welfare system be required to ensure their children complete the 12 Plunket/Tamariki Ora Wellchild health checks, which include having their children immunised, participating in early childhood education once their child reaches three years of age and ensuring their children attend school. We propose that sanctions for failure to comply with requirements should not involve a reduction in the level of payments parents receive, but instead may lead to income management, either by a third party or by a payment card.

There appears a good case for families to be referred to budgeting services, and being required to participate in those services where the need for support has been clearly demonstrated. In extreme situations, for example, families who are failing to meet the essential needs of their children through neglect or drug or alcohol abuse, income management should be considered as a last and hopefully temporary resort. There is likely to be the need to build capability and increase funding if this proposal is to be practically advanced.

There is wide consensus that the early years of a child's life are critical to longer term development. Evidence suggests the best early intervention programmes can improve outcomes for both at-risk parents and their children. The children of teenage parents are at considerably higher risk of adverse impacts than those of other parents. Given this, we propose that all teen parents under the age of 18 years participate in an approved parenting programme, focused on the child's early years. Support with parenting may also benefit other at-risk parents within the welfare system, but this would require an assessment of parenting risk for all parents as they enter the system.



### *Addressing unintended consequences from incentives for parents to have additional children*

We have heard a concern among some people that setting a work expectation for parents when their youngest child reaches three years or six years may create an incentive for a small minority of parents to have additional children to avoid this work expectation.<sup>11</sup> Should this eventuate, this would likely contribute to worse outcomes for the parents, their existing children and the family as a whole, and make it even harder for parents to regain their independence from the welfare system. The Working Group considers that one component of addressing this incentive is to provide support for people on welfare to manage their fertility, including through contraception and information about expectations.

The Welfare Working Group also proposes a change in the conditions of eligibility to address this issue. The majority of the Working Group recommends that a work test in the case of parents having an additional child while on welfare should be aligned with paid parental leave provisions (when the youngest child reaches 14 weeks). A minority of members felt that the work-test in the case of parents having an additional child while on welfare should be aligned with parental leave employment protection provisions (at 12 months). The Working Group is of the view that if the changes to the work test do not address the incentives to have additional children while reliant on welfare payments, then it may be necessary to consider additional financial disincentives in the future. There was agreement that should such provisions be introduced emergency and exemption provisions would be critical.

### *Mutual obligations and alcohol and drug use and abuse*

We support a more rapid access to publicly funded drug and alcohol rehabilitation, and ongoing personal advice combined with a stronger set of rules and obligations about alcohol and drug use while receiving welfare (with an appropriate and graduated sanctions regime). An equally important objective is the clear signal that recreational drug use resulting in jobseekers being deemed ineligible for employment due to failing employment-related drug testing will not be tolerated. The primary objective of these expectations is to ensure drug and alcohol dependence issues are addressed so that people can sustain employment and provide a safe environment for their children.

### *Supporting the integrity of the welfare system*

Most people receiving welfare are motivated to fulfil their obligations and requirements. However, there is a minority who do not take all reasonable steps to meeting their obligations. The current sanctions regime could be improved in a variety of ways to underpin the integrity of the welfare system. This includes:

- clearer communication about the nature of penalties and the sanctions process for people receiving assistance;
- consideration of a more graduated sanction regime so that sanctions are proportionate and therefore enforced by those people responsible for delivery;
- a minimum sanction period so that sanctions are not undermined by re-compliance activities without any sanction actually being enforced;

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<sup>11</sup> As discussed in Section 3.4 of the Welfare Working Group Options Paper, of the women newly taking up Domestic Purposes Benefit in the year to June 1999, around one in seven had additional new born children included in their benefit over the following ten years.

- for those people who consistently fail to meet obligations, or remain on support for more than six months, greater use of temporary Work for Welfare requirements in addition to financial penalties;
- improved application of the sanctions process at the office level. This will include improved approaches to decision making particularly for individuals who need additional support to understand their obligations and to understand the consequences of not meeting their obligations;
- transparent public reporting of the number of sanctions imposed; and
- additional monitoring and requirements for welfare recipients with dependent children to ensure the interests of children are safeguarded.

We also propose that limited use of a ‘Work for Welfare’ requirement be used to test a person’s genuine availability for work where, for example, a person receiving assistance could be referred to a work scheme after six months of support with job search.

Integrity is an important objective for the welfare system. The Welfare Working Group is concerned about abuse of the system that undermines the support that can be provided to those people who genuinely need it. We consider that the rules about welfare use need to be clearly defined and communicated, and sanctions and consequences need to be quickly enforced. The Working Group also proposes a variety of specific initiatives that include a publicity campaign aimed at reducing the public tolerance of fraud and abuse to developing more effective sanctions and penalties.

### Managing the transition<sup>12</sup>

The reform package outlined in this Report is significant. It will require the building of new capabilities, the development of new services and preparing welfare recipients to enter a new welfare system. A more detailed implementation plan will need to be devised in the next phase of development. We consider that a reasonable indicative timeframe is as follows:

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#### Preparing for reform

<b>Stage 1: Technical advice and implementation design (completed by September 2011)</b>	There is a range of technical issues that the Government will need advice on (including a detailed implementation process and advice on, and introduction of, new legislation).
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<b>Stage 2: Establishment of Ministerial Committee and Advisory Board (from May 2011)</b>	We consider that a Ministerial Committee may need to be established in order to provide leadership of the reform (including on detailed design and the sequencing of reform). This Committee would be supported by an Advisory Board that would include expertise on social policy, welfare delivery, organisational design, managing to an estimated forward liability, Māori and employer perspectives.
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<sup>12</sup> See Chapter 8 for a discussion of implementing the new work-focused welfare system.

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## Establishment of Employment and Support New Zealand

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**Stage 3: Employment and Support New Zealand established (between July 2012 and January 2013)**

Given the breadth of new capability to be developed we consider that it is critical that there should be significant time allowed following the appointment of the Establishment Board of Employment and Support New Zealand. This will enable it to develop a clear and comprehensive approach to its strategic and operational framework and robust systems for its implementation. In this phase Employment and Support New Zealand will need to develop:

- system design issues, including how it will create an effective service delivery model to achieve the Government's long-term outcomes;
- running the contracting process, including how it will contract for outcomes, what services it will contract for, and how it will design its tendering processes;
- build capability in service delivery where currently no capability exists;
- managing the transition from Work and Income; and
- negotiating its Statement of Intent with Government and building relationships with other Government and community agencies.

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**Stage 4: Employment and Support New Zealand taking progressive responsibility (January 2013 to end of 2014)**

After Employment and Support New Zealand is established we propose that it would take over all contracting of services, the design of the system to achieve better long-term outcomes and would be accountable for the delivery of former Work and Income services. At this stage it should have a new service delivery model, a range of contracted support services (including employment support and intensive support), and a clear front-end payment and work process building on the capability within Work and Income.

As Employment and Support New Zealand is implemented, monitoring of the reforms would be critical. The monitoring of the achievement of the long-term outcomes (meeting agreed targets to reduce the forward liability and therefore reduce long-term welfare dependence) would need to be supported by a detailed examination of the strategies and processes that were established.

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**Stage 5: Evaluation of Employment and Support New Zealand**

After a period of initial implementation we propose that there would be a full external evaluation of Employment and Support New Zealand and the work-focused strategy. This evaluation should provide a comprehensive evaluation of the outcomes of Employment and Support New Zealand against the objectives of the agency (reducing the forward liability and a consequent reduction in long-term welfare dependency). It should provide a detailed assessment of the performance of the agency in achieving the targets and expectations.

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## Introducing Jobseeker Support

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For welfare recipients, due to the scale of the changes proposed, we suggest that implementation should be staged. New entrants to the system should be initially placed on the new Jobseeker Support (given that they are new to the system). Following that, we consider that it would be sensible for achievement of the target that there be a focus on addressing the number of young people on welfare (given the importance of early intervention and prevention) through an integrated approach to expectations, service delivery and paid work.

All new welfare recipients from June 2012 would have payments, expectations and support in the new model (Jobseeker Support). We would expect that gradually as the model is rolled out welfare recipients who entered before June 2012 would be increasingly incorporated into the model. Initially there would be a focus on the expectations and support that is provided to them, and over time there would be movement to ensure everybody was on the same payment structure. Following the evaluation (and implementation of its recommendations) of stage 5 above, all existing clients should be fully included in the new model.

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## Managing implementation risks

Changes of this magnitude, which require consistent implementation over a number of years, always carry implementation risks. The key risks are losing control of costs, gaps in capacity and capability to deliver the necessary services, the reform not being sustained over the longer term, practices defaulting to previous practice and thereby limiting gains, and a change in external

economic circumstances derailing implementation. The use of forward liability and the independence of the delivery agency are the key mitigation strategies. These ensure the delivery agency is incentivised to focus on investing to reduce long-term cost and has the operational independence to implement the new welfare system.

### What could be achieved from the new approach<sup>13</sup>

Our analysis indicates that if the reform outlined in this Report were to proceed it could result in:

- a reduction in the numbers of people on a benefit in New Zealand of around 100,000 people (including partners of welfare recipients) by 2021;
- an expected cost of between \$215 and \$285 million per year in additional services;
- a reduction in the forward liability from around \$47 billion to around \$34 billion by 2021;<sup>14</sup>
- annual net savings of around \$1.3 billion per annum by 2021; and
- higher employment, lower poverty, reduced inequality, better economic outcomes and improved outcomes for children, young people, Māori, disabled people, those who are sick, and other key at-risk groups.

### Conclusion

The key objective in the Terms of Reference of the Welfare Working Group was to identify approaches to reduce long-term benefit dependency in New Zealand. In particular, we were asked to examine ways to improve paid work outcomes for sole parents, increase independence for disabled people and people with health issues, consider what can be learned from social insurance, and consider the structure of assistance.

We have presented a plan for a large scale and comprehensive reform of the welfare system to reduce long-term welfare dependency. This reform is founded on a greater work focus for more people, reciprocal obligations, a long-term investment view (investing early to reduce the risk of poor long-term outcomes for many people), commitment to targets, better outcomes for Māori, better outcomes for children, a cross-Government approach and more effective delivery. Two key elements are the introduction of Jobseeker Support (replacing all existing benefits), and the establishment of Employment and Support New Zealand.

We consider that Employment and Support New Zealand should deliver work services based on a long-term investment view. It should have clear accountability based on long-term performance and outcomes (as measured by the forward liability) and it should have access to the full range of instruments to improve long-term performance. These should be embedded in the organisation through the Crown entity model.

Our assessment of the second and third tier benefits is that they need to be reformed and that they are critical to creating the right incentives in the welfare system. We present a range of options for reform, including simplifying the supplementary payments and making them more transparent; ensuring that as a package they provide a strong incentive for people to take up significant hours of work; that they provide a strong incentive for people to make positive changes to their circumstances; and support is provided to those people who are facing the most significant hardship.

Our assessment is that if the reform package outlined in this Report is implemented effectively, it will have a major positive economic and social impact on New Zealand.

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<sup>13</sup> Full details of the assumptions which underlie this impact assessment are in Chapter 10.

<sup>14</sup> Under a no change option the forward liability is projected to be \$47 billion in 2021.

# Key Conclusions and Recommendations

This Section sets out a summary of the key conclusions of the Welfare Working Group, and the recommendations contained in the body of this Report.

## ***Chapter 1: Introduction***

### ***Summary***

The objective of welfare for people of working age is to provide assistance to those who have no other means of support and are temporarily or permanently unable to be in paid employment. People who can support themselves and their families through paid work should do so.

There are major deficiencies in New Zealand's welfare system that need to be addressed. This is particularly apparent for some groups, including Māori, young people with few qualifications, disabled people, those who are sick and many sole parents. Addressing these issues requires fundamental change to the welfare system rather than further piecemeal change.

### ***Recommendation 1: Key principles underpinning the provision of welfare***

The Welfare Working Group recommends that the design and provision of welfare for people of working age is guided by the following principles:

- a) recognition of the value and importance of paid work to social and economic well-being;
- b) provision of financial support to people not in employment when no other income is available;
- c) fostering strong social outcomes including improved physical and mental health outcomes and more positive outcomes for children;
- d) respect for the dignity of people;
- e) promotion of reciprocal obligations and accountability;
- f) promotion of personal responsibility;
- g) efficiency and freedom from misuse;
- h) affordability and sustainability; and
- i) practicality, being able to be implemented and having a low risk of unintended consequences.

## ***Chapter 2: A new model for welfare***

### ***Summary***

The norm for people of working age is that they support themselves and their families through paid employment, and the welfare system must be focused to support this as far as possible. The performance of the system needs to be measurable and focused on addressing the needs of the most disadvantaged. This reform is founded on a greater work focus for more people, reciprocal obligations, a long-term view (investing early to reduce the risk of poor long-term outcomes for many people), commitment to targets, better outcomes for Māori, improved well-being of children, a cross-sector approach and more effective delivery. A delivery agency with new capability and improved accountability is required to ensure that a work-focused welfare system is delivered effectively.

### ***Recommendation 2: A work-focused welfare system***

The Welfare Working Group recommends that there is a new work-focused approach to welfare for working age people, which has the following key elements:

- a) an increased emphasis on prevention, through access to appropriate and effective cross sector services, including health and education, so that fewer people need to use welfare;
- b) replacing existing benefit categories with a single payment called 'Jobseeker Support';
- c) reform of second and third tier assistance provisions that discourage recipients from moving into or remaining in paid employment or lead to other poor outcomes;
- d) increased, clearer expectations for more people in the welfare system to look for paid work;
- e) low-cost assistance and clear expectations to help those who are work ready;
- f) more active delivery and up front investment for those most at risk of avoidable long-term welfare dependence, in order to minimise the long-term costs of welfare;
- g) better support for people with no ability to work;
- h) focus on improved outcomes for children; and
- i) more effective delivery and expanded use of private and community, not-for-profit sector agencies to deliver employment services.

### ***Recommendation 3: Targets for welfare reform***

The Welfare Working Group recommends that in order to improve social and economic outcomes, especially for welfare recipients and their children, taxpayers, employers and the community, Government set a target of at least 100,000 fewer working age people receiving welfare by 2021, which would imply the need to reduce the number of Māori on welfare by between a third to a half, resulting in:

- a) a reduction in the number of people applying for welfare because of stronger prevention activity; and
- b) a reduction by at least 28 per cent in the long-term cost of welfare, as measured by the forward liability.

### ***Recommendation 4: A shared commitment between Māori and the Government***

The Welfare Working Group recommends that the Government initiate a formal partnership with Māori leaders, with associated goals and strategies, designed to result in enduring increases in Māori employment.

## ***Chapter 3: Active work-focused expectations***

### ***Summary***

A work-focused welfare system starts with the presumption that until determined otherwise each person is able to work, and therefore is expected to look for paid work when they seek welfare assistance. These work expectations will be temporarily deferred in certain situations, such as while caring for a young child, but there will continue to be expectations of preparing for work. There should be no work expectation for people for whom it would be unreasonable to apply work obligations because of the nature of their illness or because of permanent and severe impairment, or for those caring for disabled children or the sick or infirm.

It is important that everyone understands the concept of reciprocal obligations. People take on obligations when they receive welfare in exchange for the responsibility Government has in providing appropriate support. These obligations need to reflect the norms of behaviour of the

wider population. Recipients also need to know the consequences of not meeting these obligations.

***Recommendation 5: Work expectations for carers of children***

- a) The Welfare Working Group recommends, given the responsibilities for children involve both parents even when they are separated, that:
  - i. any changes being considered to child support must reinforce the obligations on non-custodial parents or parents in shared custody arrangements to financially support their children; and
  - ii. any changes being considered for child support not diminish the financial returns to being in paid work for sole parents moving out of the welfare system.
- b) The Welfare Working Group recommends:
  - i. subject to the Government addressing issues with the current availability and affordability of childcare and out-of-school care which we recommend are urgently addressed, that sole parents receiving welfare:
    - a. be required to seek part-time paid work of at least 20 hours per week once their youngest child is three years of age;
    - b. be required to seek paid work at least of 30 hours per week once their youngest child is six years of age;
    - c. who have a child under three years of age:
      - be required to undertake activities which prepare them for a return to paid work, such as developing a return to paid work plan and undertaking employment coaching and other job-related training;
      - be able to opt to receive additional transition to work assistance if they agree to look for employment;
    - d. be exempt from a requirement to seek paid employment where they are providing full-time care and attention at home for a disabled child or an adult who is sick or infirm, such that they would otherwise require hospital or residential care;
  - ii. that, the work expectations of partners of welfare recipients mirror those of sole parents recipients where there are children; and
  - iii. that work expectations for carers of children, where those carers are in receipt of welfare payments, be regularly reviewed and updated to broadly reflect wider community parental employment patterns.

***Recommendation 6: Work expectations for people who are sick or disabled***

The Welfare Working Group recommends that work expectations for:

- a) people who are sick or disabled should be based on the presumption, until determined otherwise, that people can undertake paid work;
- b) people who are sick or disabled should be based on an assessment of their current and expected future work ability and have tailored expectations for people to prepare for and enter paid work;
- c) people with permanent and severe impairment should be based on their aspirations and capacities to enter paid work and benefit from community participation; and
- d) people with terminal illness, carers of the sick and infirm and people with demonstrable impairment, should be fast tracked to a long-term support stream.

### ***Recommendation 7: Assessing what a person can do***

The Welfare Working Group recommends:

- a) that medical certificates issued by general practitioners be replaced with 'fit notes' that should focus on information about what work the person can do and that:
  - i. guidance be provided to general practitioners regarding criteria for certification;
  - ii. an independent review of the match between 'fit notes' and general practitioner records be required to assist general practitioners to provide better information and ensure the integrity of the information provided in 'fit notes'; and
- b) the assessment system is developed to make use of the existing and developing information systems and other infrastructure within the health and ACC system, including the single electronic transferable patient record, which can be used pro-actively to identify issues that might impact on employment, subject to appropriate confidentiality requirements being met.

### ***Recommendation 8: Conditions for young people receiving assistance***

The Welfare Working Group recommends:

- a) that all young people 16 and 17 years of age who receive assistance would be required to be fully engaged in either education, training or paid work, or a combination of these;
- b) that there be sufficient availability of teen parent units, or other suitable supported education services, to ensure all teenage mothers continue with their education;
- c) that young people under 18 years of age who are eligible for assistance:
  - i. be required to live with a responsible adult or in an adult supervised setting;
  - ii. for 16 and 17 year old sole parents, be required to undertake parenting and budgeting programmes and that their welfare payments be managed as part of this process until these programmes have been completed and participants have demonstrated that they can manage their budget themselves and support their children; and
  - iii. for 16 and 17 year olds who are not sole parents, their welfare payments would be paid to the responsible adult, or agent (such as a community organisation).

### ***Recommendation 9: Signals, expectations and consequences of not meeting obligations***

- a) The Welfare Working Group recommends that the system of reciprocal obligations be improved to better support a focus on paid work by:
  - i. making clear information publicly available about the expectations within the welfare system to encourage people to help themselves get into employment, rather than seek welfare assistance;
  - ii. providing clearer information to recipients at all stages of interaction with the system about their job search and other obligations; and
  - iii. providing clearer communication about the consequences if recipients do not meet their obligations.
- b) The Welfare Working Group recommends that:
  - i. recipients who do not meet their obligations would be subject to:
    - a. graduated reductions in their welfare assistance of:
      - 25 per cent of their payment for a first failure;
      - 50 per cent of their payment for a second failure;
      - 100 per cent of their payment for their third failure; and
      - a 13-week stand-down for a fourth or any subsequent failure;



- b. a minimum stand-down period of two weeks for each failure, before payment be restored after re-compliance activity has been undertaken;
- ii. obligations be effectively enforced, with transparent monitoring and reporting of the number and duration of stand-downs and reductions imposed;
- iii. for recipients with dependent children, additional monitoring be undertaken and there be requirements to ensure the interests of children are safeguarded; and
- iv. a credible work for welfare scheme be established, in order to test the willingness of a small group of recipients to comply with their job search obligations, such as in situations of six months on welfare for no apparent reason, or earlier if there are successive work test failures. The work for welfare scheme could require a recipient to engage in a compliance activity for a period. Criteria need to be developed to guide the application of this policy.

***Recommendation 10: Substance abuse***

The Welfare Working Group recommends that:

- a) either failing or refusing to take an employment related alcohol or drug test be regarded as not complying with the job search obligation, with associated consequences, and that this expectation be clearly communicated;
- b) subject to the Government addressing long-standing issues with the availability of drug and alcohol services (which we recommend be addressed as a matter of urgency) a person who fails or is likely to fail a drug or alcohol test due to drug or alcohol dependence, be offered the option of voluntarily agreeing to drug and alcohol treatment. Refusal to accept this offer would be a failure to meet job search obligations; and
- c) in circumstances where a person's drug or alcohol dependence is endangering his or her well-being or the well-being of children, management of their welfare payment be put in the hands of a responsible third party, or another form of income management, until the drug or alcohol issue is resolved.

***Recommendation 11: Addressing incentives for parents to have additional children while on welfare***

- a) The Welfare Working Group recommends that ready access to free long-acting reversible contraception be provided for parents who are receiving welfare.
- b) The majority of Working Group members recommend that where a parent has an additional (second or any subsequent) child while receiving assistance from the welfare system (except where they are pregnant at the time of coming into the welfare system):
  - i. expectations to look for work should begin once the youngest child reaches 14 weeks old, in line with current paid parental leave provisions and subject to the availability of affordable childcare and out-of-school care, except where there is already a child under three years of age. In that case the person's job search obligations would be determined by the elder child's age; and
  - ii. Government monitors the effect of this policy. If it is not effective, Government should consider whether further financial disincentives are necessary, including that parents not qualify for any additional financial assistance through the welfare system for any additional children born whilst in receipt of welfare, other than access to emergency assistance.

## **Chapter 4: Active and co-ordinated support**

### **Summary**

Most people in the welfare system will be able to find paid employment with minimal support. For others, the type and level of services and support they need will depend on the employment related barriers they may face. The level of support that should be available depends on what is shown to be effective, and for whom. Our preliminary estimate is that about 10 per cent of people are at high risk of long-term welfare dependency and should be provided with more intensive support.

An active work-focused welfare system recognises the importance and value of being in a job, and that people should take responsibility for finding and remaining in paid work. Consistent with this, people receiving welfare who undertake substantive tertiary study should be supported through the student support system.

Supports and assessment processes need to be responsive to Māori if they are to be effective. They also need to cater for other groups in the community, but especially for those who are disadvantaged or over represented in the welfare system, including Pacific people, migrants and refugees.

### **Recommendation 12: Encouragement to maintain or locate paid work rather than receive a welfare payment**

The Welfare Working Group recommends that the welfare system:

- a) before people need to apply for a welfare payment:
  - i. make more information available to general practitioners about the benefits of work in recovery and rehabilitation;
  - ii. adopt an approach modelled on ACC's Better@Work scheme for people in paid work who become sick; and
- b) when people apply for welfare assistance and before payments commence, through a combination of job search expectations and support, focus on applicants finding paid employment in the first instance, rather than automatically receiving assistance (except where the expectations are modified in line with Recommendations 5 and 6 above).

### **Recommendation 13: Assessing ability to work and accessing necessary supports**

The Welfare Working Group recommends:

- a) that the work-focused welfare system be supported by a new assessment process:
  - i. which involves a simple tool to assess immediate work expectations and guide investment in supporting people out of the welfare system;
  - ii. which streams:
    - a. most people who enter the welfare system to a 'jobseeker stream' which focuses on self-directed job search;
    - b. smaller numbers into either a 'transition to work stream' through which they could access a continuum of employment support services from 'light-touch' to intensive; or
    - c. those assessed as permanently having no employment expectations into a 'long-term support stream';
  - iii. which provides a more comprehensive assessment for jobseekers who have not located work after six months, using detailed functional and vocational information about their work ability, in order to determine whether they require additional support;

- iv. where comprehensive work ability assessments are being used to determine the appropriate service response for people with the most complex impairments or serious ill-health;
- b) that assessment processes be responsive to Māori, by being culturally appropriate, holistic in design and have whānau-driven solutions where possible; and
- c) that assessment processes be sensitive to the diverse characteristics and cultural backgrounds of New Zealanders including Pacific people, migrants and refugees, and to the importance of family/whānau structures.

***Recommendation 14: Public and private sector employment support***

The Welfare Working Group recommends that:

- a) employment support and programmes be rigorously selected on the basis of improving employment outcomes and therefore reducing long-term cost (the forward liability), and expenditure be continually re-directed to programmes that are most effective in meeting this objective;
- b) funding be increased for active partnerships between employers and delivery agents (for example, through the Industry Partnerships and other effective private and non-for-profit sector models) and consideration be given to:
  - i. incentives to encourage employers to provide on-the-job training, such as through tiered training wages;
  - ii. short-term subsidies for long-term welfare recipients;
  - iii. facilitating employers to work with education providers to provide NZQA approved training programmes that combine classroom time with on-the-job training alongside experienced older employees; and
- c) these partnerships with employers also be used to create opportunities for disabled people to enter paid work.

***Recommendation 15: Areas where there are few jobs***

The Welfare Working Group recommends:

- a) that the existing Limited Employment Locations policy be maintained and implemented effectively so that people with job search obligations cannot move to specified areas if there is little prospect of finding paid work;
- b) that the provision of positive incentives (for example, meeting relocation costs) to encourage people to move from low employment to high employment regions should be trialled and evaluated in some areas to assess their effectiveness; and
- c) that if these positive measures prove to be unsuccessful, then the policy on addressing unemployment in areas where there are few jobs should be revisited.

***Recommendation 16: Support to undertake tertiary study***

The Welfare Working Group recommends that the current disincentives arising through the difference in accommodation assistance between the student support and welfare systems for sole parents be addressed, to enable them to move out of the welfare system and undertake tertiary study through the student support system.

### ***Recommendation 17: More targeted approach to early childhood education (ECE) and childcare funding***

The Welfare Working Group recommends that:

- a) the current Taskforce on Early Childhood Education consider ways to improve the availability and affordability of childcare and early childhood education services for lower paid families and people on welfare, including reprioritising some of the existing ECE expenditure;
- b) the provision of ECE services support carers of children within the welfare system to enter paid work by ensuring the total hours of fully subsidised care reflect the hours people work (see Recommendation 5) and the time to travel to and from work. This would often exceed 20 hours; and
- c) consideration be given to encouraging development of childcare services that provide flexible hours and arrangements (including home-based services, sole parent co-ops and after-hours services) to make it easier for parents within the welfare system to enter paid work.

### ***Recommendation 18: Expansion of out-of-school childcare services***

The Welfare Working Group recommends that:

- a) the Ministry of Education urgently develop proposals to facilitate the expansion of out-of-school services on school property, including during school holidays;
- b) the Ministry of Education adopt out-of-school programmes which provide educational enrichment activities, including literacy and numeracy programmes for under achieving students, for example interactive computer-based programmes specifically designed to improve literacy and numeracy; and
- c) the OSCAR subsidy be increased for low income parents with children over six years of age, in order to reduce the cost of out-of-school care, including in school holidays.

### ***Recommendation 19: Transitional support for childcare***

The Welfare Working Group recommends that a time-limited transition to work payment aimed to cover the costs of childcare and other costs for the first six months of work, or two years of study or training that leads directly to employment, be provided to:

- a) sole parents with a child under three years who opt to engage in paid work or are in training or study as part of a plan preparing them for work; and
- b) sole parents with a child over three years who are assessed as being at high risk of long-term dependence. This payment might form part of a wider package of intensive support available to these sole parents to address significant labour market disadvantage.

## ***Chapter 5: Jobseeker Support***

### ***Summary***

The way the current benefit system is structured in terms of discrete benefit categories creates barriers to addressing long-term welfare dependency. The different expectations which are attached to each category do not reflect current social and labour market trends. We therefore recommend replacing the categorical benefits with a single payment, called Jobseeker Support, set at the single, couple and young person rates for the Unemployment Benefit.

The Welfare Working Group notes that the current payment rates structure is itself problematic. We consider that further reform is needed of the additional amounts that are currently paid in the main benefits, however, consideration of benefit rates is outside our Terms of Reference. We recommend re-structuring the rates so that additional cost components that reflect circumstances

currently in the main benefit (for example, for sole parents, people caring for the sick and infirm, widow's, women alone and for people on the Invalid's Benefit) be made supplementary payments. This will not change the amount recipients receive, but it will improve transparency and could be adapted in the future to more appropriately reflect additional costs and promote movement into paid work.

In accordance with our Terms of Reference we have reviewed the current supplementary payments – the second and third tier payments. We recommend that, along with the additional cost components that are being brought into the second tier, the current supplementary payments:

- be simplified;
- be more focused on paid work;
- have reduced incentives for couples to separate or increase costs of accommodation to gain higher payment; and
- be more focused on addressing underlying hardship.

We recommend a new unified payment for people needing help with disability costs be developed. We also recommend that consideration be given to replacing the accommodation supplement with a regional supplement, and to replacing the existing range of hardship support (the third tier) with capped discretionary funds targeted at those who have taken all reasonable steps to manage their costs. For third tier payments, we note that the current rule-bound process is bureaucratic and results in payments that are seen as part of an on-going entitlement, rather than an emergency payment to deal with unforeseeable additional costs. This has the unintended consequence of reinforcing benefit dependency.

### ***Recommendation 20: Jobseeker Support***

The Welfare Working Group recommends:

- a) replacing the existing categorical main benefits, the first tier (Unemployment Benefit, Sickness Benefit, Invalid's Benefit, Domestic Purposes Benefit, Widow's Benefit, Independent Youth Benefit and associated emergency benefits) with a single Jobseeker Support payment;
- b) that there be a presumption, until determined otherwise, that people receiving Jobseeker Support are required to be actively seeking and available for paid employment, with more tailored expectations where people have significant vocational or non-vocational barriers;
- c) that Jobseeker Support:
  - i. be paid at the current rates of the Unemployment Benefit for single people, couples and people between the ages of 18 and 25. The additional cost components of the current Invalid's Benefit, Domestic Purposes Benefit, Widow's Benefit and sole parent rates should be converted into supplementary payments (referred to in Recommendation 21 below). These changes will restructure current rates, but in a manner which retains their total value;
  - ii. not be available to 16 and 17 year olds. Those 16 and 17 year olds currently eligible for a benefit should instead be supported through assistance paid to their parents or a responsible adult unless they are a sole parent who has demonstrated that they can manage their finances and support their children (in accordance with Recommendation 8);
- d) that the way Jobseeker Support is reduced as more income is earned (abatement) be better aligned with paid work expectations. Consideration should be given to:

- i. there being as small as possible abatement-free zone (for example \$20) for those with paid work expectations;
- ii. there being a single abatement rate which cuts out at approximately 30 hours paid work at the minimum wage for a single recipient (for example, a rate of 55 cents in the dollar);
- iii. jobseeker incentives (such as tax credits or other in-work financial support) to work 20 hours or more per week, for people with temporary exemptions from work expectations or who have part-time work expectations, such as some sick people or disabled people and sole parents with children under six years;
- iv. how the proposals will interact with Working for Families, and ensure that the incentives for people to work 20 hours or more per week are increased; and
- v. there being a larger abatement-free zone (for example \$150 per week) for those with permanent and severe disabilities to have no work expectations.

### **Recommendation 21: Supplements**

The Welfare Working Group recommends:

- a) that the value of additional cost components in current base benefit rates which reflect particular costs associated with disability, sole parenthood, caring, widowhood and being a women alone, be made into second tier supplements as a transitional measure until further policy work is done to simplify rates;
- b) that the welfare system move towards having a second tier Disability Payment that combines the current Disability Allowance with the existing additional cost component within the current Invalid's Benefit rate, comprising:
  - i. a cost-based Disability Payment for people with part-time work expectations, who have disability related costs; and
  - ii. a higher, flat-rate Disability Payment for people with a permanent exemption from work expectations, who have disability related costs;
- c) that a payment for Carers of the Disabled replace the existing additional cost components of Domestic Purposes Benefit – Care of Sick and Infirm, and the Child Disability Allowance;
- d) consideration be given to replacing the existing accommodation supplement for working age welfare recipients, with a regional supplement which:
  - i. has a higher rate related to accommodation costs for first the six months a person receives Jobseeker Support; and
  - ii. is then paid at a flat rate that is higher in areas where there are more jobs and housing costs are higher; and
- e) consideration is given to replacing the existing third tier payments (including Temporary Additional Support, Special Need Grants and other one-off emergency loans and payments) with a regional capped discretionary fund.

### **Recommendation 22: Social housing**

The Welfare Working Group recommends that the final design of changes to the social housing sector arising from the 2010 Housing Stakeholders Advisory Group report (which would see the current delivery model for social housing transformed so that it is better able to help those most in need) considers the interface with housing assistance provided through the welfare system.

### ***Recommendation 23: Implementing Jobseeker Support***

The Welfare Working Group recommends that the detailed design of the new system needs to consider:

- a) how existing welfare recipients are transitioned into the new system; and
- b) simplifying the supplementary payments so they are more transparent and provide for clearer work incentives.

### ***Recommendation 24: Reducing fraud and abuse***

The Welfare Working Group recommends that specific consideration be given to ways to ensure the integrity of the welfare system, and to reduce fraud and abuse, including:

- a) a publicity campaign aimed at reducing public tolerance of fraud and abuse, including promoting awareness of the existing Benefit Fraud Hotline;
- b) exploring further electronic methods of verifying information;
- c) regular reassessments to reduce fraud;
- d) clarifying rules about partnership status; and
- e) a review of current penalties for fraud and abuse, which date back to 1993.

## ***Chapter 6: Support for sick or disabled people with long-term needs***

### ***Summary***

Many people who enter the welfare system because of illness or disability can engage in paid work, but need support to address their health issues or disability barriers so that they can move into or return to employment. Early access to appropriate health services can facilitate a faster return to paid work. Shortcomings in these health services result in significant welfare costs.

However, a small group of people do have significant ongoing barriers to employment and participation in the community more generally. For this group, reform of disability support services within the welfare system should be consistent with the Ministry of Health's proposed new model for supporting disabled people. There should be a stronger focus on information and personal assistance through co-ordinators that help disabled people build up and access natural and other supports. There should also be greater emphasis on access to funding, rather than a focus on services, in order to provide more choice and control by the disabled person over the support that is purchased. This will need to be supported by strong accountability arrangements.

### ***Recommendation 25: Support for sick or disabled people with permanent exemptions from work obligations***

The Welfare Working Group recommends that:

- a) a new model of disability support services within the welfare system should be based on:
  - i. individualised support plans focused on outcomes;
  - ii. services allocated with respect to a person's needs as identified in individualised plans;
  - iii. more choice for service users of both the types of services and the range of providers, and better information to inform that choice;
  - iv. greater individual control over what services are purchased and how services are provided, based on a person's specific requirements rather than being limited by what the service offers;
  - v. transparently reported outcomes of paid work, participation and well-being;

- b) the new individualised support planning process should be consistent with mainstream services and flexible enough to include mainstream services, so that disabled people can opt into mainstream services to support their needs;
- c) this model be further developed in partnership with disabled people and employer organisations, including the Employers Disability Network; and
- d) the Government should review the allocation of funding for Vocational Services for People with Disabilities and the Mainstream Supported Employment Programme in order to support the provision of disability support services as set out in a) to c) above.

### ***Chapter 7: Promoting the well-being of children***

#### ***Summary***

Assistance through the welfare system should aim to improve the well-being of children. Any future policy advice on changes to the welfare system should take account of its impact on child well-being. Once implemented, the actual impact should be monitored and evaluated.

Whilst most parents who receive welfare take their parenting responsibilities very seriously, the Working Group is concerned that a small number do not, and that this puts the well-being of their children at risk. There is a need to ensure that all parents receiving assistance through the welfare system meet their parental obligations which promote the well-being of their children. Increased support, including early intervention programmes, should be available to at-risk families to help parents who are struggling. At the same time, people should be clear that having additional children while on welfare should be discouraged.

For parents who are repeatedly having difficulty managing their budget, using income management by an agent or a payment card to temporarily manage a recipient's assistance may be warranted, as long as there is a clear objective of assisting the person to manage their income independently in the future.

#### ***Recommendation 26: Identify the likely impact of welfare reform on the well-being of children***

The Welfare Working Group recommends that there be ongoing assessment of the impact of the welfare system, including any changes in welfare policy, on the well-being of children.

#### ***Recommendation 27: Parenting obligations***

- a) The Welfare Working Group recommends that every recipient receiving a welfare payment who is caring for children be required to meet the following expectations:
  - i. ensure their children are attending school when they are legally required to;
  - ii. ensure their children participate in approved early childhood education once their child reaches three years of age; and
  - iii. ensure their children complete the 12 free Wellchild/Tamariki Ora health checks, which include completion of the immunisation schedule, unless they make an informed choice not to;

and that failure to meet these expectations after efforts to address reasons for non-compliance would result in the recipient's income being managed by a third-party or some other means, such as a payment card; and
- b) The Welfare Working Group recommends that systems be put in place to measure and monitor the compliance with the expectations set out in a) above.



### ***Recommendation 28: Support for at-risk families***

The Welfare Working Group recommends that:

- a) all teenage parents under the age of 18 and other parents of at-risk families be required to participate in an approved budgeting and parenting programme and that access be provided to these programmes free of charge;
- b) an assessment of risk to the well-being of children should form part of a more systematic assessment of long-term risk of welfare dependency and provide a basis for intervention through participation in intensive parenting support;
- c) at-risk families and whānau with complex needs be provided with wrap-around services, preferably by single, integrated providers which address family and whānau needs as a whole. These programmes need to be responsive to Māori through culturally appropriate, holistic, and whānau-centred solutions. In addition, they need to meet the needs of other parts of the community, such as Pacific, migrant and refugee communities; and
- d) at-risk families participating in an intensive early intervention parenting programme have access to quality early childhood education and childcare services from 18 months of age, as currently provided through Family Start.

### ***Recommendation 29: Mandatory reporting of child abuse***

The Welfare Working Group strongly supports the Government's decision to introduce legislation to strengthen obligations to protect children, including a new offence of failing to protect a child, and recommends that the Government enacts the legislation to put this into effect as quickly as possible and then monitor the responsiveness of Child, Youth and Family to notifications, and give consideration to making reporting of child abuse mandatory.

### ***Recommendation 30: Income management and budgeting support***

The Welfare Working Group recommends that in situations where a parent receiving welfare has shown they have a clear need for budgeting support due to repeated difficulties in managing their budget, such that their child or children's well-being is put at risk:

- a) the person be given access to budgeting support services;
- b) Government consider using a third party to manage the person's income, on the understanding that that this income management would cease once the person has demonstrated their capacity to manage their assistance; and/or
- c) this may entail provision of a 'payment card' programmed for use only on essential items, to ensure that children's needs are properly met.

## ***Chapter 8: Implementing work-focused welfare***

### ***Summary***

We propose a new delivery agency, Employment and Support New Zealand, to:

- improve outcomes for those at risk of long-term welfare dependency and reduce the costs of welfare dependency (as measured by the forward liability);
- focus on reducing the number of recipients of welfare assistance by at least 100,000 by 2021;
- provide effective support to people at risk of long-term welfare dependency through the use of contracted private and not-for-profit providers, including Iwi, Māori service providers, employers and whānau-centred approaches where these lead to better outcomes; and
- operate respectfully within a clearly defined set of rules about what support welfare recipients and their children can expect to receive and provide access to strong external dispute resolution processes.

The Ministry of Social Development would continue to provide advice on strategic welfare policy, evaluate the effectiveness of welfare settings and monitor the performance of Employment and Support New Zealand. It would also oversee the independent calculation of the life-time cost of welfare (the future liability) and have a crucial role in negotiating across Government to ensure services provided by agencies such as health and education support welfare recipients into paid work.

***Recommendation 31: Actuarial assessment of the future costs of welfare receipt***

The Welfare Working Group recommends that the new work-focused welfare system should:

- a) manage the performance of the system using a regularly estimated actuarial calculation of the forward liability;
- b) explore the setting up of a distinct welfare fund to cover the costs of the welfare system, with the ultimate possibility of partially funding the system; and
- c) manage the Crown's contribution to such a fund on a contractual basis that specifies the outcomes expected from any investment.

***Recommendation 32: The establishment of Employment and Support New Zealand***

The Welfare Working Group recommends that Employment and Support New Zealand be established as a Crown entity to implement the new welfare system, and be:

- a) accountable for improving work outcomes for people of working age at risk of long-term welfare dependency and reducing the long-term costs of welfare dependency (as measured by the forward liability);
- b) measured against the achievement of a reduction of at least 100,000 people on welfare through increased employment by 2021 (including achieving significant improvements for Māori), a significant reduction in numbers moving onto welfare and an equivalent reduction in the forward liability;
- c) required to provide effective, tailored and innovative support to those people at risk of long-term welfare dependency through the use of contracted private, not-for-profit and community responses;
- d) expected to develop efficient, effective contracting arrangements for the delivery of support to welfare recipients based on the principles of contestability, focus on outcomes and strong accountability arrangements that reallocates services away from providers who under-perform;
- e) expected to provide comprehensive assessments of individual's work ability, particularly for sick people or people with impairment, and to identify and tailor support and expectations to individuals' needs; and
- f) required to adopt a respectful approach, within a clearly defined set of rules about what support welfare recipients and their children can expect to receive, and provide access to strong external dispute resolution processes.

***Recommendation 33: The role of the Ministry of Social Development***

The Welfare Working Group recommends that strategic policy and evaluation functions would reside in the Ministry of Social Development, which would also be responsible for:

- a) oversight of the independent assessment of the forward liability;
- b) monitoring the performance of Employment and Support New Zealand against the forward liability;
- c) evaluating the effectiveness of welfare policy settings and administrative performance;

- d) leveraging cross-Government initiatives to reduce the need for individuals to use welfare; and
- e) providing policy advice to Government on how future policy changes will affect the achievement of the reduction in working age New Zealanders on welfare by 100,000 people by 2021.

***Recommendation 34: Employment services***

The Welfare Working Group recommends that:

- a) employment services be based on contestable, outcome based contracts; and
- b) contract referral processes and contract payment structures be designed to financially incentivise contractors to achieve positive outcomes for those with greatest risk of long-term dependency.

***Recommendation 35: Developing risk sharing approaches***

The Welfare Working Group recommends that:

- a) Employment and Support New Zealand pilots and evaluates contracting with consortiums of Iwi, voluntary and private sector organisations to provide payment and employment services in some areas; and
- b) these contracts use the forward liability approach to share the risks between Government, employers and local organisations.

***Recommendation 36: Implementation***

The Welfare Working Group recommends that the reform of the welfare system be:

- a) overseen by a Committee of Senior Ministers supported by:
  - i. a senior officials group with an independent chair; and
  - ii. an Advisory Board (involving expertise on social policy, welfare delivery, organisational design, managing a forward liability, and Māori and employer perspectives);
- b) implemented in a staged approach with Employment and Support New Zealand, focusing initially on young people and working age people newly entering the welfare system;
- c) that implementation commence as soon as possible, with the following indicative timeline:
  - i. establishment of Ministerial Committee and Advisory Board from May 2011;
  - ii. technical advice and Implementation design completed by September 2011;
  - iii. Employment and Support New Zealand being set up and expectations for new and re-entering welfare recipients established between July 2012 and January 2013;
  - iv. Employment and Support New Zealand taking progressive responsibility for all other working age welfare recipients January 2013 to end of 2014; and
- d) that 'grandparenting' of payment levels be used where this helps implementation, but that work and parenting expectations not be 'grandparented'.

***Chapter 9: A Government and community-wide approach***

***Summary***

Addressing long-term welfare dependence cannot be done by looking at issues within the welfare system alone. As well as making changes to welfare policy and delivery, there needs to be a concerted plan across a number of areas of Government activity.

Priority areas for attention include education and health. The number of people leaving school without the skills or aptitude to find or sustain employment is a major concern, and this needs to be addressed as a matter of urgency. Reducing teen births is a high priority, as is assisting teenage parents to give their children the best start in life and preparing the teen parent to move into the workforce. Similarly, reducing the number of people unable to work because of sickness points to the need to address areas within the health system where there are long-standing deficiencies in services. Gaps in mental health, rehabilitation services and managed care services create costs which inevitably show up in the welfare system, not to mention costs to individuals in terms of their well-being. Engagement in paid employment by previous offenders is a key strategy to reduce recidivism.

Stable economic policy and policies which support employment growth are critical, and will provide a platform for employers to play their part. There are strong examples of private sector leadership working with vulnerable groups to reduce barriers to employment which can be learnt from and built on.

***Recommendation 37: A Government-wide plan to reduce long-term welfare dependence***

The Welfare Working Group recommends a Government-wide plan aimed at reducing long-term benefit dependence be developed with clear targets and practical initiatives. Key aspects of the plan should cover education (including early childhood education and care) and training, health, housing, social services, temporary work and immigration, justice and economic growth. The plan should be developed in partnership with key stakeholders including employer organisations. It should be renewed annually, hold Government agencies clearly to account for performance and be based on evidence of effectiveness.

***Recommendation 38: Youth should be a major focus of the Government-wide plan to reduce long-term welfare dependence***

The Welfare Working Group recommends that the Government give a high priority to:

- a) further investment in early intervention programmes for at-risk families that will reduce the risk of intergenerational benefit dependency;
- b) policies that will tackle the high levels of under-achievement in schools, including best practice teaching methods for at-risk students, the development of full services schools, and funding mechanisms that ensure more choice and diversity to better fit children's learning needs and lift their achievement levels;
- c) creating a comprehensive database of at-risk young people aged 12 to 18 to ensure youth services are targeted and monitored appropriately;
- d) place increased emphasis on vocational training for young people at risk of benefit dependency, including allowing education funding to more fully follow students; and
- e) rationalising and reviewing youth programmes across all Government agencies so as to ensure that young people at risk of long-term benefit dependence receive appropriate support.

***Recommendation 39: Reducing teen pregnancy***

The Welfare Working Group recommends that the Government give a high priority to developing a programme of initiatives to reduce teen pregnancy, including provision of information about the consequences of teen pregnancy, better youth health services (particularly in schools) and better access to long-acting reversible contraception.

#### ***Recommendation 40: Offenders and ex-prisoners***

The Welfare Working Group recommends that the Department of Corrections and Employment and Support New Zealand jointly purchase outcome-based services for all people finishing a prison sentence with a clear objective of early re-engagement of recently released prisoners into paid work.

#### ***Recommendation 41: Health services to support the new welfare system***

The Welfare Working Group notes that significant shortcomings and lack of capacity in core health service provision are putting pressure on the welfare system and recommends:

- a) Employment and Support New Zealand and the relevant health agencies ensure that people have access to timely health and disability services where these conditions impact on a person's ability to work;
- b) the Government reprioritise and address capacity shortages in mental health services, and in generic rehabilitation services and managed health care, so as to provide greater emphasis on early intervention and reduce significant unmet demand;
- c) health services for young people, particularly around mental and sexual health, be given a priority; and
- d) additional investment in drug and alcohol treatment services to support stronger requirements to address substance dependence for people on welfare.

#### ***Recommendation 42: Policies to support employment growth***

The Welfare Working Group recommends that the Government:

- a) ensure that stable macro-economic policy, employment-focused labour market regulation and policies which foster job creation and reduce skill mismatches in the labour market support a strategy of reducing long-term welfare dependency; and
- b) undertake an investigation into whether labour market barriers to employment need to be addressed as part of a strategy to reduce benefit dependency.

#### ***Recommendation 43: Promoting responsive workplaces***

The Welfare Working Group recommends:

- a) that an information package be developed in association with employers to showcase best practice in assisting people with employment barriers to enter and stay in paid employment, and that this include information about the benefits of investing in family friendly and healthy workforce policies;
- b) that an investigation of how an early intervention approach that links a person with a illness or disability, with their family doctor and their employer, be carried out for use in the welfare system (similar to the ACC Better@Work scheme);
- c) that access to practical advice and support for those leaving the welfare system and entering new workplaces is expanded to enable strong and sustained employment relationships through:
  - i. the provision of targeted in-work support for at-risk individuals and their employers; and
  - ii. an expansion in the Employers Disability Network and other services so as to better support employers who are implementing cost-effective health, disability, and family-friendly workplace policies.

# Chapter 1. Introduction

## 1.1 The Terms of Reference

The Working Group was established to conduct a wide ranging and fundamental review of New Zealand's welfare system, with the aim of developing a menu of practical proposals to reduce long-term benefit dependence. The scope of the review includes:

- how long-term benefit dependence can be reduced and work outcomes improved, including for sole parents;
- how to promote opportunities and independence from benefit for disabled people and people with ill health;
- how welfare should be funded, and whether there are things that can be learned from the insurance industry and ACC in terms of managing the Government's forward liability; and
- whether the structure of the benefit system and hardship assistance in particular is contributing to long-term benefit dependency.

While the scope of our Terms of Reference are very broad, we have not been asked to make recommendations about New Zealand Superannuation, Working for Families, the level of base welfare benefits, or ACC.

## 1.2 The review process

The Working Group commenced its work in April 2010, and since that time has held regular meetings where we have considered issues, research papers and presentations from key stakeholders. We have also benefited greatly from the views of many people who participated in workshops with us throughout the country. In June 2010 we also hosted a two day forum in Wellington that included research and analysis from key international academics and New Zealand experts.

In August 2010 we published an analysis of the performance of the current benefit system in our Issues Paper. Our assessment was that the current system was insufficiently focused on helping people into paid work and was failing to deliver the economic and social outcomes that the community and taxpayers expect.

In November 2010 we published an Options Paper and canvassed a broad range of possible proposals for addressing the issue of long-term dependency. We invited and received a further range of submissions on the options and ideas presented in the Options Paper.

Throughout this process we have sought the views of a wide range New Zealanders. We received over 500 submissions from individuals and organisations on our Issues and Options Papers, and this feedback has been invaluable in shaping our analysis and recommendations on the nature of the problems and possible solutions.

Our discussion papers, minutes of meetings, research papers and submissions are all available on our website (<http://ips.ac.nz/WelfareWorkingGroup/Index.html>).

## 1.3 The purpose of the welfare system

The welfare system aims to provide income security for people who for various reasons are unable to undertake paid employment and have no other resources. In most situations, temporary support is needed, but for some people long-term or permanent support may also be required.

Traditionally, the risks or contingencies that individuals have been protected against have been loss of a job, sickness, disability, becoming a sole parent, the death of partner, or the need to care for someone who would otherwise be in hospital.

Individuals who experience adverse events often rely on their own resources (through savings and insurance), as well help from their families, employers and the wider community. However the provision of public welfare is recognition that without wider collective support, many people would face unacceptable levels of hardship. Welfare is a form of collective insurance against adverse events such as unemployment, severe illness and disability, or the loss of a partner.

Importantly, the provision of welfare is often viewed as only the payment of income support. However, for many people it also involves the provision of help to secure employment.

The role of the wider tax-paying community in supporting people also extends beyond the provision of welfare payments. Health, education and other social services play an important role in both preventing people from needing to use the welfare system, as well as supporting those receiving welfare.

#### **1.4 Key principles underpinning the welfare system**

The provision of welfare by Government reflects a compassionate desire on the part of the community to support people in times of need. The nature of this provision can be judged against a number of important principles. A well functioning welfare system should:

- recognition of the value and importance of paid work to social and economic well-being;
- provision of financial support to people not in employment when no other income is available;
- fostering strong social outcomes including improved physical and mental health outcomes and more positive outcomes for children;
- respect for the dignity of people;
- promotion of reciprocal obligations and accountability;
- promotion of personal responsibility;
- efficiency and freedom from misuse;
- affordability and sustainability; and
- practicality, being able to be implemented and having a low risk of unintended consequences.

Our focus on the importance of paid work as a principle is consistent with the International Covenant on Economic, Social and Cultural Rights. Article 6 of the Covenant recognises the right to work “which includes the right of everyone to the opportunity to gain his living by work which he freely chooses or accepts”. It also recognises, under Article 9, the right of everyone to social security, and the fundamental role of the family (Article 10).

These principles suggest that people who are incapable of earning an income should be cared for at a decent minimum income level. However equally, people who are capable of working and looking after their dependents should be required to do so. In addition, people receiving assistance should not enjoy better living standards than equivalent people in work.

Inevitably the design and delivery of a welfare system requires a degree of balance between different principles. One particular issue is that welfare ensures that people receive financial support if they find themselves in difficult circumstances. However for a minority of individuals the existence of a safety net will mean they take less personal responsibility to support themselves independently. The design of the welfare safety net needs to cater for different situations and find an appropriate balance between different principles.

## 1.5 The current benefit system in New Zealand

New Zealand's benefit system is a social assistance approach based around defined categories of need. Benefits are provided to sole parents, unemployed people who are looking for and available for work, people who are sick or disabled, widows, older women who do not have a partner, and people who care for the sick and infirm.

In addition to meeting defined categories of need, people are only eligible for benefits if they are part of a low income nuclear family. This means that the earnings of both the individual and their partner are taken into account when determining eligibility for a benefit.

Table 1.1 shows the eligibility criteria and the number of people receiving different benefits in June 2010. In total there were 376,000 people receiving a main benefit, of which approximately 362,400 were aged between 18 and 64 years.<sup>15</sup>

**Table 1.1: Eligibility criteria and number of people receiving a main benefit, June 2010**

Main benefits	Key eligibility criteria	Number of beneficiaries
Unemployment Benefit	Do not have a job and actively seeking work	79,058
Sickness Benefit	Cannot work because of sickness, disability or pregnancy	68,056
Invalid's Benefit	Cannot work because assessed as permanently and severely restricted in their capacity to work or totally blind	99,269
Domestic Purposes Benefit – Sole Parent	Sole parent with dependent children	99,298
Domestic Purposes Benefit – Women Alone	Woman with no dependent children who has lost the support of their partner her turning 50 years	3,549
Domestic Purposes Benefit – Care of Sick or Infirm	Caring full-time for someone who would otherwise be in hospital	6,657
Emergency Maintenance Allowance	Sole parent who is not eligible for Domestic Purposes Benefit (including 16 and 17 year olds)	2,879
Widow's Benefit	Woman whose partner has died, whether or not she has dependent children	6,159
Emergency Benefits	Cannot receive any other benefit (or New Zealand Superannuation) and in hardship	9,820
Independent Youth Benefit	16 or 17 years old and not supported by their parents, generally because of family breakdown	1,711

Source: Ministry of Social Development Manuals and Procedures, and Administrative Data

If someone is eligible for a benefit, the rate of the basic benefit varies depending on the type of benefit, partnership status, age, and in some cases family size. There are also second tier supplementary benefits available to provide additional ongoing payments on top of the basic flat rate of benefit. These recognise extra costs such as housing and disability. Third tier benefits provide extra support for those in hardship either through one-off payments for unexpected costs or extra payments for a period of time.

The overall weekly amount a person receives on a benefit varies considerably depending on a range of factors. In April 2010 the average net amount of main and supplementary benefit income was \$296 per week. In addition, beneficiaries with dependent children are eligible for the Family Tax Credit which is designed to recognise some of the additional costs of children. Currently the

<sup>15</sup> Throughout this paper we use June 2010 figures for consistency. This is because figures for December 2010 are slightly higher reflecting the usual seasonal pattern.



Family Tax Credit provides \$88.04 per week for the first child (aged 0 to 16 years) and an additional \$61.19 per week for subsequent children aged under 13 years.

Work and Income, a service delivery agency of the Ministry of Social Development, is responsible for the administration of benefit payments and the management of employment services. In practice an important proportion of employment services are delivered by third parties such as Workbridge, the Salvation Army and private providers.

Table 1.2 shows the major components of Government expenditure on the benefit system in the year to June 2010. In total \$7.78 billion was spent on the benefit system, which represents roughly 12.0 per cent of core Crown expenses and approximately 4.1 per cent of Gross Domestic Product (GDP).

**Table 1.2: Government spending on the benefit system, 2009/2010**

	\$ billion
Benefits	6.73
Administration of benefit payments	0.28
Employment programmes and their administration	0.77
Total	7.78

*Source: Budget Economic and Fiscal Update 2010. Note: Benefits excludes New Zealand Superannuation but includes main benefits and supplementary payments. Employment programmes refers to active labour market programmes and childcare assistance.*

## 1.6 Public feedback about the effectiveness of the existing benefit system

In August 2010 we published an Issues Paper and invited public comment on the effectiveness of current arrangements. We received a diverse range of feedback about the overall effectiveness of the current welfare system. There were, however, a number of important common themes in many of the responses.

### ***There was widespread support for a strong safety net, but this should come with clear expectations that people take responsibility for themselves as much as possible***

The benefit system is in place to help people when they are unable to work or look after themselves. Some people have significant health and disability issues that mean that they need long-term support, which can mean being on a benefit for long periods. Alongside a strong safety net, people who use the benefit system have a responsibility to the community that is supporting them, and most people should use the benefit system only temporarily.

### ***There was widespread agreement that paid work is the best way for individuals to support themselves and their families***

The benefit system should actively help people back into work and independence, rather than simply pay a basic income. Well-being is tied up with paid work in our society, and long-term unemployment creates outcomes of poverty, joblessness, entrenched disadvantage and alienation.

### ***Many people on a benefit face diverse barriers when finding and sustaining paid work***

Barriers to paid work include self-esteem, confidence and motivation, the availability of jobs, the availability and suitability of childcare, availability of health interventions, and the costs and capabilities of moving into employment, such as transport costs, clothing, access to short courses and help to fill in application forms.

***Some people argued that a focus on employment for beneficiaries was currently not appropriate because there are so few job opportunities***

Some submitters argued that it is not reasonable to expect beneficiaries to be looking for work because there are currently very few jobs. It was argued that work expectation in the current environment would be stressful and counterproductive. Our response to this important issue is discussed in more detail in Section 2.2.

***There was a concern that some people who have other alternatives are using the benefit system and that this is undermining help to those who genuinely need support***

We have heard that some beneficiaries are primarily concerned about what they are entitled to, and have little regard to the obligations that come with being part of a community. This ‘culture of entitlement’ weakens the support available to those who most need the benefit system, and ultimately leads to more poverty and higher taxes. Some people suggested that it needs to be clear that a benefit is paid where it is genuinely needed, but that responsibilities to the community come as part of being on benefit, such as taking up reasonable opportunities to prepare for and then move into paid work.

***Employers raised a number of specific issues***

The submissions we received noted many successful cases of beneficiaries moving into work and becoming valued and long-term employees. However feedback from some employers was that employing beneficiaries can be difficult as they have become unaccustomed to the routines and requirements of the workplace. Perceived risks that beneficiaries will not work out because of a range of personal issues, from a lack of recent work experience to drug and alcohol problems, are often a major barrier to employment. Some employers were concerned about labour regulation, and the legal process that may follow if problems arise in the employment relationship, which can be costly and disruptive particularly for small firms.

***There needs to be more engagement with employers, the health system and other stakeholders***

The feedback highlighted that the benefit system is not the only driver of long-term benefit dependence in New Zealand. The submissions identified that the economy, employers, the education system, the health system, and broader social policy and delivery are all factors in the rates of long-term benefit dependence in New Zealand.

The following section sets out our analysis of the issues and problems with the current benefit system, building on this feedback, as well as our reading of the New Zealand and international research evidence.

## **1.7 The design of the benefit system is outdated**

The existing structure of the welfare system was created in the late 1930s, and although there has been considerable policy change since that time, the basic approach and architecture still remains.

The traditional approach to welfare has been based on the provision of an entitlement to income support, with relatively less emphasis on the provision of support to find employment.

The traditional approach also assumes that many people will not participate in paid work. Currently just over a third of all people receiving a benefit have an expectation of work.<sup>16</sup> Until recently, the

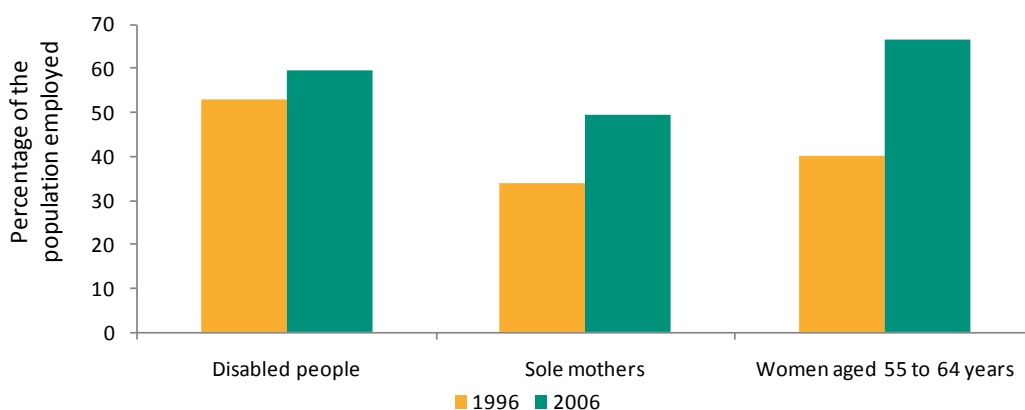
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<sup>16</sup> The Social Security (New Work Tests, Incentives, and Obligations) Amendment Act 2010 put in place a part-time work test requirement for Domestic Purposes Benefit sole parents whose youngest child is six or older. From May 2011, a part-time work test will be applied to people on a Sickness Benefit with the ability to work.

system largely presumed that employment was not appropriate for sole parents, older women, widows, people who were sick, and disabled people.

These assumptions are outdated as there has been substantial change in patterns of work and family life in recent decades. For example, the benefit system operates with the assumption that disabled people are unable to work, yet the majority of disabled people are now in paid employment. Similarly, the benefit system has been based on an assumption that mothers with dependent children and older women do not work. Currently 63 per cent of all mothers with dependent children are in paid employment, and nearly 50 per cent are employed once their youngest child reaches three years of age. Figure 1.1 shows the remarkable changes that have occurred over the last decades in the proportions employed of some key groups.

**Figure 1.1: Employment rates of disabled people, sole mothers and older women, 1996 and 2006**



Source: Disability Survey, 1996 and 2006. Household Labour Force Survey, 1996 and 2006.

Outdated assumptions in the benefit system means there is considerable hidden unemployment. Many people on benefits that do not have a focus on work are capable of working and are actually without a paid job.

### 1.8 Current arrangements create high levels of long-term benefit dependency

The absence of a focus on paid employment leads to high levels of avoidable benefit dependency. Current arrangements signal that many people on a benefit should not be in paid work. It also results in the delivery of less help to secure employment for people not expected to find work. The existing categorical system of benefits also creates financial incentives for people to claim benefits that have a limited work focus.<sup>17</sup>

As a result, many people remain on a benefit for longer than is necessary. In June 2010 there were 175,100 people 28 to 64 years of age on a benefit who had spent more than five years out of the previous decade on a benefit.<sup>18</sup>

Table 1.3 shows the distribution of these long-term beneficiaries by benefit type. As would be expected, the majority of these very long-term beneficiaries were receiving Domestic Purposes

<sup>17</sup> This is particularly pronounced in relation to disability. The OECD argues that in most benefit systems people in receipt of disability benefits are ... indirectly compelled to remain inactive and assert they are incapable of work in order to continue to receive payments. OECD (2009), *Sickness, Disability and Work: Keeping on Track in the Economic Downturn – Background paper*, for OECD high level forum in Stockholm, 14-15 May 2009.

<sup>18</sup> Ministry of Social Development Benefit Dynamics Dataset.

Benefit, Sickness and Invalid's Benefits. More detailed analysis also shows that many of those who had spent very long periods on benefit were first granted a benefit as a teenager.<sup>19</sup>

**Table 1.3: Numbers of 28 to 64 year olds on benefit as at 30 June 2010 who had spent more than five years out of the previous 10 years on a benefit**

Main benefit type	Numbers using benefits for 5+ out of 10 years	Percentage of very long-term benefit users
Unemployment Benefit	13,800	8%
Sickness Benefit	24,800	14%
Invalid's Benefit	65,500	37%
Domestic Purposes Benefit – Sole Parent	48,400	28%
Domestic Purposes Benefit – other	5,700	3%
Widow's Benefit	3,300	2%
Emergency Benefit	700	0%
Benefits as partner	12,900	7%
<b>Total main benefits<sup>1</sup></b>	<b>175,100</b>	<b>100%</b>

Note 1: Numbers may not add to total due to rounding.

Source: Ministry of Social Development Benefit Dynamics Dataset.

The duration of a person's benefit receipt reflects many factors including their skills and qualifications, labour market experience, health status, caring responsibilities, the availability of transport, and the number of jobs in the local labour market. However there is evidence that controlling for these factors – the level of support and general expectation to be looking for work in the benefit system – makes an important difference in how long someone stays on a benefit.<sup>20</sup>

This finding is important because for most working age people, paid work is beneficial to overall well-being, and long-term absence from paid employment can be harmful.

There is growing consensus that joblessness is particularly harmful to mental and physical health.<sup>21</sup> There is increasing evidence that long-term benefit receipt has harmful effects on confidence, skills and future employability.<sup>22</sup>

Long-term benefit receipt is also undesirable because it is associated with low incomes. A short period of lower income does not necessarily result in long-term deprivation. However, persistent periods on a low income significantly increases the risk of deep deprivation, financial stress, low living standards, and poor health and housing.<sup>23</sup>

<sup>19</sup> Analysis of Ministry of Social Development administrative data provided to the Welfare Working Group. See also D. Welsh and M. Wilson (2010), 'Lifecycle factors associated with time spent receiving benefit in young adulthood: A note on early findings.' Unpublished working paper, Ministry of Social Development.

<sup>20</sup> Gregg, P. (2008), *Realising Potential: A Vision for Personalised Conditionality and Support*, Department Work and Pensions, United Kingdom.

<sup>21</sup> Australasian Faculty of Occupational and Environmental Medicine (2010), *Realising the Health Benefits of Work*, downloadable from <http://afom.racp.edu.au/page/media-and-news/realising-the-health-benefits-of-work>. Black, C (2008), *Working for a Healthier Tomorrow*, [www.workingforhealth.gov.uk](http://www.workingforhealth.gov.uk).

<sup>22</sup> Black, C. (2008), *Working for a Healthier Tomorrow*, [www.workingforhealth.gov.uk](http://www.workingforhealth.gov.uk).

<sup>23</sup> R. Berthoud, M. Bryan, and E. Bardasi (2004), *The Dynamics of Deprivation: The relationship between income and material deprivation over time*. Research Report 219, Department of Work and Pensions.

For parents with dependent children, long-term benefit receipt is strongly associated with poor results for children. Children raised in long-term benefit dependent families are likely to suffer adverse health effects, poorer educational achievement and reduced aspirations. Conversely, parental participation in paid work, especially where it is full-time, is clearly associated with a lower risk of child poverty.<sup>24</sup>

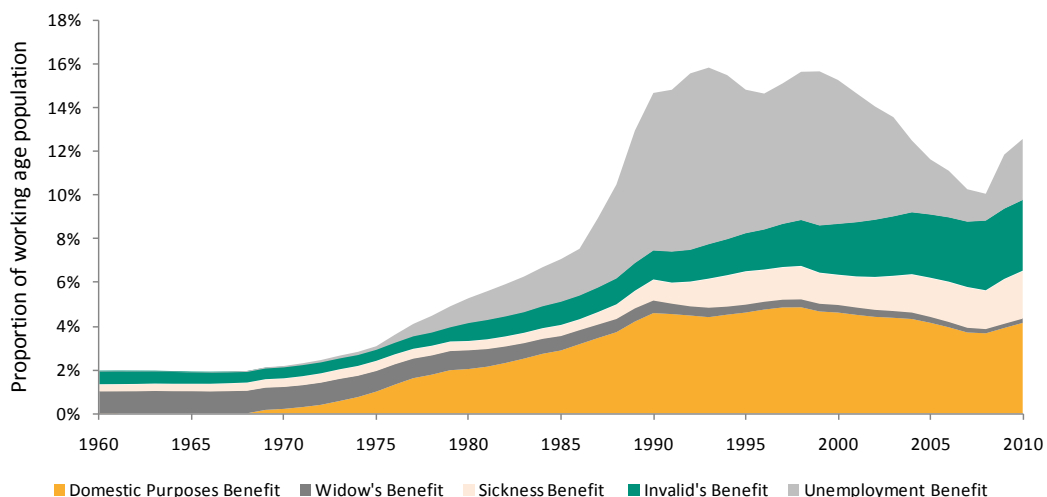
Compared to long-term benefit receipt, participation in paid employment is associated with higher incomes, but also beneficial effects in terms of health and social contact. Being in employment provides opportunities for career progression and skills development on the job. Unsurprisingly, people in paid work are generally financially better off than those out of work, and earnings rise with qualifications. A range of studies show that for individuals and their families, securing paid work is an important route out of poverty.<sup>25</sup> There is also increasing consensus that for many people who have been unwell, especially those with common health problems, a return to work can promote recovery and rehabilitation.<sup>26</sup>

### 1.9 Current welfare policies will not deliver good outcomes in the future

The current design of the benefit system is not well suited to our modern economy and society, and it is likely that the deficiencies in the current system will become more apparent over the coming decades. If left unchanged, there will be an increase in the overall proportion of the population on benefits, and this will inhibit New Zealand's future social and economic progress.

Our view of what might happen in the future is informed by what occurred over recent decades. Figure 1.2 shows that in 1960, only two per cent of the working-age population were receiving a benefit. By April 2008, after a decade of strong employment growth and before the recession, around 10 per cent of the working age population were receiving a benefit.

**Figure 1.2: The proportion of the population in receipt of working age benefits, 1960-2010**



Source: Long-term historical series from the Ministry of Social Development Annual Statistical Report.

<sup>24</sup> Perry, B (2010), *Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2009*, Ministry of Social Development.

<sup>25</sup> Jenkins, S., Rigg, J. and Devicienti, F. (2002), *The Dynamics of Poverty in Britain*. Department of Work and Pensions, Research Report 157.

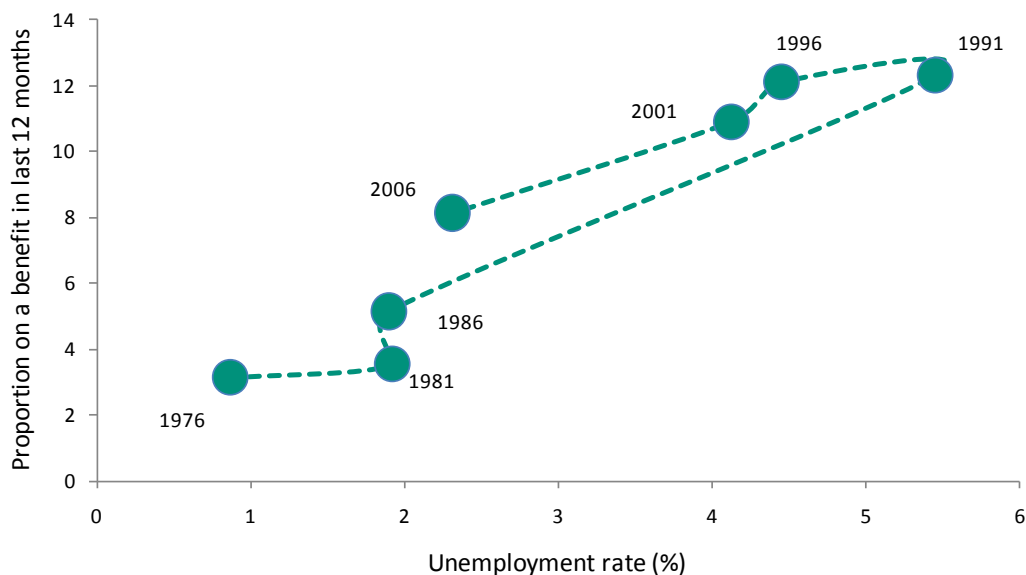
<sup>26</sup> Waddell, G. and Burton, A. (2006), *Is Work Good for your Health and Well-being*. Department of Work and Pensions, Great Britain.

The historical trend in overall rates of benefit receipt since the 1970s has been the result of changes in eligibility for benefits, changes in the nature of families, changes in the labour market, and the experience of a significant recession. Changes in family structure, and in particular the growth in sole parenthood was an important driver of an increase in Domestic Purposes Benefit receipt until 2006. Labour market changes, and in particular a decline in demand for low skilled and manual labour, is likely to have contributed to some of the increase in Sickness and Invalid's Benefit receipt. Lastly, a major increase in unemployment in the late 1980s and 1990s seems to have altered historical patterns of benefit receipt among some groups.

There is evidence that the inactive nature of the benefit system meant that high levels of benefit receipt became 'locked-in' after the economic restructuring of the late 1980s and early 1990s. After losing their job, some people became discouraged from attempting to continue to look for work, and their health deteriorated as their time on a benefit lengthened. Others adjusted their lives to cope with the low income of a benefit system and in so doing became less employable. Some moved to areas with low-cost accommodation, others settled for living and raising children alone. Some people moved from Unemployment Benefit to non-work focused benefits such as Invalid's Benefit to gain higher payments. Long-term benefit receipt became normalised and endemic in some families and communities.

Figure 1.3 shows evidence of this 'lock-in' effect in relation to men aged 40 to 44 years. Traditionally this group have had very low rates of benefit receipt. As can be seen, the rise in unemployment during the late 1980s and 1990s seems to have changed the traditional levels of benefit receipt of this group. When unemployment declined after 1991, levels of benefit receipt also declined, but remained at higher levels than comparable times in previous decades.

**Figure 1.3: Rate of unemployment and benefit receipt among men aged 40-44 years, Census 1976-2006**



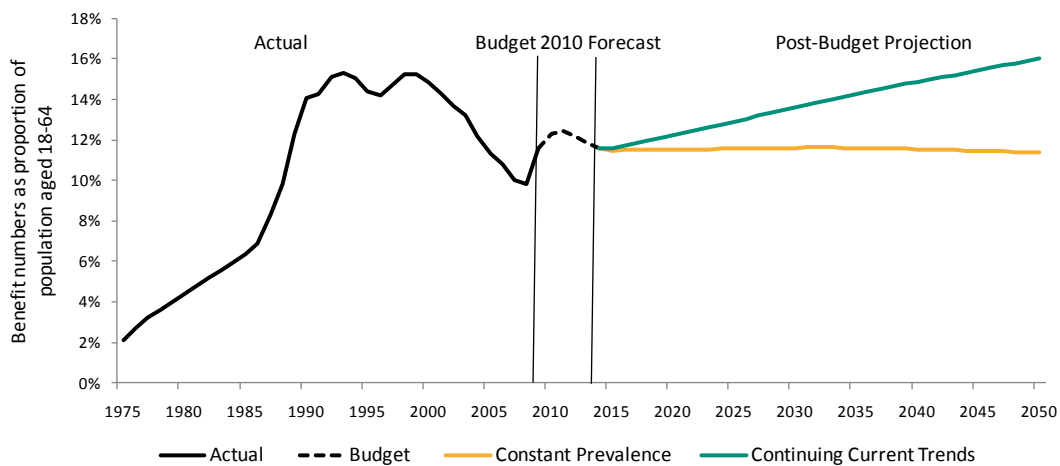
*Note: Usually resident population. From 1991 the definition of unemployment became more restrictive in the Census. Benefit receipt refers to the proportion of men who have had benefit income in the last 12 months.*

*Source: Census.*

In looking to the future, many of the historical social and economic drivers of increasing rates of benefit will continue. While there is considerable uncertainty about the future, there is a clear possibility that the current recession, labour market changes, globalisation, and continued family changes will lead to a growing proportion of the working age population receiving benefits. This is

particularly important in the context of population ageing and a shrinking proportion of the population in work. In the Working Group's Issues Paper we highlighted that if the long-term upward trend in Sickness and Invalid's beneficiaries continued, as it has done in many countries with higher levels of benefit receipt than New Zealand, then benefit numbers could rise to 16 per cent of the working age population by 2050.

**Figure 1.4: Projected rates of welfare across different scenarios**



Source: Data from Long-term Fiscal Model 2010.

New Zealand can ill afford a benefit system with 16 per cent or more of its population on a benefit for long periods of time. The consequences are significant numbers of people not in paid work, lower incomes, increasing rates of poverty and reduced economic growth. These long-term projections also imply growing income inequality and social disparities between those in work and those receiving benefits. A further implication of these projections is that it would be difficult for New Zealand to cope with another major economic recession. Reducing long-term benefit dependency would greatly improve New Zealand's future social as well as economic prospects, and would also ensure that the welfare system was resilient to future economic shocks.

### 1.10 Benefit dependence among Māori is high

The great majority of Māori succeed and support themselves and their whānau through paid work. However, Māori are significantly over-represented in the beneficiary population and are more likely to spend long periods on a benefit. As at the end of June 2010, just under 112,900 Māori aged between 18 and 64 years were receiving a main benefit. This represented almost 31 per cent of working age Māori. By way of comparison, just over 10 per cent of the non-Māori working age population were receiving a main benefit.

Approximately 26 per cent of Māori men receive a benefit. Around 36 per cent of all working age Māori women receive a benefit, reflecting the high prevalence of Domestic Purposes Benefit receipt among Māori women. Young Māori women account for around half of all teenage pregnancies, and approximately 41 per cent of all women receiving the Domestic Purposes Benefit.<sup>27</sup>

High levels of benefit receipt reflect a range of factors, many of which have been shaped by the historical experience of Māori. Urbanisation in the 1950s saw Māori move in large numbers to

<sup>27</sup> This partly reflects the younger demographic profile of the Māori population.

provincial towns and cities to find work.<sup>28</sup> Urbanisation was partly a reflection of explicit policies aimed at expanding Māori employment in manufacturing, and during this time the level of participation of Māori in paid employment was comparable with non-Māori. However the period of economic restructuring and rising unemployment in the late 1980s and 1990s impacted particularly heavily on Māori, particularly those who had been employed in low skilled or semi-skilled manufacturing and industry. The Working Group was told that, even today, there is a sense of shame from not being able to provide for their whānau after the heavy job losses of the 1980s and 1990s. High levels of joblessness contributed to a rise in sole parenthood, and in some cases benefit receipt became entrenched in communities and whānau.

Evidence tells us that long-term benefit receipt is strongly associated with low levels of education and training, as well as poorer health, geography and other factors. The high concentration of long-term benefit receipt is deeply concerning for both Māori and New Zealand as a whole.

**Table 1.4: Unemployed Māori by highest qualification, 2006**

Highest qualification	No qualification recorded	Secondary school qualification	Tertiary level 1 - 3	Tertiary level 4 - 6	Tertiary 7 or higher
Percentage unemployed by highest qualification	53%	28%	8%	9%	3%

*Note: Tertiary levels are based on the New Zealand Qualifications Framework where levels 1 - 3 cover certificates; levels 4 - 6 cover certificates and diplomas; and levels 7 and above cover bachelor's degrees, graduate diplomas and certificates and higher qualifications.*

*Source: Te Puni Kōkiri Factsheet Benefits of Education 2010 [www.tpk.govt.nz](http://www.tpk.govt.nz).*

Table 1.4 shows that the lack of educational qualifications is strongly associated with unemployment for Māori. New educational approaches for Māori youth need to be explored as young Māori are much more likely than non-Māori to leave school without qualifications. For example, in 2008 just under half of all Māori students left school without achieving a NZCEA Level 2 qualification. This compares with 29 per cent across all students leaving school in 2008.<sup>29</sup>

The recession which began in 2008 has had a disproportionate impact on young people, and especially young Māori. It must be a key priority of any reform to ensure that young Māori have opportunities to be engaged in further education, training or employment.

The growth in youth unemployment among Māori and the high numbers of Māori women and their children spending long periods on a benefit increases the risk of intergenerational benefit dependence, especially in communities with high unemployment. One of the issues for many Māori is that jobs are not necessarily to be found in their turangawaewae. However, it is also critical for the future of young Māori that they be guided to locations with jobs so they can create financial independence and well-being for themselves and their whānau.

The significant impact of adverse social and economic trends is an important part of high levels of benefit dependency among Māori. While acknowledging the past, it is the Working Group's view that the best response to this issue lies in a forward-looking approach which empowers Māori and their communities, supported by the Government and other agencies, to drive their own futures.

A co-ordinated approach to health, social and education provision and whānau-centric approaches needs to be considered in the development of strategies to increase Māori workforce participation. This is based on the need for Government departments to work together to inform and empower

<sup>28</sup> Ministerial Advisory Committee on a Māori Perspective for the Department of Social Welfare (1986), *Pūaoteatū – Daybreak*. Department of Social Welfare.

<sup>29</sup> Social Report (2010) <http://www.socialreport.msd.govt.nz/knowledge-skills/school-leavers-higher-qualifications.html>.



people to make choices that give them the opportunity for independence and the ability to provide a secure future for their whānau. With improved co-ordination and integration of health, education and social provision a more enabling environment for whānau to achieve whānau ora will be possible. At the heart of the proposed changes is the recognition that every element of society, the Government, the individual, employers and the community have a part to play to achieve greater workforce participation.

### 1.11 Too many young people are at risk of long-term benefit dependency

The recent recession has had a marked impact on young people. A decline in employment, combined with increasing numbers of young people in the population has increased youth unemployment to very high levels.

In addition to high youth unemployment, a key issue for the benefit system is that there is a group of highly disadvantaged young people who are granted a benefit as a teenager, and who remain on a benefit for long periods of time. For young people, long-term benefit dependence is especially damaging and represents a considerable loss to the wider community.

There are currently 3,700 young people under 18 years receiving a benefit. This group are likely to be on one of three types of assistance: the Emergency Maintenance Allowance, if they are a sole parent; the Invalid's Benefit for those who are disabled; or the Independent Youth Benefit where the young person is unemployed and alienated from their parents.

Research based on those who entered the benefit system in 1999 shows that young people who were granted a benefit before their 18<sup>th</sup> birthday were highly at risk of very long periods of benefit receipt.<sup>30</sup> As a consequence, an important proportion of people on a benefit at any age were first granted a benefit as a teenager. For example, an estimated one-third of all women currently in receipt of the Domestic Purposes Benefit were teen parents.<sup>31</sup>

The group of young people who enter the benefit system early are diverse, but many have had a dysfunctional upbringing, and a high proportion have spent time under the care of Child, Youth and Family.<sup>32</sup> Many have left school early and failed to achieve school qualifications.

The extent of early entry to the benefit system partly reflects family dysfunction, but also reflects a failure in compulsory education for at-risk young people (compared to many other countries New Zealand has a high proportion of young people who do not achieve in compulsory education); limited post compulsory education, training and employment opportunities for disadvantaged young people (compared to other OECD countries New Zealand has a relatively high proportion of young people who end up not participating in either education or employment); and high rates of teen pregnancy (New Zealand has a high rate of teen pregnancy compared to other OECD countries).<sup>33</sup>

Long-term benefit dependence among disadvantaged young people reflects a range of contributing factors. Reducing the inflow of young people onto benefits will require a range of integrated approaches that improve schooling, vocational training, and access to mental health and other services. The current permissive approach in the benefit system also needs to change. There is

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<sup>30</sup> Centre for Social Research and Evaluation (2010), *Who uses the benefit system and for how long?*

<sup>31</sup> Briefing from the Ministry of Social Development to the Working Group.

<sup>32</sup> Around 60 per cent of the most at risk youth have had previous contact with or been in the care of Child Youth and Family. Internal Ministry of Social Development research.

<sup>33</sup> OECD (2010), *Jobs for Youth: Addressing Policy Challenges in OECD Countries*. Synthesis Report for High Level Forum.

considerable scope for both more active support of at-risk young people, as well as clearer expectations that long-term benefit dependence is not desirable.

### 1.12 Parents and children in the benefit system

It is important that all children have the opportunity to reach their full potential. Research points to a variety of factors that enable children to develop and flourish. These include caring and supportive parents, access to adequate healthcare and education, and an adequate standard of living.

New Zealand has a high incidence of children in benefit dependent families. Approximately 18 per cent of all children are born into a benefit dependent family, and at any point in time around one in five children are living in a benefit dependent family. Many children living in benefit dependent families have spent years on a benefit. Since 1993 administrative records estimate that there have been 120,000 children who have spent more than a decade living in a benefit dependent family.<sup>34</sup>

Long-term benefit dependency is harmful for children as it leads to prolonged periods of low income and poverty. Children being raised in benefit dependent families are at increased risk of joblessness and benefit receipt as adults.<sup>35</sup>

Children being raised by teen parents on a benefit are a particular concern from a child development perspective. There is compelling evidence that children of teen parents are at greater risk of a range of poor outcomes.<sup>36</sup> This is partly because as a group, teen parents tend to have few educational qualifications, poorer mental health, and higher rates of smoking, alcohol and drug use than the rest of the population.<sup>37</sup>

New Zealand sole parent benefit levels are relatively generous compared to other countries. New Zealand has one of the highest ratios of overall benefit levels compared to average wages and, even after the recent legislative changes, has one of the least strict work expectations regimes of OECD countries.<sup>38</sup>

The structure of New Zealand's support for unemployed sole parents coincides with a high rate of sole parenthood compared to other countries, and also a low rate of employment among sole parents. It is likely that the structure of the benefit system creates financial incentives for some low income parents to live apart from a partner, and does little to support or expect participation in paid employment.

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<sup>34</sup> Data supplied to the Working Group from the Ministry of Social Development. See also Wilson, M. and Soughtton, D. (2009), *Children in Families Supported by Main Benefits: An Update*, Ministry of Social Development, Wellington, New Zealand.

<sup>35</sup> Maloney, T., Maani, S. and Pacheco, G. (2008), 'Intergenerational Welfare Participation in New Zealand'. Australian Economic Papers, 42: September p346-362.

<sup>36</sup> Jaffee, S., Caspi, A., Moffitt, T.E., Belsky, J., Silva, P.A. (2001), *Why are children born to teen mothers at risk for adverse outcomes in young adulthood?* Results from a 20-year longitudinal study, *Development and Psychopathology*, 13, 377-397.

<sup>37</sup> Ministry of Social Development (2010), 'Sole parenting in New Zealand' <http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/research/sole-parenting/index.html>; Loxton, D., Williams, J. and Adamson, L. (2007), *Barriers to service delivery for young pregnant women and mothers: Report to the National Youth Affairs Research Scheme (NYARS)*. Australian Government Department of Families, Community Services and Indigenous Affairs. Retrieved 5 July 2010 from [www.deewr.gov.au/Youth/Programs/NYARS/Pages/06-09Publications.aspx](http://www.deewr.gov.au/Youth/Programs/NYARS/Pages/06-09Publications.aspx).

<sup>38</sup> Immervoll, H. (2010), *Minimum Income Benefits in OECD Countries: Policy Design, Effectiveness and Challenges*, OECD Social, Employment and Migration Working Paper 100.

### 1.13 Additional difficulties faced by sick people and disabled people

Many New Zealanders with significant disability or health impairments continue to work. We have heard from some people with very significant disabilities that they resent being labelled as ‘an invalid’ and have considerable contributions to make as both employees and part of the wider community.

The benefit system is currently consigning too many people with health problems or disabled people to life on a low income without the expectation that they can work, or the support they need to stay in or return to work. In the Issues Paper we described how long periods on welfare compound poor health and make it more difficult for people to enter or re-enter the paid workforce.

In June 2010 there were 68,000 people on a Sickness Benefit and 99,000 on an Invalid’s Benefit. Many have been receiving benefits for a long period of time. For example, based on people who were on a benefit in June 2009 and aged 28 to 64 years, a person receiving an Invalid’s Benefit had spent, on average, over eight of the previous 10 years on a benefit. A person receiving a Sickness Benefit had spent, on average, over five out of the previous 10 years on a benefit.<sup>39</sup>

While New Zealand has an above average level of employment of disabled people compared with the rest of the OECD, it also has above average rates of growth in receipt of Sickness Benefit and Invalid’s Benefit compared with the OECD. In addition, New Zealand ranks fifth in the OECD in disability benefit receipt for younger working age people (20 to 34 years of age).<sup>40</sup>

The current benefit system does not readily provide for different levels of work ability.<sup>41</sup> We need a much better understanding than we currently have of sick people and disabled people’s work ability and employment needs and how it relates to their medical condition.<sup>42</sup> Some people will have physical, sensory or intellectual disabilities, while others face physical or mental health issues. These will vary in terms of severity and duration – some will be temporary, others will be permanent or ongoing. Individuals will adapt to their circumstances differently, so a person’s ability to work is not always directly related to the length or severity of their sickness or disability.

New Zealanders have told us that they want a society which supports those who do not have the ability to work because of a sickness or disability. Some people need permanent or long-term support and cannot reasonably be expected to be in paid work. We have also been told that many sick people and disabled people want to work, but consistent levels of help and flexible support to stay in work or return to work are not always available.<sup>43</sup> Some people experience delays accessing health services and treatments that would facilitate earlier return to work. Some sick people and some disabled people feel marginalised where employers prefer not to take on disabled people or retain workers with an illness.

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<sup>39</sup> Centre for Social Research and Evaluation (2010), *Who uses the benefit system and for how long?*

<sup>40</sup> OECD (2010), *Sickness, Disability and Work: Breaking the Barriers – A Synthesis of Findings Across OECD Countries*, Paris.

<sup>41</sup> In this Report we refer to the assessment of impairment as it relates to capacity to undertake various forms of paid work as work ability for clarity of communication. There has been discussion in the Working Group about the terminology with some members preferring the term workability.

<sup>42</sup> Fletcher (2009), *Addressing the growth in Sickness and Invalid’s Benefit receipt: A report prepared for the New Zealand Treasury*.

<sup>43</sup> The importance of paid work for sick people and disabled people is emphasised in the New Zealand Disability Strategy and the United Nations Convention on the Rights of Persons with Disabilities.

### 1.14 Summary

The objective of welfare for people of working age is to provide assistance to those who have no other means of support and are temporarily or permanently unable to be in paid employment. People who can support themselves and their families through paid work should do so.

There are major deficiencies in New Zealand's welfare system that need to be addressed. This is particularly apparent for some groups, including Māori, young people with few qualifications, disabled people, those who are sick and many sole parents. Addressing these issues requires fundamental change to the welfare system rather than further piecemeal change.

#### ***Recommendation 1: Key principles underpinning the provision of welfare***

The Welfare Working Group recommends that the design and provision of welfare for people of working age is guided by the following principles:

- a) recognition of the value and importance of paid work to social and economic well-being;
- b) provision of financial support to people not in employment when no other income is available;
- c) fostering strong social outcomes including improved physical and mental health outcomes and more positive outcomes for children;
- d) respect for the dignity of people;
- e) promotion of reciprocal obligations and accountability;
- f) promotion of personal responsibility;
- g) efficiency and freedom from misuse;
- h) affordability and sustainability; and
- i) practicality, being able to be implemented and having a low risk of unintended consequences.

## Chapter 2. A new model of welfare

### 2.1 Introduction

The welfare system aims to provide support for individuals who for various reasons are unable to earn an income. The current passive benefit system provides income-tested financial support, but in many cases does little to promote paid employment. As a result of this passive approach, too many people are remaining on income support long term, and are missing out on the earnings and other benefits of paid employment.

In this Chapter we propose a new model of welfare based on our reading of the New Zealand and international evidence, as well as the wide ranging public feedback we have received on our previous discussion papers. Our proposed new model of welfare aims to provide most people who need to use welfare with income security through rapid access to paid work rather than long-term income support.

### 2.2 Feedback on the Options Paper

At the end of last year we invited people to give us feedback on our Options Paper. We received 42 online forum responses and 169 submissions from a cross-section of people including beneficiaries, advocates, employers, community organisations and other stakeholders. There was a wide range of views expressed about the options we presented. Subsequent chapters draw on this feedback, but some of the key themes that emerged are set out below.

#### ***Changes to the benefit system alone will not be sufficient to reduce long-term benefit dependency***

Reducing long-term benefit dependency requires an effective health system, an effective education system, adequate provision of affordable childcare, and the availability of suitable jobs. Social barriers to employment also need to be addressed, such as discrimination in the labour market and in the workplace against various groups including the long-term unemployed and disabled people.

*“Improved labour market outcomes for beneficiaries can only be obtained through cross-portfolio policy change involving multiple levels of Government.”*

*Christchurch Methodist Mission*

*“The most significant barriers to work for disabled people are employer attitudes and discrimination. In a competitive job market, disabled people can be at a disadvantage seeking employment, because of attitudes regarding the perceived costs of employing a disabled person”*

*Auckland Disability Law*

#### ***People within the benefit system have diverse needs, abilities and constraints***

Beneficiaries are a very diverse group, ranging from those who are experiencing short-term unemployment through to people unable to work because of a severe disability. We have heard that the level and type of support provided and the corresponding expectations should be responsive to the different needs and abilities of the beneficiary. In particular, some submitters were concerned that sickness and disability beneficiaries were being seen as always facing the same issues, but that this is not necessarily the case. We were told that what works for one group may not work for another.

***Well trained, positive and supportive staff and transparent and streamlined processes are needed***

We have heard that delivery staff have an important role in determining people's perception of the benefit system and their interest in undertaking training or work opportunities. Submitters also commented on the need for easy-to-understand and transparent processes, so everyone knows what to expect and what is expected of them.

***The benefit system needs to improve the incentives for beneficiaries to return to work***

Many beneficiaries do want to work. However, the current abatement rates, secondary taxes, and lack of support and encouragement are deterring them from working. We have heard that lower abatement rates, positive encouragement and the development of long-term plans would help people return to training and work.

***Many submitters recognised the role of appropriate training and support***

Training undertaken should depend on the individual and their needs; range from volunteer work to apprenticeship and formal tertiary study; and should be employment focused. There was support for looking at how to ensure that more young people are equipped with the skills and qualifications they need as they leave the education system. We have also heard about the importance of positive role models, particularly with younger beneficiaries.

*“Offering services to people to enable them to manage their own outcomes and their own life choices, is what changes attitudes and creates resilience.”*

*Volunteer Wellington*

***There was little support for social insurance options and mixed support for the guaranteed minimum income***

Most submitters did not support a move to a social insurance-based welfare system, expressing concerns about who would be covered. In contrast, we heard mixed support for a guaranteed minimum income (GMI). While some were attracted to the apparent simplicity of a GMI, others commented that it would be expensive and provides the wrong incentives.

***Paid work should not be the only focus***

There was reasonably strong support for the proposition that paid work is vitally important as the main source of income for people of working age. However, we also heard about the importance of other activities. Submissions especially talked about the importance of parenting and caring, but also about volunteer work, and training and education.

*“Raising children is the most critical and valuable work of our society.”*

*HomeBuilders Family Services*

Some submitters were concerned about the impact that an increased focus on work would have on families, while other recognised the importance of parental employment.

*“It is beneficial to children to grow up understanding the importance of paid work, and feeling that their family is connected into their community and the economy”*

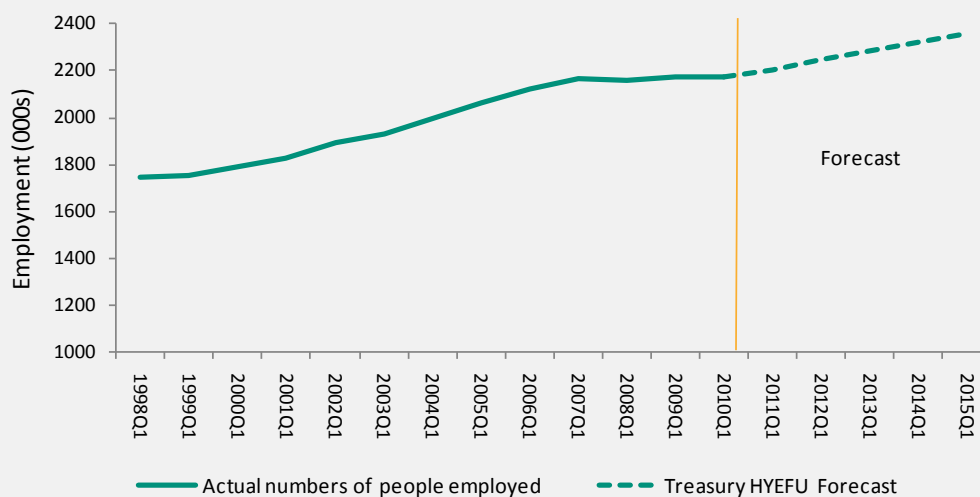
*Every Child Counts*

### **Where are the jobs?**

A number of submissions indicated that welfare reform should not occur because of the current levels of unemployment. A critical role for the welfare system is to provide security for individuals who are affected by this economic instability. Over the last 30 years there have been major periods of unemployment every decade, and it is inevitable that there will continue to be periods of recession and recovery into the future. As we have seen with the last recession, sole parents, people who are sick, and disabled people are particularly vulnerable to job loss and unemployment.

The economy is now slowly emerging from the recession, and employment is forecast to increase in the future. Although recent numbers are volatile, Treasury is forecasting the number of people employed to increase by around 1.6 per cent per annum over the next three years. Based on previous experience, for example the period between 1998 and 2008, the New Zealand economy should be able to generate a significant numbers of new jobs.

**Figure 2.1: Actual and forecast numbers of people employed 1998-2015**



A well functioning welfare system is important across the economic cycle, but it is particularly important when firms are expanding and new jobs are being created. In such an environment it is critical that people on welfare are well positioned to secure new jobs, and are making every effort to secure the earliest possible entry or return to paid employment.

Active job search and retraining is also likely to increase the total number of jobs available. This is partly because of the multiplier effect of higher incomes on the rest of the economy. Active job search will also lead to increased employment because of the dynamic nature of the labour market. Even during a downturn there will be some firms and industries that are expanding, and some regions will have increased numbers of new job opportunities. In this context labour mobility is an important driver of overall job growth.

More generally, the evidence suggests that if there are well functioning labour market institutions, over the medium term the total number of jobs will expand to equal the number of people who are available and actively seeking work.

There are considerable risks to not having a strong focus on job search and employability in the welfare system. The experience of the last decade was that particular groups of beneficiaries were not expected or supported to secure employment, and so many became detached from the labour market. In 2008, prior to the last recession, there were shortages of low skilled labour, yet 10 per cent of the working age population were on a benefit.

### 2.3 Future strategic options for welfare

Across other developed countries there are a number of different approaches to the provision of welfare. In considering a better model for New Zealand, we looked at these alternative high level approaches. In what follows we summarise the advantages and disadvantages of these very different approaches.

- *Private insurance* provides a mechanism for managing uncertain adverse events, involving the actuarial assessment of risk and its future cost. Individuals pay a premium to an insurance provider in order to give them protection from a future possible adverse event. The key advantage of an insurance approach is it provides a strong imperative to intervene early and reduce long-term costs. A key concern with private insurance in welfare provision is that vulnerable groups may not be able to afford coverage.
- *Individualised savings approaches* are used in some countries. For example, Singapore has a predominantly 'assets-based' welfare system in which there is enforced savings to provide for periods without income.
- *Community and voluntary sector approaches* have the advantage of encouraging more use of personal, family and community resources to support people in times of need. Churches, clubs, charities and informal community groups – all the organisations that make up the voluntary sector – play a key role in helping people in times of adversity and avoiding the need to rely on Government support. While such an approach may foster community responsibility, they frequently have the disadvantage of being small scale and providing coverage which is not comprehensive.
- *Public social insurance schemes* have elements of private insurance arrangements, but are funded through a compulsory levy on an eligible population, and may or may not be fully funded. Most OECD countries have social insurance schemes, backed up with flat-rate social assistance benefits for those who are not eligible for insurance. Social insurance schemes often provide individuals with payments based their prior earnings. New Zealand's ACC scheme is a social insurance approach. A key advantage of social insurance is that it creates incentives to be 'active', but they tend to be expensive and require the continued operation of a social assistance scheme for those who are not eligible.
- *Social assistance schemes* typically provide income support to individuals and low income families without independent means, and are funded on an annual basis from tax revenue. New Zealand's benefit system (excluding New Zealand Superannuation) is an example of a social assistance approach. The annual appropriation of funding and the nature of accountability arrangements mean there is not a strong imperative to reduce long-term benefit receipt. A major advantage of a social assistance approach is that there is comprehensive coverage of all groups who may need assistance, including those who have limited or no work history.
- *Basic or guaranteed minimum income* generally involves everyone receiving an unconditional tax credit. The major advantage of this approach is that it is simple to understand and administer. A major disadvantage is that it is costly and requires a significant increase in tax rates. The approach also tends to discourage many people from participating in employment, and does not recognise the wider benefits that being in paid work brings. Treasury has estimated that it would cost between \$44 and \$52 billion per year to provide a guaranteed minimum income at the current average benefit level, and would require personal tax rates for everyone of between 50 and 57 per cent.



## **2.4 Replacing the existing benefit system with a new approach called work-focused welfare**

After consideration of different overall approaches to welfare, we are of the view that continuing with the broad outlines of a social assistance approach is the desirable course for New Zealand. Compared to alternatives, the universal coverage provided by social assistance provides a modest but comprehensive safety net at a reasonable fiscal cost. However, there are some fundamental changes that are necessary to modernise the New Zealand benefit system and reduce the extent of long-term benefit receipt. Much can be learnt from insurance approaches which provide strong incentives for long-term welfare use to be minimised through a greater focus on employment.

In what follows we set out our proposal to replace the existing outdated and passive set of benefits with a more unified approach we have called ‘work-focused welfare’. This new model of welfare has a number of key features.

### ***A greater work focus for more people***

Our proposal is for the new welfare system to provide clear signals that paid work is important. The default assumption in the welfare system should be that most people are able to participate in paid work, either immediately or at some time in the future. This focus reflects the fact that participation in paid employment is the norm for most people of a working age.

Participation in paid work is also in the best interests of the majority of people. Paid work provides access to higher incomes, increases social contact, enhances self esteem, and there is a growing medical consensus that it is beneficial for mental and physical health. With the exception of very young children of sole parents, there is also considerable evidence that having parents in paid employment is beneficial for children. Increasing participation in paid work also benefits the wider community, both through increased economic prosperity, as well as a lower burden on taxpayers.

### ***Reciprocal obligations***

The notion of reciprocal obligations is at the centre of our proposed model. The welfare system provides support for individuals in need. In return, it is important that individuals take personal responsibility for getting on with their lives. Where it is reasonable, individuals should be expected to actively look for work, and take steps to address their personal barriers to employment. There should also be clear and well managed consequences for those who do not meet these expectations. Individuals, Government, service delivery agencies, whānau and family, employers and the broader community all have obligations to improve paid work outcomes.

### ***A long-term view***

A fundamental component of any sustainable welfare system must be to focus the system on reducing the number of people who spend long periods on welfare. Our proposal recognises the value of investing now to reduce the long-term social, economic and fiscal costs of welfare receipt.

Insurance models offer clear examples of how this is done. Public and private insurance organisations focus on reducing the future expected costs of people currently receiving insurance assistance. In the welfare area, if this same approach was applied, it would involve reducing the long-term future liability of people in receipt of welfare. This would promote greater investment in measures to prevent inflows into the welfare system. It would also create incentives to make use of more effective programmes, and target resources at those who can most benefit.

### ***More effective delivery***

More effective delivery is vital to reducing long-term welfare receipt and driving sustainable change. The key will be to implement clearer organisational accountabilities, and harness the

innovation and effectiveness of the non-Government sector. Our new model of welfare requires a greater range of skills and capabilities for the organisation funded to deliver welfare. Responsiveness can also be increased through a greater focus on community based solutions for different groups.

### ***Clear targets***

The number of people on welfare needs to be significantly reduced over the next decade. Absolute targets are important to direct attention to the scale of the problem and to ensure a greater focus across Government and the community on outcomes. Absolute targets also provide a yardstick to transparently measure progress.

### ***A new approach for Māori***

The social and economic costs of 31 per cent of working age Māori receiving a benefit is intolerable. Welfare dependence among Māori must be reduced by using all available levers including working in partnership with Māori leadership, greater accountability for delivery to and for Māori, and more innovative approaches (including more Iwi, Māori service delivery agencies and approaches that are whānau centred, holistic and culturally appropriate).

### ***Improving children's outcomes***

The intergenerational consequences of 222,000 children growing up in a benefit dependent households cannot be ignored. Welfare reform should explicitly address potential impacts on child well-being, with a particular focus on jobless households, child poverty and support for at-risk families or whānau.

### ***A cross-Government and community-wide approach to reducing welfare dependency***

To be successful there needs to be a community commitment to reducing long-term welfare dependence and joblessness. This requires the help of families and whānau, employers, Government agencies, community organisations and Iwi/Māori.

The education sector also has a critical role to play in reducing the numbers of young people who claim welfare from a very young age, and remain on welfare long term. Compared to many OECD countries New Zealand has a poor record in relation to the proportion of young people who leave school early and with few qualifications. Tackling educational under achievement is central to a reducing long-term joblessness and welfare receipt.

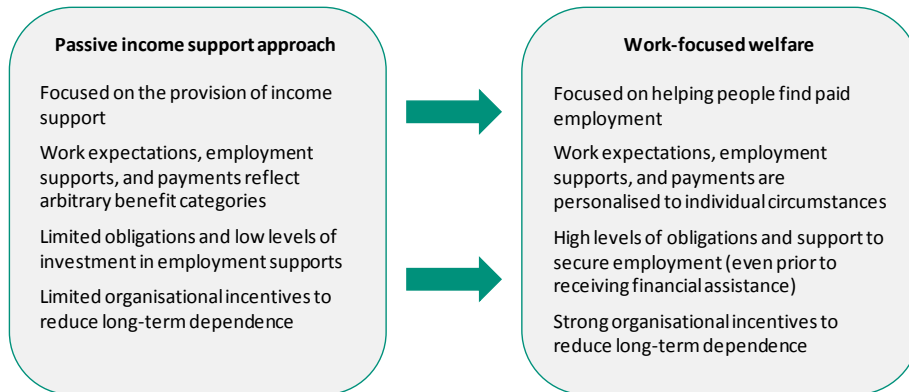
Improvements in the provision of health services are also necessary to reduce long-term welfare dependency. There are significant shortcomings in core health services such as mental health, in rehabilitation, and in generic managed health care providers and systems. These must be addressed if injured and ill New Zealanders are to recover as quickly and as well as is possible and if any consequent morbidity is to be minimised. These health service shortcomings have a direct and adverse effect on welfare dependency.

Broader economic policies that support job growth are also critical. At the same time, the nature of these jobs is also important, and employers have an important role to play in providing flexible workplaces to accommodate disabled workers and people with caring responsibilities. The workplace culture should support the needs of sick and disabled staff members. Some change may appear costly, but the experience of many employers is that there are gains in reduced turnover, a more productive workforce, and a dedicated and appropriately trained staff.

## 2.5 The components of our proposed new model of welfare for the 21st century

The specific components of the new work-focused welfare approach are set out below.

**Figure 2.2: Specific components of the new work-focused welfare approach**



### **Active work-focused expectations**

Currently only an estimated 37 per cent of beneficiaries are expected to actively look for work (taking account of the introduction of work expectations for some sole parents and sickness beneficiaries in 2010 and 2011). By way of contrast, our proposal is that work expectations should be the default expectation for welfare assistance, although for some people this would be permanently or temporarily deferred.

Parents with children under three years of age, individuals with some chronic health conditions, people with permanent and severe disabilities that preclude any participation in paid work, and carers of people and children who are sick and/or disabled, would not be expected to be looking for work immediately. Importantly, our proposal is for greater efforts to ensure that job search expectations are targeted only at those for whom it is reasonable. This would require better processes for assessing the individual circumstances which may result in expectations being temporarily or permanently deferred.

Our proposal for more active work expectations also includes clarifying the nature of job search expectations (for example in relation to failing to secure a job because of drug use), and also strengthening the sanctions process for those who do not meet these obligations.

### **Active and co-ordinated employment support**

We propose to increase the level of investment in active support to secure employment and better tailor it to the needs and circumstances of the person on welfare. There would be an increased emphasis on the delivery of early employment support prior to any assistance, as well as increased job search, training, and childcare support. For those at risk of long-term dependence, there would be an employment assistance package delivered by expert non Government providers. For individuals who have no work ability there would be greater access to resources to enable social participation.

### **A common support approach to financial assistance**

The current system divides people into different categories that determine their overall level and nature of benefit payments, their work expectations, and whether or not they receive employment support. The current approach is a cause of long-term dependency because higher benefits are received where individuals are able to demonstrate an inability to work. In addition the

complicated nature of the benefit system means that some people do not realise they will be better off in paid work.

We are proposing that the existing outdated system of categorical benefits be replaced by a single structure of assistance called Jobseeker Support. This would remove the different categories of benefit receipt, and provide an equivalent level of basic support irrespective of why a person needs welfare assistance. Extra assistance would be available for those who face extra costs (particularly for those who cannot be in paid work). Rather than a one-size fits all approach, financial incentives would be targeted to individuals facing high disincentives to work.

### *Support for sick people and disabled people with long-term needs*

Currently a range of disability supports are provided through the benefit system. There is little focus on providing the support services that are needed for disabled people to achieve an ordinary life through participation in paid work and the community. The current rules-based approach is not flexible to the needs of the permanently and severely disabled person and is disempowering.

The Working Group considers that reforms to the services provided to the small group of working age people for whom paid work will not be possible should be based on principles set out in the New Zealand Disability Strategy and the recently agreed new model of disability support services. In addition, the reforms to the support and services received for this group of people should consider how to co-ordinate with approaches in other portfolios, particularly the work being undertaken by the Ministry of Health on disability support services.

### *A wider range of obligations and services to promote the well-being of children in welfare dependent families*

The welfare system plays a major role in the lives of children. Currently 18 per cent of all children are born into welfare dependent families, and over 20 per cent of all children live in a family dependent on welfare. Our proposals include a wider range of obligations and services to ensure that children in welfare dependent families are well cared for. These include requirements to complete WellChild/Tamariki Ora checks, the enrolment of a child in Early Childhood Education once they turn three years of age, and compulsory school attendance.

### *A new delivery agency*

We also propose a new delivery agency – which we refer to as Employment and Support New Zealand – to manage the delivery of work-focused welfare. This new agency would be accountable for reducing the future costs of welfare receipt and funded with sufficient flexibility so that it can invest in reducing the long-term liability. We also propose harnessing the innovation and effectiveness of non-Government providers through a major expansion of outcome-based contracting for employment support.

### *A cross sector plan*

Engaging with stakeholders to prevent and reduce welfare receipt would be critical to the success of the new approach. We propose that there be an agreed plan, which is regularly reviewed, across Government and non-Government stakeholders. The plan would set out at a strategic as well as operational level, the sorts of activities being undertaken to reduce welfare receipt. This would, for example, set out the key performance indicators in the health, education and justice agencies that were orientated towards reducing long-term welfare dependence. It would also propose and report on the success of practical initiatives designed to reduce welfare dependence. An important focus would be an integrated and effective cross agency approach to initiatives that improve outcomes for at-risk young people.

## 2.6 How the new approach would work in practice

Our proposed new model of work-focused welfare entails a significant change in the structure and delivery of welfare. In this section we describe some hypothetical examples of how this new approach would work in practice

***Nikki has two children aged 3 and 6 years old, and has just separated from her partner.***

Under the current system Nikki went to Work and Income and was granted the Domestic Purposes Benefit following her separation. She was not expected to be working, and because of childcare difficulties gave up her job at the local supermarket. When her youngest child turns six year old she will be expected to look for part-time work. However by that time she would have been out of the workplace for over two years.

Under the new model, prior to being granted Jobseeker Support, Nikki has a discussion with her co-ordinator. As a result, the new agency arranges free childcare at the local kindergarten. It also grants her a subsidy for accommodations costs, and helps her claim Working for Families, and Child Support. Nikki continues working, and also looking after her children.

***Bill is a 38 year old driver who was made redundant when the trucking company he worked for went broke. He received no redundancy. He has suffered from intermittent problems with his left knee and is a bit overweight.***

After being made redundant Bill went to Work and Income and was granted an Unemployment Benefit. He also visited his doctor who diagnosed depression. The doctor also advised Bill that he would need an operation to remove the cartilage in his knee. The doctor said he could not work full-time, so he was assessed by Work and Income as being eligible for a Sickness Benefit. After two years waiting for his knee operation Bill is more seriously depressed, and still on Sickness Benefit.

Under the new model Bill has a brief work assessment when he is first granted Jobseeker Support. He is advised that his payment is considered a temporary measure and that he should be looking for work. He is also asked to get a 'fit note' from his doctor. His doctor suggests that if he has surgery on his knee he will be able to exercise more. The doctor also suggests Bill sign-up for the John Kirwan online journal programme. The doctor advises Bill that he can safely work part-time, but with the operation he should be able to work full-time. Bill's co-ordinator works closely with him to help him find suitable employment, and after two week he is offered a part-time security guard job. He gets the operation and starts exercising more. He loses a bit of weight, feels more confident, and in six months is offered a promotion.

***Daniel is 17 years old and was expelled from school for drinking. He does not get on with his parents, both of whom are unemployed. He is already known to Police after being caught for driving under the influence of drugs.***

Under the current system Daniel went to Work and Income and was assessed as being eligible for the Independent Youth Benefit because of family breakdown. He is enrolled in, but does not regularly attend, a training course delivered by a local community organisation. He moves into a flat with some friends and at 18 he applies for an Unemployment Benefit.

Under the new approach Daniel is eligible for a youth payment. He is referred to a youth training and employment provider who is contracted to provide specialist services and pastoral care for at-risk young people. Because they are funded to achieve results, his youth worker is particularly motivated to get Daniel to address his alcohol and drug dependency. He has expressed an interest in working in forestry, so is enrolled for an entry level forestry course at the local polytechnic. After completing his entry level course, and passing a drug test at a job interview, he is offered a job at a local forestry company.

## 2.7 A target is needed to guide welfare reform

The Working Group proposal for a new approach to welfare will, if adopted, require considerable change for people on a benefit, as well as social service providers, and also employers. The Working Group is of the view that in order to help guide the fundamental change that is required it would be desirable to have a practical and measurable public target.

A target would clearly signal intentions and focus the efforts of all stakeholders in the community. Given its entrenched nature, improving employment for people who are at risk of long-term dependence on welfare can only be achieved over a number of years, and a target would ensure there was a yardstick to assess progress.

After some consideration of how a target should best be measured, we have come to the view that Government should commit to achieving a reduction in the number of people on welfare, and a matching reduction in the long-term future liability of people on welfare.

In suggesting a target, we have considered what might be ambitious but feasible given the complexity of the problem, and the fact that the population is likely to increase over the coming decade. In Chapter 10 we review scenarios of what might realistically be achieved by our proposed reforms. An upper bound on what might be possible is that they might reduce the number of people receiving welfare by around 100,000 over a 10 year period, assuming average economic conditions. This would mean a target of 260,000 people on welfare by 2021, and a reduction in the long-term future liability as currently measured by around 28 per cent.

From the modelling reported in Chapter 10, we are of the view that the evidence from welfare reform in New Zealand and overseas indicates that a reduction of around 100,000 people is very ambitious but feasible. It would require a lift in the overall proportion of the working age population employed from the current rate of 64 per cent to a Scandinavian rate of around 67 per cent.

The achievement of a target of 100,000 less people on welfare and in employment would make a significant difference to economic and social outcomes. To achieve the target would mean that the long-term trend increase in Sickness Benefit and Invalid's Benefit would have been addressed.<sup>44</sup> Better employment outcomes would lift household incomes leading to improved outcomes for people and their children who are at risk of welfare dependency. It would lead to better economic outcomes as firms find it easier to recruit and reduced fiscal costs by upwards of \$1 billion per year for taxpayers. The target should promote the maximum focus on improving employment outcomes for people at risk of long-term dependence on welfare. It would focus attention on reducing inflows on to welfare, as well as increasing transitions from welfare to work.

## 2.8 A partnership to achieve better outcomes for Māori

The Working Group is mindful that if any target is to be achieved, the new model of welfare will need to be effective for Māori.

The current scale and extent of benefit receipt in Māori communities is significant. In June 2010 approximately 31 per cent of all working age Māori were receiving a benefit. Prior to the recession in 2006 we estimate that 27 per cent of working age Māori were receiving a benefit.

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<sup>44</sup> The Working Group Issues Paper (section 6.3) showed that if the long-term trend increase in Sickness Benefit and Invalid's Benefit continues, the numbers on a benefit could rise to 16 per cent by 2050. If the trend increase was not addressed then this would result in increasing relative poverty, reduced economic growth and limited ability to cope with economic shocks.

Reducing welfare numbers by 100,000 can only succeed if there is demonstrable progress for Māori. It is reasonable to conclude that between a third and a half of the overall target reductions in numbers of people on welfare would need to be Māori.

The current extent of Māori benefit receipt reflects contemporary economic conditions, but also more deeply entrenched historical factors. In the decades prior to the economic restructuring the labour force participation rates of Māori were similar to, and for males sometimes better than, European rates.<sup>45</sup> The wide ranging loss of jobs by Māori in the late 1980s profoundly impacted on Māori, and in some communities led to an entrenched culture of benefit receipt.

### *A shared commitment to lead the development of responses for Māori*

We are of the view that the scale of the issue requires a partnership with Māori leadership at the highest levels. It is a significant challenge, but would greatly improve Māori economic development as increased Māori workforce participation and higher income levels would help reduce poverty among Māori and their whānau.

The commitment would provide the framework to set the targets that are most important to individual communities and would recognise the benefits that Iwi and other Māori organisations can have in delivering support and guidance to Māori.

However, the commitment would also acknowledge the role that other Māori leadership plays. It would also look at the development of risk-sharing approaches. A forward liability approach could provide a way to empower local organisations to take greater ownership of the problem and create local initiatives to reduce long-term welfare dependency. The local budget holders would have both the rewards and risks of finding local solutions to welfare dependency but be incentivised to provide the best work outcomes and could be in the form of an economic development initiative bringing together local voluntary, private and Government organisations, or collaborative partnerships to provide better services for those needing support into work. The Working Group considered a number of approaches to best achieve whānau ora for families who have become entrenched within the benefit system. Our approach includes the following elements:

- joined up funding across Government;
- wrap around service provision to provide holistic whānau-centred solutions;
- providing enabling environments to encourage Māori leadership and Māori to participate in employment solutions; and
- affirming Māori leadership is part of the solution to reduce long-term welfare dependent homes.

Tailored delivery recognises that there would be different priorities for different communities. Critical to tailored service delivery for Māori will be creative and innovative solutions arising from the proposed changes. For example some Iwi are subsidising educational programmes for tamariki to improve literacy and numeracy. In the future as a result of shared risk approaches we may see Iwi or Māori organisations utilise their forestry, fishing and whenua resources to not only achieve successful economic development, but also successful work and employment initiatives. This would reduce local and regional unemployment for Māori and their wider community.

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<sup>45</sup> Maré, D. (1995), *Examining Labour Market Outcomes for Māori*, Labour Market Bulletin (1) p116-123.

## 2.9 Summary

The norm for people of working age is that they support themselves and their families through paid employment, and the welfare system must be focused to support this as far as possible. The performance of the system needs to be measurable and focused on addressing the needs of the most disadvantaged. This reform is founded on a greater work focus for more people, reciprocal obligations, a long-term view (investing early to reduce the risk of poor long-term outcomes for many people), commitment to targets, better outcomes for Māori, improved well-being of children, a cross-sector approach and more effective delivery. A delivery agency with new capability and improved accountability is required to ensure that a work-focused welfare system is delivered effectively.

### ***Recommendation 2: A work-focused welfare system***

The Welfare Working Group recommends that there is a new work-focused approach to welfare for working age people, which has the following key elements:

- a) an increased emphasis on prevention, through access to appropriate and effective cross sector services, including health and education, so that fewer people need to use welfare;
- b) replacing existing benefit categories with a single payment called 'Jobseeker Support';
- c) reform of second and third tier assistance provisions that discourage recipients from moving into or remaining in paid employment or lead to other poor outcomes;
- d) increased, clearer expectations for more people in the welfare system to look for paid work;
- e) low-cost assistance and clear expectations to help those who are work ready;
- f) more active delivery and up front investment for those most at risk of avoidable long-term welfare dependence, in order to minimise the long-term costs of welfare;
- g) better support for people with no ability to work;
- h) focus on improved outcomes for children; and
- i) more effective delivery and expanded use of private and community, not-for-profit sector agencies to deliver employment services.

### ***Recommendation 3: Targets for welfare reform***

The Welfare Working Group recommends that in order to improve social and economic outcomes, especially for welfare recipients and their children, taxpayers, employers and the community, Government set a target of at least 100,000 fewer working age people receiving welfare by 2021, which would imply the need to reduce the number of Māori on welfare by between a third to a half, resulting in:

- a) a reduction in the number of people applying for welfare because of stronger prevention activity; and
- b) a reduction by at least 28 per cent in the long-term cost of welfare, as measured by the forward liability.

### ***Recommendation 4: A shared commitment between Māori and the Government***

The Welfare Working Group recommends that the Government initiate a formal partnership with Māori leaders, with associated goals and strategies, designed to result in enduring increases in Māori employment.



## Chapter 3. Active work-focused expectations

### 3.1 Introduction

A well functioning welfare system needs to provide effective support for people to move into paid work, particularly for those people at risk of long-term dependency. As part of receiving support from the community, welfare recipients have a range of obligations to the community to prepare themselves for and then move into paid work. In this section we talk about some of the expectations that come with receiving support from the community.

The Working Group is proposing a fundamental change in the welfare system, including the establishment of Jobseeker Support. In this Chapter, we talk about the work expectations that should accompany receipt of this assistance. Looking for and securing paid work is the key to ending a person's dependence on welfare. International and New Zealand evidence shows that making active job search a clear condition of welfare receipt increases the speed at which people gain employment, and also leads to fewer people applying for welfare.<sup>46</sup>

We are of the view that work expectations should be based on the presumption, until determined otherwise, that people receiving welfare support could reasonably be expected to prepare for and then move into paid work.

For most people in the welfare system, this work expectation should be based on searching for and being available for paid work, with stronger signals for people who are obliged to be looking for work. Work expectations are most effective when they are clearly communicated, and when there is regular monitoring of job search activity. There also needs to be clear, credible and well managed consequences for those who fail to comply.

For some people in the welfare system, immediate job search obligations may be less appropriate and less effective. We propose there should be a more tailored approach to the setting of work expectations for a group of people with significant vocational and non-vocational barriers.

We propose that more people should be expected to be preparing for and then move into paid work. These expectations would be based around participating in activities that will enable them to transition into paid work and engaging in a range of work-related activity. People in this group will include many sole parents, many people with illness or with impairment, some young people, and people with a range of personal and family related issues.

The default expectation for people with impairment and illness should be that they are able to work, if cost-effective investment and support is provided. After a significant period of engagement, it is likely that there will be a group of people with severe impairment and people with specific illness for who it would be unreasonable to apply work obligations. Likewise, carers of the sick and infirm, people with terminal illness and people with demonstrable impairment should be fast-tracked to a long-term support stream.

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<sup>46</sup> Analysis of the 1998 Domestic Purposes Benefit reforms reported in the Options Paper found that a part-time work test increased employment rates by around 8 per cent. Similarly the removal of a work-test exemption for unemployment beneficiaries aged 55 to 60 years as part of the Jobs Jolt initiative in late 2003 and 2004 led to an increase of 4.6 per cent in the proportion of older recipients. For evidence see Australian Department of Education, Employment and Workplace Relations (2008), *Welfare to Work Evaluation* report; Finn, D. and Gloster, R. (2010), *Lone Parent Obligations: A review of recent evidence on the work-related requirements within the benefit systems of different countries*; Gregg, P. (2008), *Realising Potential: A Vision for Personalised Conditionality and Support*, Department Work and Pensions, UK; Grubb, D. (2000), *Eligibility criteria for Unemployment Benefits*; OECD Economic Studies 31.

### 3.2 Default work expectations

There should be a default obligation of paid work in the welfare system, with a tailoring of work expectations based on consideration of individual’s vocational and non-vocational circumstances.

Work expectations for people receiving assistance can involve requirements to look for and apply for paid employment, participate in training, accept reasonable job offers, or move to areas where there are better employment prospects.

Currently only 37 per cent of people on a benefit are expected to be looking for work. This occurs because current policy settings are based on outdated assumptions about who should be working. In recent decades the social norms about work and family life have changed, and participation in paid employment is now the norm for disabled people, individuals with moderate health conditions, many sole parents, and older women. Widening work expectations is important because it aligns with these norms in the rest of the community. It also reduces overall costs of the welfare system to the community, and is in the long-term interests of people receiving assistance.

Table 3.1 sets out the existing rules about work expectations, and provides an overview of our proposals about who should be expected to be looking for paid work. These proposals would result in an estimated 77 per cent of people on Jobseeker Support having a work expectation.

**Table 3.1: Existing and proposed changes to overall work expectations**

Group	Expectations under current system	Expectations under proposed new approach
Unemployed	Full-time work expectations	Full-time work expectations
Sole parents and partners of people receiving assistance with children	If youngest dependent child is: <ul style="list-style-type: none"> <li>under six years, planning obligations</li> <li>between six and 18 years, part-time work expectations</li> </ul>	If youngest dependent child is: <ul style="list-style-type: none"> <li>under three years, active expectations to prepare for work;</li> <li>between three and five years, part-time work expectations</li> <li>from six years, full-time work expectations</li> </ul>
Sick people or disabled people	Planning obligations Some sick people with work capacity will have part-time work expectations from May 2011	Full-time, part-time or active expectations depending on work ability
Widows and older women living alone	Planning obligations	Full-time work expectations
Under 18 year olds	Planning obligations, except for individuals on Independent Youth Benefit who are obliged to be undertaking full-time education, training or job search	Undertake full-time education, training or paid work Live with a responsible adult or in an adult supervised setting Undertake parenting and budgeting programmes (teen parents)
Caring for sick or infirm	Planning obligations	Active expectations depending on circumstances

*Note: Full-time refers to work that is at least 20 hours per week. Part-time is at least 15 hours per week. From May 2011 individuals on Sickness Benefit with a part-time work capacity will be required to seek and accept suitable part-time employment. Beneficiaries also have other obligations. They need to inform Work and Income of any changes in their circumstances which would alter their benefit entitlements. If they are a sole parent, they must also make a child support application.*

It is important to note that we are proposing to retain many of the existing rules for temporary exemptions. This means that work expectations can be temporarily deferred after the death or separation from a spouse, or where a dependent child or spouse needs to be temporarily cared for because they are sick.

As well as widening who can reasonably be expected to look for work, we also propose that there be a more fine-grained assessment of individual circumstances so as to determine temporary or permanent exemptions to job search obligations, and to determine what active expectations are appropriate.

For disabled people and people who are sick there should be a more careful assessment by medical practitioners about a person's ability (rather than inability) to work. Permanent exemptions (except in the case of demonstrable impairment) should only be given after support has been provided to move into paid work after a period of time. For other groups there needs to be better use of information to assess circumstances and the reasonableness of work obligations. Chapter 4 provides more detail on how these processes could be operationalised. In the next section of this chapter we look in more detail at the issues around work expectation for different groups.

### *Work expectations for sole parents and the partners of beneficiaries who are caring for children*

We have considered the range of views and evidence on whether carers of children who are receiving assistance should be required to look for work.

Currently 80 per cent of dependent children in the benefit system live in sole parent families. The other 20 per cent live in two parent families receiving a benefit. Work expectations for full-time carers of dependent children (whether they are sole parents or a two parent family) are aligned. However, it is important to recognise that sole parents will often have additional constraints due to being primarily responsible for the care of their children.

There is good evidence that work requirements, when used in combination with support (especially childcare and in-work assistance), is the most effective policy to engage sole parents in work.<sup>47</sup> Over the last 10 years, a number of OECD countries, including New Zealand, have moved to increase the work expectations on sole parents.

The Working Group is of the view that participation in paid work, particularly full-time work, is the best means for sole parents to provide long-term financial security and avoid poverty for themselves and their children.<sup>48</sup> As the Children's Commissioner has noted in his submission on the Options Paper:

*"Over time having a parent in paid work is likely to improve material well-being, and improved material well-being helps to improve life experiences and outcomes for the child."<sup>49</sup>*

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<sup>47</sup> Finn, D. and Gloster. (2010), *Lone Parent Obligations: A review of recent evidence on work-related requirements within the benefit systems of different countries*, United Kingdom Department of Work and Pension, London. While it was found that voluntary programmes were effective for motivated participants who tended to be work ready, requiring participation meant the providers had to engage with those more likely to have barriers to employment.

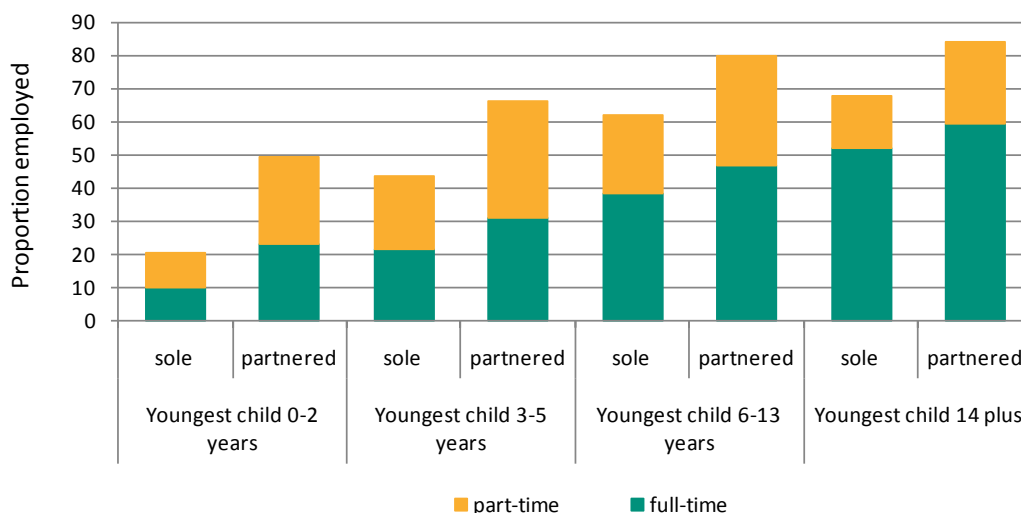
<sup>48</sup> Perry, B. (2010), *Household Incomes in New Zealand: trends in indicators in inequality and hardship 1982-2009*, Ministry of Social Development, Wellington. Perry notes in his summary that "children in sole parent families have a higher risk of hardship than those of two parent families [and this] reflects the relatively low full-time employment rate for sole parents (35 per cent in 2009), p8. Also see Whiteford, P. and Adema, W. (2007), *What Works Best in Reducing Child Poverty: A benefit or work strategy?* OECD Social, Employment and Migration Working Papers 51. Paris: OECD; Esping-Andersen, G. (2007), *Investing in Children and their Life Chances*, Paper presented at Fundacion Carolina International Workshop, *Welfare State and Competitvity*, Madrid April 26-27, 2007.

<sup>49</sup> Children's Commission (2010), submission to the Working Group, December 2010, citing Fletcher, M. and Dwyer, M., *A fair go for all children: Actions to address child poverty in New Zealand*, A report for the Children's Commissioner and Barnados, August, 2008.

A number of submissions also noted the importance of children seeing paid work as the normal way families support themselves.

A high proportion of New Zealand mothers return to the workforce within 18 months of having their child.<sup>50</sup> The Working Group is of the view that work expectations for carers of children should reflect these wider patterns of work in the community. As can be seen in Figure 3.1, by the time their youngest child reaches the age of three, nearly half of partnered mothers are in paid employment in New Zealand.

**Figure 3.1: Proportion of mothers employed by partnership status and age of youngest child, year to March 2010**



Source: Household Labour Force Survey, March 2010. Full-time is defined as usually working 30 hours or more per week.

All parents are eligible for 20 hours per week of fully subsidised early childhood education once their children reach three years of age. This provision recognises the importance of ensuring that all children participate in pre-school education. There is good evidence that quality early childhood education has long-term positive benefits for children, especially from the age of three. A summary of the research shows:

*“Overall, high quality ECE can have a positive, long-lasting effect on a range of both cognitive (mainly numeracy and logical problem-solving) and attitudinal (mainly their social abilities, both positive and negative) competencies, traces of which are still discernible at age 16. High-quality ECE can both boost achievement, long-term, and can afford a measure of protection for at-risk children.”<sup>51</sup>*

In addition to early childhood education subsidies, the Minimum Family Tax Credit and the In-Work Tax Credit supplements the earnings of low wage parents if they work sufficient hours to be out of the welfare system.

Given the financial incentives to work through these tax credits and ECE subsidies, and the compelling evidence about the value of participation in early childhood education, the Working

<sup>50</sup> A New Zealand study of employment patterns of recipients of paid parental leave showed that three-quarters returned to work within 12 months, and two-thirds of those returned to work after taking six months or less. See Crichton, S. (2008), *Work Patterns after Paid Parental Leave*, Department of Labour and Statistics New Zealand, Wellington.

<sup>51</sup> ECE Taskforce Secretariat (2010), *Research Summary - Introductory Briefing*, Available at <http://www.taskforce.ece.govt.nz/wp-content/uploads/2010/11/2-Research-Summary.pdf>.

Group proposes increasing work expectations for sole parents and other carers of children within the welfare system.

We propose that parents be required to look for part-time paid work of at least 20 hours per week once their child reaches three years of age. When the youngest child reaches six years of age (the latest age a child can enter school), parents who are caring for children in the welfare system should be required to seek work of at least 30 hours per week. We acknowledge that a significant increase in out-of-school services and lowering the costs of childcare may be required to enable more of these parents to work full-time. Our recommendations on childcare assistance are in Section 4.9.

Importantly, over one-third of mothers are in paid employment by the time their child reaches one year of age.<sup>52</sup> For sole parents with children under three years of age, there is likely to be considerable benefit from measures that help them prepare for being in work once their child reaches this age. These measures should be put in place through a 'return to work' plan as soon as a person enters the welfare system.

For those with low skills or little work experience, using this period to undertake work-focused training would improve the likelihood of finding work. It is important that childcare assistance be available to cover the periods when these parents are in training. For parents with young children at high risk of long-term welfare dependency, there would be value in the development of intensive services, which would need to be more focused on supporting the wellness of the child and the family/whānau, and preparing the mother for employment when job search expectations begin to apply. There may be circumstances, subject to the parent agreeing, where doing some paid work is also part of the preparation process.

For intensive services to be effective they would need to include the provision of courses focused on employment preparation (confidence building, job search approaches, work expectations); education and training that prepares at-risk parents for paid work; and programmes that have a focus on supporting family outcomes (budgeting and management of income where there is a demonstrated need).

The Working Group carefully considered the case for aligning work expectations for carers of children in the welfare system with the current parental leave entitlements of either 14 weeks from the birth of the child (paid parental leave), or 12 months from the birth of the child (the statutory entitlement to unpaid leave). We have concluded that work expectations for parents within the welfare system should be slightly longer and broadly reflect wider patterns of work of mothers. However we suggest work expectations for carers of children should be regularly reviewed and updated to stay in line with wider community norms.

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<sup>52</sup> At the 2006 census, over one-third of all mothers with a child under one year of age reported some hours of paid work. By two years of age, over 50 per cent of all mothers were in some hours of paid employment.

### ***Recommendation 5: Work expectations for carers of children***

- a) The Welfare Working Group recommends, given the responsibilities for children involve both parents even when they are separated, that:
  - i. any changes being considered to child support must reinforce the obligations on non-custodial parents or parents in shared custody arrangements to financially support their children; and
  - ii. any changes being considered for child support not diminish the financial returns to being in paid work for sole parents moving out of the welfare system.
- b) The Welfare Working Group recommends:
  - i. subject to the Government addressing issues with the current availability and affordability of childcare and out-of-school care which we recommend are urgently addressed, that sole parents receiving welfare:
    - a. be required to seek part-time paid work of at least 20 hours per week once their youngest child is three years of age;
    - b. be required to seek paid work at least of 30 hours per week once their youngest child is six years of age;
    - c. who have a child under three years of age:
      - be required to undertake activities which prepare them for a return to paid work, such as developing a return to paid work plan and undertaking employment coaching and other job-related training;
      - be able to opt to receive additional transition to work assistance if they agree to look for employment;
    - d. be exempt from a requirement to seek paid employment where they are providing full-time care and attention at home for a disabled child or an adult who is sick or infirm, such that they would otherwise require hospital or residential care;
  - ii. that, the work expectations of partners of welfare recipients mirror those of sole parents recipients where there are children; and
  - iii. that work expectations for carers of children, where those carers are in receipt of welfare payments, be regularly reviewed and updated to broadly reflect wider community parental employment patterns.

### ***Work expectations for disabled people and for people who are sick***

The initial presumption in the welfare system should be that people can work, not that they cannot work. The focus should be on providing investment to enable people to overcome vocational and non-vocational barriers, rather than on detailed medicalised assessments of illness or impairment.

For most people who enter the welfare system with sickness and impairment there should be a comprehensive assessment of their ability to work that includes vocational and non-vocational barriers to employment. One component of this assessment should be the health issues.

Expectations need to be set such that individuals are engaged in the process, but sufficiently tailored to individual circumstances. In many cases there would be engagement through work-focused interviews, action plans and work-related activity.

In some cases, work expectations could be deferred for a short period as a person recovers from sickness. However, it is important that this group continues to be supported and engaged with, and there remains a focus on supporting them back into paid work.

After a significant period of engagement, it is likely that there will be a group of people with severe impairment and people with specific illness for whom it would be unreasonable to apply work obligations. For this group there should be a comprehensive assessment of their disability and the reasonableness of applying work obligations.

There are a group of people for whom there would be value in fast-tracking to long-term support. These include carers of the sick and infirm, people with terminal illness and people with impairments which significantly and permanently limit their ability to work. The expectations for this group should be tailored to individual aspirations and circumstances with a focus on supporting a move into paid work and community participation.

### ***Assessing ability to work and reasonable work expectations***

All people encounter sickness and disability at some point in their lives, but periods of sickness and disability do not always affect their ability to work, either temporarily or permanently. For those whose ability to work is restricted by sickness and/or disability, it is vital that these conditions are identified and addressed before they get any worse.

Work and Income recently revised the medical certificates issued by general practitioners to include information about the ability to work of Sickness and Invalid's Benefit applicants. Work and Income case managers are supported by specialist health and disability advisors when the information contained in medical certificates is unclear.

### ***Changes to medical certification***

We propose that the use of medical certificates should be improved in a number of ways:

- medical certificates should be redesigned as 'fit notes' to signal their focus on ability to work.<sup>53</sup> These 'fit notes' would also have to be revised to focus on information about a person's ability to work and any barriers to work rather than on determining eligibility for supports. This would help the service delivery agency to work with the recipient to discuss their return to work with their employer, (in line with ACC's Better@Work programme);
- general practitioners are not explicitly trained to assess ability to work – their core function is to diagnose and treat medical conditions. It is therefore important to provide general practitioners with better information about how medical conditions typically affect a person's ability to work. It would also be necessary to have work ability specialists audit samples of medical certificates, with access to general practitioner medical records;
- the new work assessment process could leverage off new computer-based systems being developed to enable patient records to be accessed by multiple medical practitioners and across organisations. Using a single transferable patient record across the health, ACC and welfare systems would simplify the assessment process, could lower the cost of assessment and improve the efficiency of the auditing process, subject to appropriate confidentiality requirements being met; and

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<sup>53</sup> Other countries and ACC in New Zealand have replaced 'sick notes' with 'fit notes'. For example, in the United Kingdom, a fit note encourages general practitioners to give useful advice to their patients about the effect of their health condition and how they might be able to work while they recover. General practitioners can also record the functional effects of their patient's condition. This can provide a basis for discussion with the employer about changes to the work environment or job role that might keep a person in work or return them to work.

- people receiving support should be involved in the assessment process and be encouraged to provide their view on how to manage their sickness or disability to improve their work ability.

### ***Specialist assessments***

Complex and intrusive assessments of work ability would be avoided where possible, especially in ongoing assessments. However, for people with a complex, fluctuating or severe health condition or impairment, a comprehensive assessment of their ability to work may be necessary. The need for specialist assessments of a person's health and disability needs may become apparent as they progress their search for work. Such assessments may lead to reduced work search expectations on a short-term or ongoing basis, or change the type and level of support provided. Other people may be found to have a permanent loss of work ability and should be connected with services providing assistance for those with no work obligations.

Specialist assessments should be done by independent assessors of work ability. Independent assessors are used in some countries to access wider knowledge about the labour market and are not usually medical doctors.<sup>54</sup> Specialist assessments can be expensive and so should be reserved for those with the most complex or more serious conditions.<sup>55</sup>

For whānau who are experiencing second generation unemployment or more, a comprehensive assessment would require whānau involvement in the design, planning and implementation of support services targeted at breaking the cycle of intergenerational welfare dependence.

### ***Review and reassessment process***

As comprehensive work ability assessments would act as the main gateway to permanent reductions or exemptions from full-time job search expectations and access to additional payments for those with no work expectations, it is crucial that the accuracy and reliability of these tests are periodically monitored and reviewed.

For most people, a standard review and reassessment process should apply. For those with severe impairments who have no work obligations, reassessment should be infrequent. For a small number of complex cases, in which conditions are fluctuating or periodic, a more personalised reassessment process could be used.

### ***Recommendation 6: Work expectations for people who are sick or disabled***

The Welfare Working Group recommends that work expectations for:

- a) people who are sick or disabled should be based on the presumption, until determined otherwise, that people can undertake paid work;
- b) people who are sick or disabled should be based on an assessment of their current and expected future work ability and have tailored expectations for people to prepare for and enter paid work;
- c) people with permanent and severe impairment should be based on their aspirations and capacities to enter paid work and benefit from community participation; and
- d) people with terminal illness, carers of the sick and infirm and people with demonstrable impairment, should be fast tracked to a long-term support stream.

<sup>54</sup> OECD (2010), *Sickness, Disability and Work; A synthesis report*, Paris; OECD (2007), *Sickness, disability and work: Breaking the barriers, Volume 2: Australia, Luxembourg, Spain and the United Kingdom*, Paris.

<sup>55</sup> In 2009, ACC's Initial and Vocational Independence Medical Assessment cost an average of \$182 for low complex cases and \$535 for high complex cases.



### ***Recommendation 7: Assessing what a person can do***

The Welfare Working Group recommends:

- a) that medical certificates issued by general practitioners be replaced with 'fit notes' that should focus on information about what work the person can do and that:
  - i. guidance be provided to general practitioners regarding criteria for certification;
  - ii. an independent review of the match between 'fit notes' and general practitioner records be required to assist general practitioners to provide better information and ensure the integrity of the information provided in 'fit notes'; and
- b) the assessment system is developed to make use of the existing and developing information systems and other infrastructure within the health and ACC system, including the single electronic transferable patient record, which can be used pro-actively to identify issues that might impact on employment, subject to appropriate confidentiality requirements being met.

### ***Work expectations for carers of disabled people and individuals who are sick***

There are two key groups of people within the current benefit system who are caring for severely sick or disabled people: people on a Domestic Purposes Benefit – Care of Sick or Infirm, and partners of people on an Invalid's Benefit. At the end of June 2010, there were 6,700 people on a Domestic Purposes Benefit – Care of Sick or Infirm, and 10,900 partners of people on Invalid's Benefits. Some partners of people receiving an Invalid's Benefit are themselves disabled and may not be the primary carer for their spouse. These carers play an important role in supporting and improving the lives of people with sickness and disability. We are not suggesting any change in work expectations for this group. It is also important to note that the support available to carers under the New Zealand Carers' Strategy and Five-year Action Plan 2008 is currently being reviewed. This involves a review of financial support for carers, as well as training and pathways to employment for carers.

### ***Work expectations for widows and women living alone***

Widows and women living alone (who have previously been carers) do not currently have any work expectations. We propose that work expectation for these groups be made consistent with men in the same situation. However we recognise that both men and women in these situations often need sufficient time to adjust, and are of the view that there should be temporary exemption from work expectations to enable people to cope with this difficult time in their lives.

### ***Expectations for young people 16 and 17 years of age***

In most cases the current benefit system presumes that until a young person reaches 18 years of age they are the financial responsibility of their parents. At the age of 18, teenagers are eligible to apply for a benefit in their own right. However, there are exceptions, 16 and 17 year olds are eligible for benefits if they are unable to live with their parents and are not financially supported by them, caring for a child as a sole parent, or severely disabled.

The Working Group is strongly of the view that the welfare system must not allow teenagers to become disengaged from education, training or paid work at a young age. Currently, recipients of the Independent Youth Benefit must be available for, and be able to take reasonable steps to obtain, suitable employment (and undertake work-focused activities when required) or be in education and training. In our view all young people receiving assistance from the welfare system who are under 18 years of age should be engaged in training, education or paid work. This might involve supporting a young person to re-enter school.

While many young people would benefit from further education or training, being in paid work is also a valid option, and many jobs will provide opportunity for further training. The only exception to this should be where severe and permanent incapacity meant that an obligation to participate in education, training or paid work would be unreasonable.

There is a strong case for supporting young mothers to complete their education, continue training or participate in paid work. This requires a balance between ensuring the mother is able to care for and bond with her child while ensuring she has the education, skills and opportunity to be able to support the child in the future. A supportive childcare environment for the children of young parents is a key to making this policy work. There are currently 20 teen parent units which provide childcare and other parenting support while the young mothers attend school. Wider coverage of these units may be needed to enable all teen parents to complete their education.

More generally, we do not in principle support the current provisions that provide an independent income to young people who are under 18 years of age. Eligibility for welfare should not undermine or distort the responsibilities that parents have to care for their children.

We are of the view that an additional obligation for 16 or 17 year olds receiving welfare assistance is that they should live with a responsible adult or be in an adult supervised environment until they are 18 years of age. This should include teen parents. We acknowledge that in cases where the parent or parents of the young person are not deemed to be 'responsible', care would need to be taken to ensure there is another appropriate adult who can take responsibility for the young person.

We recommend that welfare payments be paid to the 'responsible adult' as the default with ongoing evaluation and monitoring of the payments and care provided. We also recommend that sole parents under 18 years of age be required to undertake parenting and budgeting programmes. Once these programmes have been successfully completed, then they should receive Jobseeker Support directly.

#### ***Recommendation 8: Conditions for young people receiving assistance***

The Welfare Working Group recommends:

- a) that all young people 16 and 17 years of age who receive assistance would be required to be fully engaged in either education, training or paid work, or a combination of these;
- b) that there be sufficient availability of teen parent units, or other suitable supported education services, to ensure all teenage mothers continue with their education;
- c) that young people under 18 years of age who are eligible for assistance:
  - i. be required to live with a responsible adult or in an adult supervised setting;
  - ii. for 16 and 17 year old sole parents, be required to undertake parenting and budgeting programmes and that their welfare payments be managed as part of this process until these programmes have been completed and participants have demonstrated that they can manage their budget themselves and support their children; and
  - iii. for 16 and 17 year olds who are not sole parents, their welfare payments would be paid to the responsible adult, or agent (such as a community organisation).

### 3.3 Strengthening work expectations and clear reciprocal obligations

Work expectations and reciprocal obligations need to send a clear signal about what is expected, and be backed up by reasonable consequences if people fail to comply. There are a number of areas where current arrangements could be improved.

#### *Communication of expectations*

Expectations are most effective when they are clearly communicated. Clearer messaging is required about the need to make regular applications for jobs, to not restrict job choices, to address barriers to employment (such as illegal drug use), and the desirability of looking for paid work across a wide geographical area. Recent New Zealand experience from the Jobs Jolt campaign showed that a public campaign outlining clear and strong expectations was effective at reducing welfare receipt and increasing employment.

#### *Reasonable work expectations and accepting job offers*

A default expectation of paid work means that there would be a general obligation on all people who are required to be actively seeking paid work to accept any reasonable job offer. This means a person cannot turn down a job only because they do not like it or it is not the perfect fit with their career aspirations. The definition of 'reasonable' depends to some degree on individual circumstances – there are clearly *some* jobs for which it is unreasonable for *some* people to be required to accept. For example, night shift jobs may not be appropriate for some parents, but may be appropriate for others. The current system allows for some discretion in terms of what is 'suitable employment', and recognises there needs to be a reasonable match between a person's ability and the requirements of the job.<sup>56</sup> Despite the relative robustness of the current rules, in our focus groups we encountered a number of people who were restricting their job search because of unrealistic expectations.

#### ***Welfare and entry-level jobs***

We have heard some concerns from feedback on the Options Paper (for example, from the Alternative Working Group) that participation in some forms of low paid employment leads to worse outcomes than not having a job. For people with few qualifications, limited paid work experience, and personal and family barriers, the range of opportunities available is sometimes limited. Despite this, for this group there is considerable value in moving into work in order to break a pattern of welfare dependency, build attachment to the labour market and an employer, and secure a stepping stone to higher wages and better jobs. There is evidence that for most people being in paid work is better than being unemployed.<sup>57</sup> For young people it is especially important that they have realistic expectations and are willing to take entry level jobs.

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<sup>56</sup> In the current system, a good and sufficient reason to turn down a job includes being temporarily ill, because of a recent bereavement, or if the job involves working hours when it would be unreasonable to expect a child to be without the parent's supervision. Case managers have specific guidelines to determine whether a job is suitable. Factors that can be taken into account include employment with excessive hours, childcare issues, family commitments, the type of employment, days of the week worked, wages and the location of the job.

<sup>57</sup> There is strong evidence that unemployment (particularly long periods of unemployment) is associated with both lower wages and a significantly higher risk of not being in employment in later periods. By way of comparison, participation in low paid work does not appear damaging. A rigorous and comprehensive study of United States welfare recipients who moved into work found that wages grew as they accumulated experience, in a similar manner to the rest of the population. Low paid jobs seem to provide a stepping stone to better incomes, rather than providing a low income trap. (See Loeb, S. and Corcoran, M. (2001), 'Welfare, work experience, and economic self-sufficiency', *Journal of Policy Analysis and Management*, John Wiley & Sons, Ltd., vol. 20(1), pages 1-20; Arulampalam, W. (2001), 'Is unemployment

### 3.4 Regular monitoring of job search activities

Expectations are effective when there is regular monitoring of job search activities. A consistent finding of research is that a proportion of people leave welfare when required to attend an interview. Regular monitoring may also stop some people from becoming discouraged, and it also provides an opportunity to check that people are undertaking job search in an effective manner.

Our proposals for a better process for interacting with recipients of Jobseeker Support are set out in Chapter 4. As part of this new process there would be more frequent opportunities to discuss job search and work preparation activities.

The Working Group has considered the role for increasing obligations as length of time on welfare increases. We have looked at 'work for welfare' programmes, income management, step-downs in payments, and strict time limits.

We are of the view that there should be a selective use of 'work for welfare' programmes for people who are work-ready in order to test a person's availability and commitment to finding employment. For those with work expectations who have been on welfare for more than six months, there should be the prospect of participation in a 'work for welfare' programme. The requirement would be used when a person appears at risk of not complying with job search expectations. The activity could be in the private or community sector, should not detract from ongoing job search, and should be designed to motivate recipients to find regular employment.

### 3.5 An effective process to encourage compliance

Most people on a benefit are motivated to fulfil their obligations and requirements. However, there are a minority who are not motivated, and as a result there needs to be a sanctions regime to ensure full compliance.

For such a regime to be effective there needs to be good communication so that the implications of behaviour are well understood, the consequences need to be credible and proportionate to the nature of the failure and the circumstances of the person receiving welfare, and the process needs to be well managed.

The current sanctions process managed by Work and Income case managers has recently been changed. It is guided by the principle that job search obligations must be undertaken, unless there is a good and sufficient reason not to. The financial penalty is a reduction in benefit. The level of financial penalty depends on the previous history of work test failures, the type of benefit, and whether children are supported by the beneficiary. For example, for a single person on Unemployment Benefit without children, there is a 50 per cent reduction in main benefit for a first failure. A second failure incurs 100 per cent reduction in both main benefit and supplementary assistance. Benefits can resume when a recipient undertakes a re-compliance activity, which is normally specified as undertaking the activity they were initially required to do. A third work test failure means the benefit and supplementary payments are cancelled, and the beneficiary is subject to a non-payment period for 13 weeks. The beneficiary may receive a provisional benefit if they start a six week approved re-compliance activity.

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really scarring? Effects of unemployment experience on wages', *Economic Journal*, 111(475), 585-606.; Arulampalam, W., Booth, A.L. and Taylor, M. P. (2000), 'Unemployment persistence', *Oxford Economic Papers*, 52, 24-50.)

The current regime which sets out consequences for non-compliance should be further improved in a variety of ways including:

- clearer communication about the nature of penalties and the consequences for people receiving Jobseeker Support;
- graduated reductions in welfare assistance of (a) 25 per cent for a first failure; (b) 50 per cent for a second failure; (c) 100 per cent for a third failure; and (d) a 13 week stand-down for a fourth or any subsequent failure;
- a minimum stand-down period of two weeks for each failure, before payments are restored after a re-compliance activity has been undertaken;
- greater use of temporary 'work-for-welfare' programmes in addition to financial penalties;
- improved management of the process at the office level, particularly in regard to individuals with diminished capacity to understand their obligations;
- transparent public reporting of the number of sanctions imposed; and
- for recipients with dependent children there should be additional monitoring and requirements to ensure the interests of children are safeguarded.

### 3.6 Special conditions to address substance abuse

The extent of alcohol and drug use among people on a benefit has been an issue frequently raised throughout our review. Many employers have told us they are increasingly using pre-employment and random workplace drug tests because of safety concerns. In a recent survey, 32 per cent of beneficiaries reported using illegal and recreational drugs (excluding alcohol, tobacco and BZP party pills) compared with 18 per cent of the non-beneficiary working age population.<sup>58</sup>

Overseas evidence indicates that there are considerable benefits from a clear strategy to reduce chronic drug use, with returns as high as \$2.50 for every dollar spent. Key interventions for problematic drug users include quality drug rehabilitation programmes, clear messaging, employment, housing and social support networks.<sup>59</sup>

At the present time, there are insufficient consequences if recreational drug use constrains people from finding employment. People on a benefit using illegal drugs do not have to look for jobs in industries with pre-employment drug testing. There is also no requirement to engage in drug or alcohol treatment or rehabilitation as part of meeting a job search obligation.

The Working Group agrees with concerns that alcohol and recreational drug use is becoming a barrier to employment for an increasing number of people. We are also concerned for the well-being of children in families supported by the welfare system where there is drug or alcohol dependence. There needs to be a reconsideration of current policy settings in the welfare system, which are generally permissive of alcohol and drug dependence that is a barrier to employment, and provide little support for individuals with serious addictions. In our view the taxpayer should not be required to support someone who is unable to get a job because of drug or alcohol use and is not prepared to undertake steps to address their alcohol and drug use.

Under the New Zealand Bill of Rights Act 1990 a person has the right to refuse medical treatment, and the Social Security Act 1964 currently prevents the Chief Executive from requiring people on a

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<sup>58</sup> Report from the Ministry of Health for the Working Group.

<sup>59</sup> Jones, A. et al. (2009), *The drug treatment outcomes research study (DTORS): Baseline report*, UK Home Office, <http://rds.homeoffice.gov.uk/rds/pdfs07/horr03c.pdf>.

benefit to undertake medical treatment. Our view is that consistent with the New Zealand Bill of Rights, individuals receiving welfare should have the right to refuse to undertake drug or alcohol treatment. However, the right to refuse treatment does not extend to continuing to receive welfare if the refusal means a person is then unavailable for work.

The Working Group supports a stronger set of rules and obligations about alcohol and drug use while receiving welfare, supported by an appropriate and graduated sanctions regime, ongoing personal advice, and rapid access to drug or alcohol rehabilitation. Importantly, this will require a significant expansion in publically funded drug and alcohol treatment programmes.

The primary objective of these expectations is to ensure drug and alcohol dependence issues are addressed so that people can sustain employment and provide a safe environment for their children. We suggest an approach which involves:

- clearly communicating that a person cannot refuse to apply for jobs because the employer is drug testing, and failing a work-related drug/alcohol test is equivalent to refusing to look for work;
- where a failure was due to a drug and alcohol dependence issue, recipients should be offered access to free treatment services;
- such treatment is voluntary, but a further work-test failure due to drug or alcohol dependence would result in sanctions; and
- where the well-being of the individual or children is being put at risk by alcohol or drug dependence, management of income by a third party should be considered, as well as access to treatment services and referral to Child, Youth and Family.

### 3.7 Additional children while in the welfare system

Any system that bases work expectations on the age of the youngest child may create the unintended consequence of providing an incentive for parents to have extra children to maintain unconditional eligibility for Jobseeker Support. We have heard a concern that setting a work expectation for parents when their youngest child reaches three years or six years of age may result in a small minority of parents having additional children to avoid work expectations. There are also additional financial payments which result from having additional children (for example, up to \$65 per week additional Accommodation Supplement and an extra \$60 of Family Tax Credit per child per week).

In New Zealand, an estimated one in seven sole parents who enter the benefit system will have an additional child while on a benefit (and ultimately one in four of current sole parent beneficiaries).<sup>60</sup> They are more likely to be young or teen sole parents.<sup>61</sup>

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<sup>60</sup> Ministry of Social Development unpublished data. Of the women newly taking up Domestic Purposes Benefit in the year to June 1999, around one in seven had additional newborn children included in their benefit over the following 10 years. Those entering with a newborn child were much more likely to have an additional child included in their benefit over the following 10 years, and tended to be younger than sole parent beneficiaries taken as a whole. Around one in four women receiving Domestic Purposes Benefit at June 2009 have had additional newborn children included in the Domestic Purposes Benefit in the past, looking back to 1993. This higher proportion reflects the fact that longer term recipients are a higher proportion of Domestic Purposes Beneficiaries measured at a particular point in time.

<sup>61</sup> Ministry of Social Development data shows that 37 per cent of teenage women who newly received the Domestic Purposes Benefit-Sole Parent/Emergency Maintenance Allowance in June 1999 had an additional child included in the Domestic Purposes Benefit (who was conceived while in receipt of the benefit) over the next 10 years. Collins, B. (2010), Presentation to the Working Group Forum available at <http://ips.ac.nz/WelfareWorkingGroup/Downloads/Barbara-Collins-Teen-Parents-and-Benefit-Receipt.pdf>.

Along with New Zealand, the countries with the highest rates of sole parenthood and welfare receipt among sole parents are the United States and the United Kingdom. In the former case, financial disincentives are used as a measure to reduce non-marital pregnancies while in the latter the approach has been to focus on education and health services for sole parents, especially teenage parents.

Where specific measures have been used to discourage this, they have tended to involve limits or reductions in payments (known as 'Family caps') for additional children born to sole parents while receiving welfare payments. About half of all states in the United States use Family caps. The evidence suggests that while there is some impact in non-marital birth rates, the impact is not consistent across all the target groups.<sup>62</sup>

The Working Group is concerned about the extent to which parents are having additional children while receiving a benefit, especially if this delays a move into paid work and the opportunity for greater income and independence from the welfare system this provides. We know that children whose parents rely on income from the welfare system are at significantly higher risk of poverty, especially if this is for long periods.<sup>63</sup> We are also concerned that these children are at a greater risk of welfare receipt in the future. There is evidence that growing up in a family that is dependent on welfare is associated with greater risk of dependence later in life.<sup>64</sup>

For some people the idea that it is not appropriate to have further children while receiving welfare is a significant change in expectation and will require a very different pattern of welfare use.

Teen parents are an important target group in this regard. The long-term strategy for this group should be to enhance the choices and opportunities these young people have. This requires support and intervention across their early life and into early adulthood. Family and whānau play the most important role in encouraging and supporting their young people to complete their education and establish relationships and careers before having children. Improved educational outcomes and pastoral care at school, support to complete education or training to improve employment prospects, improved ante-natal care (including contraceptive advice and free access), engagement in parenting programmes, and participation of their children in early childhood education are all components of a long-term strategy to turn around outcomes for these young parents and their children.

We have found this issue difficult and have given careful consideration to our response. In the long term, the most positive measures to reduce the number of children born to parents relying on welfare payments is to provide more positive alternatives, especially for teen sole parents. The Working Group considers that a component of addressing this issue is providing all parents within the welfare system ready access to free long-acting reversible contraception.<sup>65</sup> Ensuring that teenagers have access to health services that meet their needs is an important element of ensuring this contraception gets to the most at-risk group of young women. This is discussed further in Section 9.3. A majority of members of the Working Group are also in favour of strong signals to parents that a welfare payment is intended to provide temporary support while they get back on

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<sup>62</sup> Camasso, M. and Jagannathan, R. (2009), How family caps work: Evidence from a national study, *Social Service Review* (September).

<sup>63</sup> Berthoud, R., Bryan, M. and Bardasi, E. (2004), *The dynamics of deprivation: the relationship between income and material deprivation over time*, DWP Research Report No. 219, Leeds: Corporate Document Services.

<sup>64</sup> Maloney, T. Maani, S. and Pacheco, G. (2003), 'Intergenerational Welfare Participation in New Zealand', *Australian Economic Papers*, September 2003.

<sup>65</sup> Since August 2010, the Government (PHARMAC) has fully funded a hormonal long-acting reversible contraceptive. PHARMAC estimated that up to 35,000 women could access the contraceptive if cost was no longer a barrier. See [http://www.familyplanning.org.nz/news/latest\\_news/entryid/58/contraceptive-subsidy](http://www.familyplanning.org.nz/news/latest_news/entryid/58/contraceptive-subsidy).

their feet and into employment. The obligation to support their children through paid employment should not be avoided or deferred by having additional children while receiving a welfare payment. We see this as part of a wider strategy to break into the cycle of intergenerational welfare dependency (and with it poor outcomes for children) in which some New Zealand families and whānau find themselves.

In practice, for most this means taking active steps to avoid pregnancy while receiving Jobseeker Support. We have suggested in Section 3.2 that obligations for carers of children – whether sole parents or in a couple – should be aligned, and therefore consistency requires the same approach in this area.<sup>66</sup>

We propose this be signalled through an earlier requirement to be available for paid work (which we proposed in Section 3.2 to be when the youngest child reaches three years of age). We acknowledge that this policy would need a well designed exemptions process and be carefully implemented in order to avoid unintended consequences. This proposal is also contingent on the Government addressing issues of availability and affordability in childcare services. It is likely that a considerable proportion of parents (especially young sole parents) who have additional children while on Jobseeker Support would receive additional parenting support and advice.

A majority of members of the Working Group recommend that there should be a requirement that work obligations for a parent should begin 14 weeks after the birth of a second and any subsequent children while in receipt of a welfare payment. This is in line with the paid parental leave period for parents who are in employment. For parents with a child under three years of age this means their work obligations would commence once their first child reached three years of age. For parents with a child over three years of age, the work obligations would commence 14 weeks after the birth of the second (or any subsequent) child born while the parent is receiving a welfare payment.

A minority of members of the Working Group preferred measures which impose obligations which commence when the additional child is 12 months old (in line with current parental leave employment protection provisions). The Working Group suggests that if the changes to the work test requirements do not address the incentives to have additional children while receiving welfare assistance, then the Government may need to consider financial disincentives, say by withholding part or all of the extra payments that come with having an additional child. If financial disincentives were used, there would need to be access to emergency hardship assistance for extenuating circumstances.

### **3.8 Non-custodial parents and child support**

The discussion on policy for sole parents within the welfare system invariably focuses on mothers, who are the vast majority (around 90 per cent) of this group. The role of fathers, both in terms of providing ongoing financial support for their children and having a positive involvement in their children's upbringing is an important one. We support measures to increase awareness among teenage boys and young men about the financial and social responsibilities that having a child incurs.

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<sup>66</sup> In circumstances where the parent is already exempted from a work obligation (say in the case of a carer in a couple who is also looking after their disabled partner) this stricter work test would not apply.



### ***The role of custodial parents and the review of child support***

Parents have ongoing obligations to care for and nurture their children. Most parents accept those responsibilities and the challenges that go with them. When the parents of a child separate, those responsibilities remain but how they are carried out inevitably changes. The arrangements which exist between separated parents include arrangements for financial provision for child support. These are governed by the Child Support Act 1992, which seeks to establish a balance between the care parent who the child lives with (the custodial parent) and the non-custodial parent. That legislation provides for situations where there is a shared care arrangement as well. However, there has been strong criticism of the legislation over time. Many consider that it does not strike the right balance between the responsibilities of the parents, especially when there is shared care.

Child support affects beneficiaries in two ways - for custodial parents, it is potentially an important income source. However, where that parent is also on a benefit, the payment made by the non-custodial parent is used to off-set the cost of that benefit, in such a way that no payment is passed on to the custodial parent. If they move off the benefit, they collect the child support payment.

A non-custodial parent on a benefit is assessed a minimum payment which is deducted from their benefit. When they move into work, the minimum payment would be reassessed and would increase. The interaction between what is paid by one party and what is received by the other influences how much work pays for both. One of the things that custodial parents want is to know that they can rely on receiving child support payments regularly, so that they can manage their financial commitments with reasonable certainty. The Working Group received a number of submissions in this area, which emphasised that child support is an important issue that needs to be considered alongside the review of the benefit system.

In September 2010 the Government released a discussion document seeking feedback on the child support system. We have been told that there was considerable interest in this issue, reflected by a sizable number of submissions which are currently being considered, with a view to recommendations being made to Government later this year.

As Government considers the submissions and any changes it might make to child support legislation, it is critical that it consider how the system can be used to support parents taking personal responsibility for their children, and recognise the interests of the children. It also needs to consider how child support might affect decisions both parents might make about paid work.

We strongly agree with policies which would strengthen requirements on liable parents to financially support their children and ensure that these payments are made. This would also benefit taxpayers who would otherwise shoulder the non-custodial parent's responsibility. Recommendations made in this Report to improve employment outcomes for young men should also enable more fathers to financially support their children.

### **3.9 Summary**

A work-focused welfare system starts with the presumption that until determined otherwise each person is able to work, and therefore is expected to look for paid work when they seek welfare assistance. These work expectations will be temporarily deferred in certain situations, such as while caring for a young child, but there will continue to be expectations of preparing for work. There should be no work expectation for people for whom it would be unreasonable to apply work obligations because of the nature of their illness or because of permanent and severe impairment, or for those caring for disabled children or the sick or infirm.

It is important that everyone understands the concept of reciprocal obligations. People take on obligations when they receive welfare in exchange for the responsibility Government has in providing appropriate support. These obligations need to reflect the norms of behaviour of the wider population. Recipients also need to know the consequences of not meeting these obligations.

***Recommendation 9: Signals, expectations and consequences of not meeting obligations***

- a) The Welfare Working Group recommends that the system of reciprocal obligations be improved to better support a focus on paid work by:
- i. making clear information publicly available about the expectations within the welfare system to encourage people to help themselves get into employment, rather than seek welfare assistance;
  - ii. providing clearer information to recipients at all stages of interaction with the system about their job search and other obligations; and
  - iii. providing clearer communication about the consequences if recipients do not meet their obligations.
- b) The Welfare Working Group recommends that:
- i. recipients who do not meet their obligations would be subject to:
    - a. graduated reductions in their welfare assistance of:
      - 25 per cent of their payment for a first failure;
      - 50 per cent of their payment for a second failure;
      - 100 per cent of their payment for their third failure; and
      - a 13-week stand-down for a fourth or any subsequent failure;
    - b. a minimum stand-down period of two weeks for each failure, before payment be restored after re-compliance activity has been undertaken;
  - ii. obligations be effectively enforced, with transparent monitoring and reporting of the number and duration of stand-downs and reductions imposed;
  - iii. for recipients with dependent children, additional monitoring be undertaken and there be requirements to ensure the interests of children are safeguarded; and
  - iv. a credible work for welfare scheme be established, in order to test the willingness of a small group of recipients to comply with their job search obligations, such as in situations of six months on welfare for no apparent reason, or earlier if there are successive work test failures. The work for welfare scheme could require a recipient to engage in a compliance activity for a period. Criteria need to be developed to guide the application of this policy.

***Recommendation 10: Substance abuse***

The Welfare Working Group recommends that:

- a) either failing or refusing to take an employment related alcohol or drug test be regarded as not complying with the job search obligation, with associated consequences, and that this expectation be clearly communicated;
- b) subject to the Government addressing long-standing issues with the availability of drug and alcohol services (which we recommend be addressed as a matter of urgency) a person who fails or is likely to fail a drug or alcohol test due to drug or alcohol dependence, be offered the option of voluntarily agreeing to drug and alcohol treatment. Refusal to accept this offer would be a failure to meet job search obligations; and
- c) in circumstances where a person's drug or alcohol dependence is endangering his or her well-being or the well-being of children, management of their welfare payment be put in the hands of a responsible third party, or another form of income management, until the drug or alcohol issue is resolved.

***Recommendation 11: Addressing incentives for parents to have additional children while on welfare***

- a) The Welfare Working Group recommends that ready access to free long-acting reversible contraception be provided for parents who are receiving welfare.
- b) The majority of Working Group members recommend that where a parent has an additional (second or any subsequent) child while receiving assistance from the welfare system (except where they are pregnant at the time of coming into the welfare system):
  - i. expectations to look for work should begin once the youngest child reaches 14 weeks old, in line with current paid parental leave provisions and subject to the availability of affordable childcare and out-of-school care, except where there is already a child under three years of age. In that case the person's job search obligations would be determined by the elder child's age; and
  - ii. Government monitors the effect of this policy. If it is not effective, Government should consider whether further financial disincentives are necessary, including that parents not qualify for any additional financial assistance through the welfare system for any additional children born whilst in receipt of welfare, other than access to emergency assistance.

## Chapter 4. Active Support

### 4.1 Introduction

Improving paid work outcomes will require more effective and better directed support, with the goal of reducing the long-term costs of welfare dependency. This means moving support more towards those people most at risk of long spells on welfare.

Under a new work-focused approach, more people with diverse circumstances would need support to enter employment. With the reform package we have outlined in this Report, the proportion of people receiving welfare who are actively supported to find paid work would increase from the current 37 per cent of all working age recipients to 77 per cent when the system is fully implemented. This means an efficient process of assessing the need for cost-effective support is required. It also requires that intensive support services, childcare and other assistance are designed and delivered in a way that reduces long-term welfare dependency.

In Chapter 8, we discuss in detail how critical it is for there to be strong incentives on the delivery agency to target support to reduce the long-term costs of welfare dependency. If there are not strong incentives on the agency to target support to reduce long-term costs there is a risk that the costs of support could be significant.

We propose that for most people in the welfare system there would be a focus on providing a range of job search and related support. There would be strong expectations of job search and people would be expected to demonstrate that they were preparing for and searching for work. It is also important to recognise the value of supporting people to stay in work or locate jobs quickly, so that they can avoid needing to use the welfare system.

For a smaller proportion of people with significant vocational and non-vocational barriers to employment there may be a need for more intensive support to enable them to prepare for and then move into paid work. There is extensive evidence that active support tailored to the needs of people and specific jobs in their local labour market is effective.<sup>67</sup>

In this Chapter we propose new assessments of work ability which would provide the information needed to ensure the right support is provided to people who need it, at the right time. More generally there is a wide range of supports that can help people overcome the constraints they face in obtaining jobs. These include locating and subsidising childcare, job-specific training and in-work programmes. Support may also involve encouraging people to take steps to overcome personal issues that get in the way of work, such as drug or alcohol misuse or dependency.

Assessment processes, service design and delivery needs to be responsive to Māori by being culturally appropriate, holistic in design and have whānau-driven solutions where possible. Processes also need to be sensitive to the diverse characteristics and cultural backgrounds of other New Zealanders, including Pacific people, migrants and refugees, and to the importance of family and whānau structures. Wrap-around and family or whānau-driven solutions should be considered where suitable.

### 4.2 Spending on support

As we noted in Table 1.2, the current (2009/10) expenditure on active employment measures (including childcare assistance) is around \$770 million per annum. Based on 2009/10 data, we

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<sup>67</sup> Martin, J. and Grubb, D. (2001), *What works and for whom: a review of OECD countries' experiences with active labour market policies*.

estimate that the average amount spent on active employment supports of beneficiaries was slightly less than \$2100 per head per annum. Historically, the majority of active employment interventions have been directed toward those applying for and receiving Unemployment Benefit, despite being only 20 per cent of all beneficiaries. People on the Sickness Benefit, the Domestic Purposes Benefit and other main benefits received considerably less employment support. Under a new work-focused system larger numbers of people with a diverse range of circumstances (for example, carers of children, disabled people and those with impairments due to illness) will need active support to help them locate and sustain employment.

In Chapter 10 we model a scenario where the level of intensive support for people at high risk of long-term dependency is increased significantly. With significant interventions to support up to 10 per cent of the highest risk welfare recipients, the additional cost is preliminarily estimated at between \$215m and \$285m.

### 4.3 The approach to service delivery

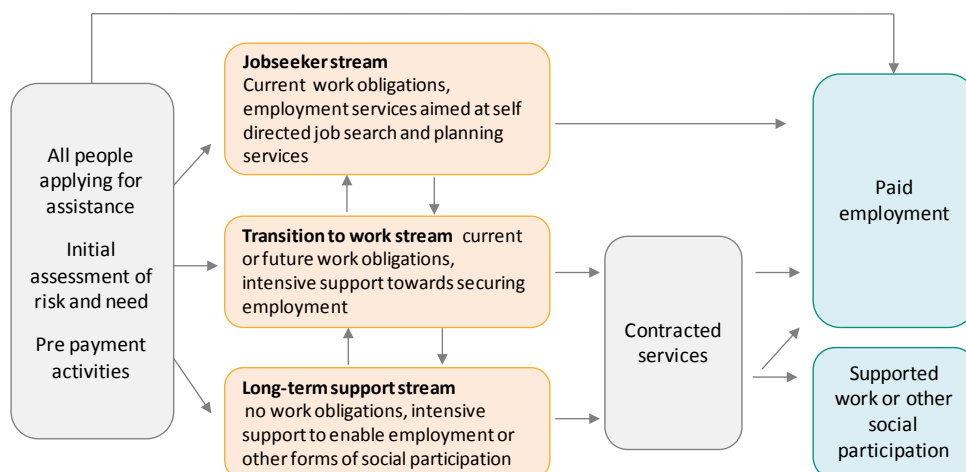
As part of a work-focused welfare system, all people who apply for Jobseeker Support would initially be assumed to be looking for a job. As outlined in Section 2.5, a long-term cost (forward liability) approach looks at the costs of a person in the welfare system in both the current year and expected future years. This creates an incentive for the delivery agency to identify people's needs and invest resources early on to help people to regain independence quickly so that the long-term cost is reduced. A full description of how the forward liability would impact on the delivery agency's decision making processes is outlined in Chapter 8.

This section outlines the key components of the new model of service delivery, underpinned by early identification of need and support for achieving independence, which for most is focused on securing and maintaining employment. It also suggests ways in which more support can be provided to help people to stay in work or locate jobs before they enter the welfare system.

We described in Chapter 3 how the current categories of benefit (Domestic Purposes, Sickness, Invalid's and Unemployment) do not reflect the ability to work of many people in the welfare system. Many people receiving these benefits have some ability to work. In this section we outline a more personalised approach to assessing each person's work ability, and the supports and services they may need to enter employment or participate in the community.

This new approach is set out in Figure 4.1 below. The key elements are the processes which assess what supports are needed, the streaming to the type of services which meet that need and the types of providers and services that people may be referred to.

**Figure 4.1: Overview of the key elements of the new system**



#### 4.4 Assistance before being granted Jobseeker Support

There needs to be a stronger focus on activities that can support people to stay in work or get early entry in a job, so that there is less need to use the welfare system. This requires strong collaboration with employers and health professionals as part of a systematic approach to prevention measures.

An active work-focused approach to welfare can help provide this support before people enter the welfare system by:

- encouraging people to call on the resources and networks within their family, whānau and community to help them to stay in work or locate a new job as a first resort;
- supporting employers to promote healthy workplaces and provide flexible work arrangements for employees who are disabled, have impairments due to ill-health or have children. This is discussed in more detail in Section 9.6;
- ensuring general practitioners and other health professionals recognise that they can be a positive influence on their patient's attitude to remaining in work or making an early return to work after illness. Increasingly trends here and overseas are for medical practice and advice to recognise the benefits of patients retaining contact with employment wherever possible in the process of recovery and rehabilitation. This is a message the Australasian Royal College of Physicians is currently promoting. The Working Group supports this and proposes that more guidance be provided to general practitioners which assists this message; and
- building on co-ordinated approaches to recovery from injury. One such example is the ACC's Better@Work scheme (see box below) that assists general practitioners to better assess the work ability of injured people and help injured patients to return to work earlier. It provides a co-ordinator with health knowledge to work with the employer to support their injured employee to continue working while they recover. Early indications are that this programme is having success, and ACC has decided to expand it beyond its initial pilot area. We support a co-ordinated patient-employer-general practitioner approach, along the lines of this scheme, to support sick people or disabled people who are in paid work.

##### *An example of early co-ordination: ACC's Better@Work programme*

The Better@Work programme currently run by ACC offers early intervention, intensive case co-ordination and workplace rehabilitation. It aims for an early return to work for employees with injuries. Health professionals and case co-ordinators work together to identify suitable duties and support that injured workers need to remain in the workplace. In part, this programme aims to change general practitioners' behaviour so that more workers are deemed fit for selected duties, where it is safe to do so, rather than fully unfit by default. It also provides a financial incentive for general practitioners to change their work certification practices.

At the Lake Taupo Primary Health Organisation, Better@Work clients returned to work faster than those not participating in the programme. Despite referrals not yet reaching their full capacity, weekly compensation savings from this programme are running at just under 10%. In late 2009, the service was expanded to four primary health organisations, three in Auckland and one in Hawkes Bay.

##### *Pre-payment activities provided by the delivery agency*

Once a person enters the welfare system, activating the motivation and abilities of jobseekers to look for and find work themselves (including using their own family, whānau and wider networks), before providing other support or services, is a key element of pre-payment activities. Strong emphasis on both supporting and expecting people to locate employment before granting welfare payments has been found to be effective in reducing the numbers of people needing welfare payments.

Currently, Work and Income can require Unemployment Benefit applicants to search for work as well as other pre-benefit activities before applying for income support. This pre-benefit activity includes attending a *Work for You* seminar that provides information on vacancies and job search skills. Unemployment Benefit applicants are also profiled for matching to job vacancies. Some applicants are provided with co-ordination up front depending on whether they are self motivated or need additional support. This work-focused pre-benefit activity for Unemployment Benefit applicants has consistently meant that more than one-third of people who approach Work and Income for a benefit do not go onto a benefit. This rate has been maintained during the recent recession.<sup>68</sup>

We have proposed that a work-focused approach be initially taken to all applicants including those who would apply for Sickness, Invalid's or Domestic Purposes Benefits under the current system. While some within this group would receive temporary or permanent exemptions from work expectations, the delivery agency would need to look at innovative and low-cost solutions to deal with an expanded group of jobseekers. There is considerable scope for using information technology to further enhance the strategies used before a person can apply for Jobseeker Support, such as a greater use of internet kiosks which list job vacancies and text messaging which alert jobseekers to new job listings. Internet kiosks are used in Australia as part of their employment service.

***Recommendation 12: Encouragement to maintain or locate paid work rather than receive a welfare payment***

The Welfare Working Group recommends that the welfare system:

- a) before people need to apply for a welfare payment:
  - i. make more information available to general practitioners about the benefits of work in recovery and rehabilitation;
  - ii. adopt an approach modelled on ACC's Better@Work scheme for people in paid work who become sick; and
- b) when people apply for welfare assistance and before payments commence, through a combination of job search expectations and support, focus on applicants finding paid employment in the first instance, rather than automatically receiving assistance (except where the expectations are modified in line with Recommendations 5 and 6 above).

#### **4.5 Assessing ability to work and service needs**

Under the current categorical benefit system, Work and Income puts a lot of effort into determining eligibility for specific benefits, for example determining whether a person is disabled enough to qualify for an Invalid's Benefit. For a new single Jobseeker Support payment, the delivery agency's assessment process would now focus on identifying a person's ability to work and therefore their work expectations, their eligibility for additional financial assistance (for example, disability payments) and their need for services.

We need a much better understanding than we currently have of sick people's or disabled people's work ability and how this relates to their medical condition, so that the right supports and services

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<sup>68</sup> Ministry of Social Development (2010), *Delivery of income and employment services throughout the economic cycle*. Available on the Welfare Working Group website: <http://ips.ac.nz/WelfareWorkingGroup/Downloads>. Blank (2002) describes diversion from benefit as one component of overall welfare reform in the United States that led to a large fall in the numbers of people on assistance. Blank, R. (2002), *Evaluating Welfare Reform in the United States*; Journal of Economic Literature, Vol. XL (December 2002) pp. 1105-1166.

can be provided to assist them into employment or to participate in the community.<sup>69</sup> Identifying health issues that are a constraint to employment is a key part of this assessment. In order to ensure that the right level and type of services are provided to all jobseekers, there also needs to be more information collected about all applicants' work ability and any vocational constraints to employment, such as lack of skills or qualifications. Constraints to work ability need to be identified early so that they can be addressed quickly. Early intervention can be critical to a person's chances of returning to work, particularly if they have health issues.<sup>70</sup>

Assessing work ability is not straightforward. Some people will have physical, sensory or intellectual disabilities, while others face physical or mental health issues. These will vary in terms of severity and duration – some will be temporary while others will be permanent or ongoing. Different people will adapt to their circumstances differently, so a person's work ability is not always directly related to the length or severity of their sickness or disability. Assessments of ability to work therefore need to be responsive to the diversity of impairment that sick people or disabled people face.

Despite the complexities of assessing ability to work, the OECD advises that these assessments are central to new strategies for reducing welfare dependence.<sup>71</sup> A number of OECD countries have already adopted work ability assessments in order to provide better information about a person's ability to work and their support needs. However, ongoing improvements have been required in the United Kingdom and Australia as these countries fine tune their assessment processes.

The Working Group has examined the trends and evidence on risk assessment within social welfare systems, particularly in Australia and the United Kingdom. Drawing on this evidence, we propose an assessment process which can identify both the risk of long-term welfare dependence and the timing and nature of interventions to help people avoid this, with four main components:

#### **A 'fit note'**

- An initial medical certificate ('fit note') by a general practitioner for sick people or disabled people providing advice on what a person can do rather than their medical condition. This certificate would help assess a person's current and future work ability and the tailoring of work expectations to this ability, and inform the process of identifying the services they need.

#### **A simple initial assessment**

- An initial assessment using a robust but inexpensive tool for all those entering the welfare system. This would collect the information necessary to assess the risk of long stays on Jobseeker Support, and to determine the timing and nature of additional assistance that is needed. This information would then be used to refer people quickly into the appropriate type of service they need to secure employment.

Evidence from overseas suggests that a simple and relatively inexpensive assessment tool using a range of basic information and key questions can be effective in collecting the necessary information about a person's vocational and non-vocational constraints to employment.

Australia's Job Seeker Classification Instrument is an example of such a tool in current use. This assessment tool establishes the extent of a person's labour market disadvantage, recent work experience and skills, and identifies health and other social issues.

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<sup>69</sup> Fletcher, M. (2009), *Addressing the growth in Sickness and Invalid's Benefit receipt: A report prepared for the New Zealand Treasury*, Wellington.

<sup>70</sup> Analysis from Ministry of Social Development shows that more than one-quarter of people who enter the benefit system receive payments for less than six months out of the next 10 years, but when people have been on a benefit for all of the past three years, they can expect to spend a further 11 to 14 years on a benefit (see *WWG Options Paper*).

<sup>71</sup> OECD (2010), *Sickness Disability and Work: Breaking the Barriers - A Synthesis of Findings across OECD Countries*, Paris.



### ***A comprehensive assessment for those with complex needs***

- A more comprehensive work ability assessment for a relatively small group of people with the most complex impairments or serious ill health which provides a more precise measure of work ability. These assessments would be used to determine the appropriate service response and access to the long-term support stream, and would use both functional and vocational information on ability to work. Assessments need to be compassionate, have specialist input and take account of the person's own view of their strengths and abilities. Assessments are discussed further in Chapter 3.

### ***An actuarial estimate by the delivery agency***

- An actuarial estimate made by the delivery agency of each person's risk of staying in the welfare system and therefore their long-term cost (forward liability) would help determine the level of support that should be provided to help a person's job search and preparation. This is based on the information collected in the initial and any ongoing assessments. Actuarial estimates are discussed further in Chapter 8.

Assessments should be designed to ensure that just enough information is collected to determine what the next step should be as the person searches for work, avoiding multiple in-depth assessments when they are not necessary. Review and reassessment of work ability would occur to ensure that work expectations and services are appropriate. The timing and frequency of these reviews would depend on the individual's circumstances.

## **4.6 Streaming into services**

Streaming is the process by which people who have been assessed are put into groups based on the difficulty for them to move into work. The ACC and Australia's welfare system both use risk assessment and streaming tools to allocate resources to people who would most benefit from more intensive support.<sup>72</sup>

The purpose of streaming is to ensure that people receive the right amount of support at the right time. With the right incentives in place for the delivery agency, estimating the full expected cost of each person's period on Jobseeker Support would provide a powerful mechanism to ensure there is early and effective assistance provided to return to work. The timing of interventions is important in terms of getting people the right support at the right time, but also ensuring that resources are not wasted assisting people who would move back into work with little assistance.<sup>73</sup> The OECD highlights that job search assistance or work-first strategies often work well at relatively low cost with people who are work ready. Providing a range of employment services and individual service co-ordination in a mixed strategy, with selective referrals to labour market programmes, is more expensive to provide but tends to have the largest overall impact.<sup>74</sup> This suggests that work-first strategies would be more cost-effective for people with a lower risk of long-term welfare dependence, ensuring less is spent on people who would have left the welfare system without support. The more costly, intensive support would be more cost-effective for people at highest risk of long-term welfare dependence. Strategies which separate groups on the basis of their support requirements will help manage welfare caseloads, with only a small proportion of the unemployed being referred to expensive full-time programmes.

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<sup>72</sup> The assessments used in Australia (Job Seeker Classification Instrument and Job Capacity Assessment) are described briefly in the Welfare Working Group's *Options Paper*, on page 75.

<sup>73</sup> Wolstenholme, E., Todd, D. and D. Monk, (2010), *Dynamic cost benefit analysis for mental health reform*, Kbyermetes, Vol.39 No. 9/10, pp 1645-1648.

<sup>74</sup> OECD (2005), *OECD Employment Outlook*, Paris.

### ***A new name for case management***

In our discussions about New Zealanders' experiences of the benefit system, particularly disabled people, we have been told that they find the terms 'case management' and 'being case-managed' to be old-fashioned and demeaning. We suggest 'co-ordination' and 'co-ordinators' are better terms to be applied to the role that needs to be undertaken in the future. We have used the term 'service co-ordination' to refer to more specialised or intensive advice and support. People with multiple and complex needs may require the support of service co-ordinators with specialist expertise to help them overcome issues which are preventing them being in employment.

### ***Three service streams – job search, transition to work and long-term support***

As noted above, we envisage three streams will naturally emerge from an approach which assesses each person's risk of long-term welfare dependence:

- a jobseeker stream for those immediately expected to look for work. People in this stream would be unlikely to need intensive support to find a job and would be focused on self-directed job search;
- a transition to work stream for those with immediate or future work expectations, who have been assessed as needing more support and a plan to get into employment. A continuum of employment support services from 'light touch' to intensive would be available; and
- a long-term support stream where people have no obligation to seek employment, but would be able to access services which support employment or social participation.

Some people would move into a different stream over time. For example, most sole parents would move into the jobseeker stream once their youngest child reaches three years of age. Some disabled people may begin in the transition to work stream, but move into the long-term support stream after a period of looking for work or a comprehensive work ability assessment.

### ***Jobseeker services***

For the vast majority of people within a work-focused welfare system, assistance to get employment would be provided through an employment service. These people would have been assessed as having good prospects for securing work with little need for employment-related support. For these jobseekers, job support services would have the following features:

- immediate but light-touch support which could involve simple things like a group seminar on how to prepare a CV and help to locate and follow up job vacancies;
- largely rules-based expectations;
- co-ordinators to work with these jobseekers to determine an appropriate employment plan;
- regular contact with the co-ordinator to monitor progress in attempts to find work and ensuring compliance;
- for a small group who do not locate work after a certain period of time, say six months, a more comprehensive assessment of their barriers to employment, both vocational and non-vocational, may be undertaken. After this assessment, they may move to a stream providing more intensive support; and
- as with the existing Job Search Service, some people would need more one-on-one co-ordination to provide advice on things such as locating childcare, housing assistance, disability payments and assistance available in work, including Working for Families.

### ***Transition to work – planning and services***

After an initial assessment, some people would need to have additional support to improve their chances of securing and maintaining employment and would be placed in a transition to work stream. Some people in this stream are likely to have low skills or lack of work experience, have more complex personal needs and therefore require more personalised support to be able to find and retain employment. A co-ordinator (or equivalent service provider in a contracted agency) would help them make a structured but personalised 'return to paid work plan' for making a transition into paid employment once they had completed activities such as training, addressing drug or alcohol dependency, or getting help to resolve a medical issue. There would be some people in this group (such as those with temporary illness or sole parents with children under three) who would not require intensive support, but instead be required to engage in work-focused planning and activities.

The intensity of support would vary for people in this stream depending on the extent of their vocational, health or social needs. Our preliminary estimate is that around 10 per cent of people who are at high risk of long-term welfare dependency should be provided with the most intensive level of support in this stream. There would be a separate funding pool for the long-term support stream.

Key elements of services provided in the transition to work stream would be:<sup>75</sup>

- a tailored, flexible, early intervention approach built around a person's work ability and circumstances. An assessment of the person's vocational and non-vocational constraints to moving into employment would determine the services provided;
- the development of a detailed, personalised 'return to paid work' or action plan setting out activities which directly support the person's route into employment. The plan needs to be agreed with a co-ordinator who can provide advice and information about the services available. The plan might involve undertaking employment coaching and other job-related training. The person must commit to the plan and accept obligations to complete it. Support in carrying out the plan would involve regular contact between the service provider and the jobseeker for a sustained period, such as 13 weeks, 26 weeks or longer if required;
- a mix of work-focused activity and other programmes to help secure and maintain employment for those requiring longer term or more intensive support. For example, confidence building and work readiness courses, education and training may be provided alongside health and rehabilitation assistance. There could also be assistance to overcome specific issues, such as drug and alcohol misuse, financial mismanagement, family breakdown, domestic violence, homelessness or social isolation. It may also involve ongoing advice and support after placement in employment (also known as in-work support). Intensive assistance for those at risk of poor health or social outcomes may also be provided as part of a more holistic, wrap-around approach centred on the family or whānau. This could include parenting support for at-risk families and pastoral care for young teens and their families;
- a flexible pool of funds would enable innovative service delivery. These funds could be used to increase the likelihood that recipients would move into and then remain in sustained employment. They could be used for a range of interventions such as in-work support, short-term work-related training courses, wage subsidies and jobseeker incentives, workplace modification, interpreters, help with clothing and work equipment and transport costs, incentives to move to jobs in other regions; and

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<sup>75</sup> Gregg, P. (2008), *Realising Potential: A Vision for Personalised Conditionality and Support: An Independent Report to the Department of Work and Pensions*, Department of Work and Pensions, United Kingdom.

- services are likely to be provided through an outcomes-focused contractor who has a fund to match services to the needs of each person, and is measured on its success in helping people into employment. These services need to be professional, flexible and sensitive to the recipient's circumstances and background. In order to provide innovative and tailored responses, we would expect the capability and expertise of the community, private providers and not-for-profit providers would be drawn on. Support services may require a co-ordinated multi-disciplinary approach across a number of Government and non-Government agencies. Services would also need to be culturally appropriate and capable of meeting the diverse needs of Māori as well as Pacific people and other migrant communities.

### ***Long-term support stream***

For people with permanent and severe impairment, the initial presumption would be that people may have ability to work, and significant assistance would be available to support these people to move into paid work. For some people, the assessment processes would immediately determine this as the appropriate type of support, and they would be fast tracked to the long-term support stream.<sup>76</sup> For others it might follow after efforts to locate and provide assistance to move into paid work, or a more comprehensive assessment of ability to work.

While this group has no obligation to look for work, services would be provided to enable supported work or other activities with enable social participation. The long-term support provided in this stream would be based on the principles outlined in the New Zealand Disability Strategy. A full description of services we propose for this group is outlined in Chapter 6.

### ***Recommendation 13: Assessing ability to work and accessing necessary supports***

The Welfare Working Group recommends:

- a) that the work-focused welfare system be supported by a new assessment process:
  - i. which involves a simple tool to assess immediate work expectations and guide investment in supporting people out of the welfare system;
  - ii. which streams:
    - a. most people who enter the welfare system to a 'jobseeker stream' which focuses on self-directed job search;
    - b. smaller numbers into either a 'transition to work stream' through which they could access a continuum of employment support services from 'light-touch' to intensive; or
    - c. those assessed as permanently having no employment expectations into a 'long-term support stream';
  - iii. which provides a more comprehensive assessment for jobseekers who have not located work after six months, using detailed functional and vocational information about their work ability, in order to determine whether they require additional support;
  - iv. where comprehensive work ability assessments are being used to determine the appropriate service response for people with the most complex impairments or serious ill-health;
- b) that assessment processes be responsive to Māori, by being culturally appropriate, holistic in design and have whānau-driven solutions where possible; and
- c) that assessment processes be sensitive to the diverse characteristics and cultural backgrounds of New Zealanders including Pacific people, migrants and refugees, and to the importance of family/whānau structures.

## 4.7 Public and private sector employment support

There is a range of employment programmes which aim to provide job skills and other skills to improve a person's chances of being placed in a job. These range from low cost job search services, on-the job training programmes, subsidies to employers, and work for welfare programmes.

### *The role of training in the welfare system*

Any welfare system that is work-focused should ensure that skills obtained through training or further education support employment. Among welfare recipients there will be considerable diversity of need for further skill development to improve their chances of finding work. In a new system where the key imperative is reducing long-term costs of welfare payments, the types of training offered should assess which package of training is the most effective in reducing this cost for each individual. Over time, this should also encourage resources to be moved towards more effective training approaches and away from less effective methods.

Tailored approaches to training might take a range of forms, from short-term vocational training to longer-term study or training. For the more disadvantaged, sequenced training starting with numeracy and literacy and then developing specific vocational skills may be justified. This sequenced approach is likely to be particularly important for refugees who may need ESOL (English as a second language) courses alongside more specific vocational training. Especially for young people entering the system with no qualifications, putting resources into longer-term vocational training or further education is likely to pay dividends in terms of reducing their risk of long-term welfare assistance. Chapter 9 discusses vocational training for young people.

### *The types and effectiveness of Government programmes*

About half of Work and Income's total budget of \$749 million was used to purchase contracted services in 2009/10. Within this funding envelope there are a range of employment interventions and training programmes that are continually reviewed to achieve better value. This is based on what works best for whom, and when it works.

Contracted services are engaged throughout the country to deliver a range of work-focused social services. They are a mix of outcomes-based agreements (for example, Employment Placement Service, Pacific Youth Mentoring Service, In-work Support), as well as programmes that enhance employability (sole parent coaching, assessments for Sickness beneficiaries). Providers are a mix of private companies, community trusts, training providers and other entities. There is evidence a mixed model of contracting has been successful in a number of OECD countries.<sup>77</sup>

Straight2Work is a New Zealand programme (within the Industry Partnership model) which has had positive evaluations. It provides assistance for beneficiaries to gain skills which are matched to specific industry requirements (see box below). A contracted intermediary provides the employment services component of this programme.

A recent review of the Training Opportunities Programme with an increase in the proportion of programmes aimed at shorter work-focused training reflects a concern that the Training Opportunities Programme had not been sufficiently focused on directly improving employment or independence from the welfare system.

Some employment programmes are known to be more effective than others. Some improve employment outcomes or have other social benefits, but the gains may not be sufficient to justify the fiscal cost. Training may be more cost-effective for some groups than others – for example, the

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<sup>77</sup> OECD. (2005), *OECD Employment Outlook*. Paris: Organisation for Co-operation and Development.

evidence suggests that training on average has less positive employment impacts for prime-aged males than for sole parents. The evidence generally suggests that while long-term training may be effective, it may not be cost-effective.<sup>78</sup>

#### ***What are best approaches to skills development for people on welfare?***

Evaluation of New Zealand and overseas training programmes suggests that training and education programmes have a smaller impact on raising employment in the short term than employment programmes which specifically prepare people for work. Longer training may have beneficial impacts if measured over the longer term.

In terms of designing training programmes which can impact positively on employment outcomes, the evidence suggests effective programmes include:

- training for qualifications which are valued and recognised by employers;
- training for employment programmes matched to employer requirements;
- an on-the-job component and strong links with local employers; and
- funding for participation in tertiary education has a positive effect in helping sole parents obtain employment in the long term.

#### ***What is ineffective?***

- Training programmes have been found to be ineffective if they do not lead to a recognised qualification.
- Foundation or remedial adult education, especially for sole parents, on its own is not shown to be effective in improving employment outcomes, because it does not result in a specific vocational qualification and is not tied to specific employment. Training Opportunities (TOPs) is a New Zealand programme providing remedial foundation skills (numeracy and literacy) or vocational training for people lacking relevant labour market skills.

#### ***What is effective?***

- Short-term work-focused training and on-the-job training can be effective. Programmes are most effective in increasing employment when the training is linked to a specific job.
- Straight2Work is a New Zealand programme providing assistance to beneficiaries to gain skills and support to employers to train and employ workers, matched to specific industry requirements. Evaluations have recorded positive impact on off-benefit outcomes for participants in this programme. Recent restructuring of TOPs has seen 40 per cent of funding being redirected to programmes with a stronger vocational and employer-linked focus, targeting those with a medium risk of long-term benefit dependency. This is now called Training for Work. It focuses on employment outcomes and addressing skills shortages through strong links with employers, and job placement and post placement support for participants. The remaining funding continues to provide foundation training, but with a greater emphasis on employment skills linking into further education and targeted at those of high risk of long-term benefit dependency and minimising repeat participation in the programme.
- The Training Incentive Allowance (TIA) which provides assistance to sole parents and those on the Invalid's Benefit was found to be effective in increasing the time sole parent participants spend off benefit. However, it takes five to eight years before these programmes have a net positive impact. This is because of the long period of training while receiving the benefit.

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<sup>78</sup> OECD. (2005), *Activation Strategies and the Performance of Public Employment Services in Germany, the Netherlands and the United Kingdom*, Paris.

### *Key priorities in training and employment interventions*

We propose that the approach to training and in-work employment support needs to:

- be rigorously selected on the basis of improving employment outcomes and therefore reducing long-term cost (forward liability). Allocation of training resources through different Government agencies, including the Training Opportunities Programme, needs to actively support the goal of better employment outcomes, with strong accountability arrangements for the delivery of these outcomes;
- be well-matched to individual circumstances and need. This means the appropriate mix of short and long-term training, basic foundation or remedial training, or higher level courses will vary across the group of people needing employment support. For some people with the highest level of labour market disadvantage, it may involve a sequenced approach, starting with basic skills courses and then moving on to more specific job-focused training, as part of ultimately securing employment;
- be well-matched to the existing skills of people looking for employment and employers' needs for specific skills. The Industry Partnership and Contracted Services models provide specific job or industry-focused programmes. In our view there is merit on building on the best programmes within these models and we propose that funding be increased for active partnerships between employers and delivery agents;
- use partnerships with employers to create opportunities for disabled people to enter paid work;
- provide opportunities for long-term training, with the strongest emphasis on young people. Opportunities and support for completion of education and then a longer term training programme, such as an apprenticeship or trade qualification are more likely to be cost-effective for young people because of the sustained improvement in employment outcomes this can produce. This is discussed further in Section 9.3. Where long-term training or further education involves tertiary training, support should be provided by the education system with financial assistance provided by Student Allowances. This is discussed in Section 4.8 below;
- use strong results-based measures to address delivery agent performance (either in the public or private sector), linked to reducing both the current and future costs of welfare payments, as a fundamental element of ensuring successful results; and
- be rigorously evaluated and monitored to ensure resources flow to approaches which work best to support employment outcomes. There must a willingness to redirect expenditure away from less effective programmes to more effective approaches.

### *Providing incentives to employers*

The primary role of employers is to run successful businesses which create and maintain jobs and contribute to economic growth. As part of this, many employees receive training while on the job and there are many existing private sector initiatives in this area. Like everyone else, employers respond to incentives. A number of employers and employer organisations, such as The Auckland Chamber of Commerce and the Business Council for Sustainable Development, have taken a lead in programmes to assist people into employment.<sup>79</sup> There is a range of ways employers could be further encouraged to take on less experienced workers and provide on-the-job training. Three approaches we suggest for consideration are:

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<sup>79</sup> The Auckland Chamber of Commerce runs: the 'New Kiwis' scheme for matching skilled migrants into positions; a programme to train sole parents as office administrators; and 'CadetMax', a scheme targeting at risk 16-19 year olds, giving them work experience and supporting them into jobs.

- allowing employers to provide tiered training wages, where wages start low and increase with experience and on-the-job training;
- short-term subsidies for long-term welfare recipients; and
- facilitating employers to work with education providers (such as polytechnics) to provide NZQA-approved training programmes which combine classroom time with on-the-job training alongside older experienced employees.

### *Support and expectations in areas where there are few jobs*

As the economy grows over the coming years there will be uneven job growth. Inevitably some areas will not see increased employment. There are no simple solutions to address high rates of welfare dependency in some regions. Each option comes with significant trade-offs and in a country like New Zealand where Māori have such an important relationship with place it is especially challenging to ensure that welfare provisions maintain a focus on employment.

In the Options Paper we canvassed two approaches to addressing regional welfare dependency. The first was to re-invigorate the regional development approach based on local responses to local problems. This would build, as best as possible, on the opportunities for the region. However, the experience with regional development has shown that it is difficult to maintain viable businesses in many areas, even where there are large public subsidies. The second approach is to maintain and possibly enhance the current provisions around limited employment locations, with a particular focus on actively supporting people to find work in high employment regions.

The Welfare Working Group supports the existing Limited Employment Locations policy, which identifies a number of areas where there is little prospect of employment. Under the policy, if individuals on a work-tested benefit move to a specified area, they need to demonstrate they have access to reliable transport and are willing and able to commute to a nearby centre where suitable employment is available. Failure to do this means they are making themselves unavailable for work.

In combination with rules restricting movement into areas where there are few jobs, there should also be an increased emphasis on positive incentives (for example, meeting relocation costs) to encourage people to move from low employment to high employment regions. We are of the view that such incentives should be trialled and evaluated in some areas to assess their effectiveness. If these positive measures prove to be unsuccessful, then the policy on addressing unemployment in areas where there are few jobs should be revisited.

### ***Recommendation 14: Public and private sector employment support***

The Welfare Working Group recommends that:

- a) employment support and programmes be rigorously selected on the basis of improving employment outcomes and therefore reducing long-term cost (the forward liability), and expenditure be continually re-directed to programmes that are most effective in meeting this objective;
- b) funding be increased for active partnerships between employers and delivery agents (for example, through the Industry Partnerships and other effective private and non-for-profit sector models) and consideration be given to:
  - i. incentives to encourage employers to provide on-the-job training, such as through tiered training wages;
  - ii. short-term subsidies for long-term welfare recipients;
  - iii. facilitating employers to work with education providers to provide NZQA approved training programmes that combine classroom time with on-the-job training alongside experienced older employees; and
- c) these partnerships with employers also be used to create opportunities for disabled people to enter paid work.



#### **Recommendation 15: Areas where there are few jobs**

The Welfare Working Group recommends:

- a) that the existing Limited Employment Locations policy be maintained and implemented effectively so that people with job search obligations cannot move to specified areas if there is little prospect of finding paid work;
- b) that the provision of positive incentives (for example, meeting relocation costs) to encourage people to move from low employment to high employment regions should be trialled and evaluated in some areas to assess their effectiveness; and
- c) that if these positive measures prove to be unsuccessful, then the policy on addressing unemployment in areas where there are few jobs should be revisited.

#### **4.8 Sole parents and further training or study**

As proposed in Section 3.2 above, the Working Group proposes that sole parents whose youngest child is over three years of age should be looking for work. In line with growing trends for more mothers to be in paid work and having children at an older age, over time a higher proportion of sole parents needing the support of the welfare system will enter with work experience and educational qualifications. For this group, if their children are over three years of age, assistance to find a job and locate childcare should be the first and most common form of support provided by the work-focused welfare system.

A significant proportion of current sole parent beneficiaries, especially those who have been receiving a benefit for some time, do not have recent work experience or have low or no educational qualifications. A considerable proportion of these sole parents are likely to need additional training or job-related support to make a successful transition to work and become independent of the welfare system. The wider approach to training outside the tertiary system is described in Section 4.8 above. Teen sole parents are a special group for whom completion of education or early engagement in work-related training should be a high priority. The expectations for sole parents who are under 18 years of age were discussed in Section 3.2.

Where a beneficiary who is older than 18 years old wants to undertake study beyond NCEA Level 2, limited incentives exist for them to move from the welfare system to the student support system. The Training Incentive Allowance is now restricted to lower level courses and secondary school education.

Many people with a base level of skills and experience look to enhance their employment opportunities with further study. The student allowance system currently provides support for those wanting to undertake tertiary study. Currently, however, the student allowance system generally provides a lower level of accommodation assistance than the benefit system. For example, a sole parent on benefit can receive up to \$225 per week Accommodation Supplement in Auckland, but the equivalent accommodation assistance through the student system is a maximum of \$60 per week; the difference can be over \$8,000 per year. While a difference in accommodation support may be appropriate for students without children, it does create a significant disincentive for sole parents on a benefit to leave the benefit system if they wish to undertake tertiary study.

We propose that solutions be found to address the current disincentives, particularly those arising from differences in accommodation assistance, to enable sole parents to undertake further training through the student support system. Further gains could be achieved through fine tuning the nature and range of programmes used such as Training Opportunities Programme (TOPs) to provide more long-term training options for some recipients.

#### **Recommendation 16: Support to undertake tertiary study**

The Welfare Working Group recommends that the current disincentives arising through the difference in accommodation assistance between the student support and welfare systems for sole parents be addressed, to enable them to move out of the welfare system and undertake tertiary study through the student support system.

#### **4.9 Improving the availability and lowering the cost of childcare**

Despite considerable Government expenditure on childcare through Early Childhood Education (ECE) and targeted subsidies, surveys suggest childcare costs and availability may still be a barrier to employment for some sole parents, particularly those on low pay.<sup>80</sup> Improving the availability and affordability of out-of-school care, particularly during school holidays, is a high priority to enable more sole parents to work full time. In some communities, especially in rural areas, availability of care is the critical constraint. For other parents, having childcare services available for extended or outside normal working hours is a priority. We have also heard about the difficulties parents with disabled children face with the availability and affordability of childcare, especially the availability and cost of out-of-school services.

In our Options Paper we noted that some Māori, Pacific, migrant and refugee parents express a preference for culturally appropriate childcare services, with staff from the same ethnic background as the children attending. In addition, surveys suggest some of these families prefer home-based arrangements to centre-based care.<sup>81</sup>

The Government currently spends around \$1.5 billion on lowering the cost of childcare for families and Early Childhood Education. The vast majority of this support (\$1.3 billion) is Ministry of Education funding for ECE which includes subsidised childcare for children up to five years old, of which a major component is 20 Hours ECE. This provides 20 hours of fully subsidised early childhood education for children three years and over.<sup>82</sup> The 20 hours ECE represents approximately \$650 million or 50 per cent of this expenditure.<sup>83</sup> The subsidies funded through ECE are made to providers. All families, irrespective of income, have their childcare costs substantially lowered through the ECE programme. The remaining \$200 million of expenditure is on additional income-tested support through the Childcare subsidy and Out of School Care and Recreation (OSCAR) subsidy.<sup>84</sup> Even this expenditure is not heavily focused towards the lowest paid parents. A

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<sup>80</sup> The 2009 Childcare Survey identified a number of limitations of current childcare provisions – cost and accessibility of care for sole parents and low take-up of subsidies for out-of-school care. Statistics New Zealand. (2009), *2009 Childcare Survey – Commentary*; Statistics New Zealand. The ECE Taskforce has noted that ‘anecdotal information suggests that finding a [childcare] place is difficult for many parents, possibly more so for those in low socio-economic areas’, ECE Taskforce, (2010), *Capacity and Availability: Introductory Briefing*.

<sup>81</sup> Statistics New Zealand. (2009), *2009 Childcare Survey – Commentary*.

<sup>82</sup> The 20 Hours ECE policy aims to provide 20 hours fully subsidised childcare for all children 3 years or older. Some childcare providers do not offer 20 Hours ECE – as at September 2010, 80 per cent of eligible services were offering 20 Hours ECE. As is the case for schools, some providers may impose additional charges for some activities they provide.

<sup>83</sup> Ministry of Education/Ministry of Social Development. (2010), *Working paper on childcare for sole parents and beneficiaries*; paper prepared for the Working Group. Available on the Welfare Working Group website: <http://ips.ac.nz/WelfareWorkingGroup/Downloads>.

<sup>84</sup> In 2010/11 Childcare Assistance (Childcare and OSCAR subsidies, including OSCAR operating grants) is estimated to cost \$196 million. In 2009/10 expenditure of \$190million comprised \$147 million for the Childcare Subsidy, \$28 million for OSCAR subsidies to parents and a further \$17.5million on OSCAR grants to providers.

parent on the minimum wage of \$27,000 pa gets the same level of support through OSCAR or the Childcare Subsidy as someone earning \$66,000.<sup>85</sup>

The ECE Taskforce is currently undertaking a review of ECE spending. The Working Group's view is that in order to achieve a significant reduction in the cost of childcare for low income parents, a more targeted approach is needed to the allocation of ECE funding.

Over the last decade before the recent recession, the trend was increasingly for mothers, including sole parents, to work full-time hours. The structure of childcare subsidies needs to be responsive to these patterns. The current 20 Hours ECE provisions limit fully subsidised care to 20 hours per week, and provide additional subsidies which lower the cost of care for up to 30 hours per week beyond that. Many parents are working more than these hours, especially in two-parent families. Under 20 Hours ECE there is also a maximum of six hours of care a day.<sup>86</sup> We have proposed that sole parents (and other carers of children in the welfare system) be required to work at least 20 hours per week once their youngest child turns three years old. To meet this work obligation, these parents may need more than 20 hours of care per week, once travel time to work is factored in. We support reprioritising of ECE expenditure to enable the fully subsidised 20 Hours ECE to expand to more than 20 hours per week for those on low pay.

We also support any restructuring of ECE policy which would facilitate the provision of:

- more flexibility in childcare services in terms of hours and type of service, including greater use of home-based care arrangements such as sole parent co-ops, as long as these maintain adequate standards of care; and
- facilitating greater access to care that reflects the preferences of particular communities, especially Māori, Pacific and migrant families.

### **Out-of-school services**

OSCAR services are currently provided in only 20 per cent of primary and intermediate schools.<sup>87</sup> Parents' concerns about these services generally relate to cost and availability of school holiday programmes, as well as the process around accessing OSCAR subsidies. A 2010 survey found that a lack of access to affordable, quality out-of-school services meant many parents found themselves having to pay for an expensive or potential inadequate service, not taking on paid employment or having to change hours of employment, or having to rely on informal arrangements.<sup>88</sup> We support an increase in the OSCAR subsidy for parents who are on low incomes and those with at-risk children, to lower the cost of out-of-school care (including in school holidays) for these parents.<sup>89</sup>

The expansion of out-of-school services would enable more parents to work full-time and have hassle-free care for their children before and after school and in the school holidays. Increased availability and affordability of these services is critical to enable a full-time work expectation to be introduced for sole parents once the youngest child reaches school age. In addition, it may be

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<sup>85</sup> A family with two children earning \$1270 per week (\$66,000 per annum) gets the same level of Childcare Subsidy as someone earning \$27,000 per annum, based on a full-time (40 hour week) and a \$13 per hour minimum wage.

<sup>86</sup> Additional subsidies are provided to low income parents through the Childcare Subsidy.

<sup>87</sup> In 2009, half of the 739 OSCAR-funded programmes were based in schools. Ministry of Social Development, unpublished data provided to Welfare Working Group.

<sup>88</sup> Families Commission. (2007), *When School's Out, Conversations with parents, carers and children about out of school services*, Wellington.

<sup>89</sup> For those currently receiving OSCAR subsidy, the additional cost of raising the maximum subsidy from \$3.77 per hour to \$7.00 per hour is around \$7 million per annum for around 6,250 recipients. In 2009/2010 OSCAR subsidies were paid for around 9,000 children at an estimated cost of \$28 million. A change in work obligations for sole parents would significantly increase this cost.

necessary to require schools to open earlier to give parents more flexibility about when they can start work. We propose that the Ministry of Education urgently develop proposals to facilitate the expansion of out-of-school services on school property, including during the school holidays.

The evidence suggests that if quality out-of-school care offers a range of enrichment activities and experiences, this can be beneficial to children's health, social, behavioural and educational development.<sup>90</sup> After-school programmes enable children to get help and supervision with their homework. Focusing extra services within schools enables greater use to be made of existing school infrastructure and does not involve the risks of transporting children to out-of-school services provided off-site.

There is scope to put more emphasis on the educational enrichment offered by out-of-school programmes, such as providing under achieving children with extra help in numeracy and literacy skills. The Working Group has heard of the development of best practice after-school programmes which focus on maximising the educational outcomes of participants. A proposal for a pilot programme with the Ministry of Education is currently being developed based on best practice from the United States and uses interactive technology learning as a major part of the core programme. We support the adoption of these programmes in out-of-school services.

#### **Transitional support for childcare**

For some sole parents, particularly those on low pay or considering training, the cost of childcare can appear an insurmountable barrier to undertaking work or further study. A payment which significantly lowers the costs of childcare for a period of time would be justified to help overcome this barrier, especially for those with significant labour market disadvantage. After the extra payment ends, the parent would still be eligible for the Childcare and OSCAR subsidies, and lower cost of childcare through ECE subsidies. For sole parents at risk of long-term welfare dependency, we propose this transitional assistance would form part of an intensive support package aimed at addressing labour market and other disadvantages they face.<sup>91</sup> We also propose that time-limited transitional support be used to encourage some sole parents with a child under three years of age to 'opt in' to paid work, training or study as part of a 'return to paid work' planning process.

#### **4.10 Summary**

Most people in the welfare system will be able to find paid employment with minimal support. For others, the type and level of services and support they need will depend on the employment related barriers they may face. The level of support that should be available depends on what is shown to be effective, and for whom. Our preliminary estimate is that about 10 per cent of people are at high risk of long-term welfare dependency and should be provided with more intensive support.

An active work-focused welfare system recognises the importance and value of being in a job, and that people should take responsibility for finding and remaining in paid work. Consistent with this, people receiving welfare who undertake substantive tertiary study should be supported through the student support system.

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<sup>90</sup> Families Commission. (2007), *When School's Out, Conversations with parents, carers and children about out of school services*, Wellington.

<sup>91</sup> Based on around 800 people receiving the payment each year at a subsidy rate of \$7.50 per hour, preliminary estimates of the net cost of a programme of temporary support for these sole parents range from around \$3million to \$5million per annum. The 800 is an estimate of the number of people exiting benefit each year after 12 months continuous duration on benefit, and who would also meet the child age requirements.

Supports and assessment processes need to be responsive to Māori if they are to be effective. They also need to cater for other groups in the community, but especially for those who are disadvantaged or over represented in the welfare system, including Pacific people, migrants and refugees.

***Recommendation 17: More targeted approach to early childhood education (ECE) and childcare funding***

The Welfare Working Group recommends that:

- a) the current Taskforce on Early Childhood Education consider ways to improve the availability and affordability of childcare and early childhood education services for lower paid families and people on welfare, including reprioritising some of the existing ECE expenditure;
- b) the provision of ECE services support carers of children within the welfare system to enter paid work by ensuring the total hours of fully subsidised care reflect the hours people work (see Recommendation 5) and the time to travel to and from work. This would often exceed 20 hours; and
- c) consideration be given to encouraging development of childcare services that provide flexible hours and arrangements (including home-based services, sole parent co-ops and after-hours services) to make it easier for parents within the welfare system to enter paid work.

***Recommendation 18: Expansion of out-of-school childcare services***

The Welfare Working Group recommends that:

- a) the Ministry of Education urgently develop proposals to facilitate the expansion of out-of-school services on school property, including during school holidays;
- b) the Ministry of Education adopt out-of-school programmes which provide educational enrichment activities, including literacy and numeracy programmes for under achieving students, for example interactive computer-based programmes specifically designed to improve literacy and numeracy; and
- c) the OSCAR subsidy be increased for low income parents with children over six years of age, in order to reduce the cost of out-of-school care, including in school holidays.

***Recommendation 19: Transitional support for childcare***

The Welfare Working Group recommends that a time-limited transition to work payment aimed to cover the costs of childcare and other costs for the first six months of work, or two years of study or training that leads directly to employment, be provided to:

- a) sole parents with a child under three years who opt to engage in paid work or are in training or study as part of a plan preparing them for work; and
- b) sole parents with a child over three years who are assessed as being at high risk of long-term dependence. This payment might form part of a wider package of intensive support available to these sole parents to address significant labour market disadvantage.

## Chapter 5. Jobseeker Support

### 5.1 Introduction

We propose a single, work-focused structure of payments, called Jobseeker Support. This will replace the existing outdated and categorical structure of benefits – Unemployment Benefit, Domestic Purposes Benefit, Invalid’s Benefit, Sickness Benefit, Emergency Benefit and Widow’s Benefit. The proposal would maintain most of the existing eligibility rules and overall levels of financial support. However, the level of payments would more accurately reflect individual circumstances and payment levels would not be linked to work expectations.

Jobseeker Support is critical to the reforms outlined in this Report. A new Jobseeker Support payment will be the single payment in the welfare system and would align welfare assistance with the uniform expectation that everyone prepares for and then moves into work. In order to target support most effectively to reduce long-term economic and social costs, it is important that support is focused where it will be most effective, rather than be based on benefit category.

Jobseeker Support has a single payment structure. The additional cost components currently paid through main benefits to sole parents, carers and disabled or ill people would become types of supplementary assistance. Overall, as the new payment structure is implemented, the payment structure should send clear signals about the value of paid work, be simple, be neutral to family structure, encourage personal responsibility by supporting individuals to make reasonable changes to their circumstances, minimise fraud and abuse, and target additional supplementary assistance to people facing significant hardship.

### 5.2 Principles for work-focused financial assistance

A new structure of financial assistance needs to align with the other reforms proposed in this Report – focusing on work and supporting the personal responsibility of recipients to avoid long-term dependence, as discussed in Chapter 2. A work focus means emphasising a range of supports for people, including financial assistance, as they undertake work-focused activities and move into employment.<sup>92</sup> The Working Group has identified that reform of the structure of financial assistance should be guided by the following key directions. The payment system should:

- send clear signals about the value of paid work, and align with the work and participation expectations of all people receiving assistance;
- be simple, transparent and require as few transactions as possible;
- encourage personal responsibility by supporting individuals to make reasonable changes to their circumstances and be designed to be neutral to family structure;
- minimise fraud and abuse; and
- target additional assistance to people facing significant hardship.

The scale of problems with the current system and the Working Group’s Terms of Reference (that meant the main benefit rates were outside of scope) meant it has not been possible to fully align the structure of welfare payments with the principles above. However, the recommendations we present would see the development of a system closer to meeting these principles and make it

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<sup>92</sup> These are based on the discussion in Chapter 4 of Mirrlees *et al* (2010) *Tax by Design* <http://www.ifs.org.uk/mirrleesReview/design>, particularly pages 4 and 5.

clearer where further reform is needed. Consideration in the future needs to be given to further aligning the supplementary payments with the principles outlined above.

Trade-offs between principles are inevitable in the design of financial assistance. One important trade-off is between simplicity and targeting. A simple system is more transparent and easy to understand, but may not target assistance to those who need it most. We propose making payments simpler wherever possible and this has brought into sharp relief where different rates are poorly targeted. Therefore, further work is needed on the design of the payment structure, including:

- the interaction between the supplementary payments, abatement and assistance provided outside the welfare system (such as Working for Families Tax Credits, health subsidies and Income Related Rents);<sup>93</sup>
- how to transition to the new system of supplementary payments; and
- whether these supplementary payments would be suitable for recipients of New Zealand Superannuation, who are explicitly excluded from our Terms of Reference.

### 5.3 Overall design of the structure of financial support

The current benefit system evolved over many decades, becoming more complex over time. It divides people into different categories depending on a single personal characteristic (for example, sole parenthood, sickness and widowhood). It is these categories that currently determine the overall level and nature of payments, work expectations, and the employment support they receive.

We propose replacing the current benefit structure with a single common base payment (see Figure 5.1). Supplementary payments would more accurately reflect an individual's circumstances and costs. The following diagram illustrates the proposal for a new, work-focused system of financial support. It is important to emphasise that this would be supported by new work expectations and support outlined in Chapters 3 and 4. The proposed system of financial assistance would include:

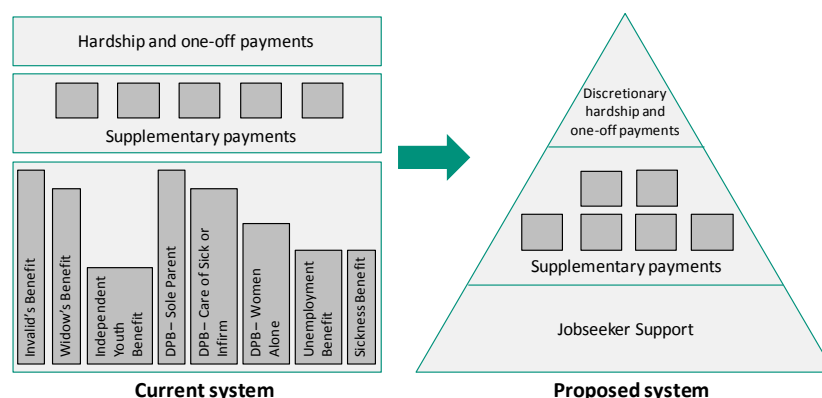
- a single Jobseeker Support payment for everyone requiring financial assistance. This new payment would replace the existing benefit categories (such as Domestic Purposes Benefit and Invalid's Benefit) and would be set at the level of the current Unemployment Benefit;
- a new set of supplementary payments made up of:
  - the cost components currently in existing benefit rates;
  - a new temporary housing payment and a new Regional Supplement;
  - a new Disability Payment; and
- reforming the provision of assistance for hardship and emergency one-off costs, with capped discretionary hardship funds administered by each region.

The name of the new payment, Jobseeker Support, signals expectations for everyone seeking financial assistance and the engagement in work-focused activities. It focuses on the purpose of the assistance rather than emphasising the reason why a person is currently not in work. It would also replace the outdated categories or terms used in the current benefit system, particularly the categories currently labelled invalid, woman alone, and widows benefits.

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<sup>93</sup> For example, the impact of a change in abatement on the Minimum Family Tax Credit would need to be considered, as the level of the Minimum Family Tax Credit is linked to benefit levels and abatement rates.

**Figure 5.1: A new system of financial assistance**



## 5.4 Jobseeker Support

We propose that ordinary living costs would be provided to all recipients through a new Jobseeker Support payment. All working aged people seeking financial assistance would apply for Jobseeker Support, replacing the current main benefit categories (such as Unemployment Benefit and Domestic Purposes Benefit). Jobseeker Support would be complemented by supplementary payments for people with high specific ongoing costs such as disability and high living costs.

We propose that the core rates of the Jobseeker Support payment be based on current Unemployment Benefit rates, which are lower than the rates of other benefits (and therefore can act as a base payment). Additional cost components currently paid through main benefits would be paid as supplementary payments to maintain their value, as required by our Terms of Reference.

Table 5.1 below shows how the additional cost components in existing benefit payments could be shifted into a proposed system of supplementary payments. Paying the value of these additional cost components as supplementary payments makes it transparent what these payments are for. It also makes them available to recipients without having to put those people into a benefit category (with differing work expectations).

**Table 5.1: What will happen to the additional cost components in main benefits**

Current components of main benefits	How the component would be delivered in the proposed system
Ordinary living costs of main benefits such as Unemployment Benefit, Sickness Benefit, Domestic Purposes Benefit, Invalid's Benefit	Jobseeker Support paid at the rates of the Unemployment Benefit
Additional value of Invalid's Benefit	Supplement paid at the difference between the relevant Invalid's Benefit rate and the Unemployment Benefit
Additional value of Domestic Purposes Benefit – Care of Sick or Infirm	Supplement paid at the difference between the relevant Domestic Purposes Benefit – Caring for the Sick and Infirm rate and the Unemployment Benefit
Additional value paid to sole parents across main benefits	Supplement paid at the difference between the relevant sole parent rate (for example, Domestic Purposes Benefit–Sole Parent) and the Unemployment Benefit rate
Additional value of Widow's Benefit and Domestic Purposes Benefit – Women Alone	Supplement paid to existing recipients at the difference between the Widow's Benefit, Domestic Purposes Benefit – Women Alone and the Unemployment Benefit rate



Some differentiation of payment levels would need to remain in the Jobseeker Support payment to retain current benefit levels based on:

- age (multiple categories);
- whether the person is single or partnered; and
- whether the person, if they are 16 to 19 years old, is living with their parents.

We propose that eligibility would continue to be based largely on existing rules, including residence and single individual's income or the combined income of a couple (if they are partnered). Jobseeker Support would also continue to be available to people who qualify for welfare due to hardship or emergency.

We propose that 16 and 17 year olds would be required to live with a responsible adult or in an adult supervised environment. We also propose that payment should be made to a responsible adult for 16 and 17 year olds as the default. Sole parents who are 16 and 17 years old would be required to participate in budgeting and parenting programmes and initially have their payment managed as part of this process.

## **5.5 Supplementary payments**

Individuals face some unavoidable higher costs due to their different circumstances. Our view is that financial assistance for these costs should be provided through supplementary payments, not the Jobseeker Support payment. This allows recipients' work expectations to be set without impacting their level of financial assistance.

The Working Group's view is that supplementary payments for disability costs and variable regional living costs could be improved by moves towards a new Disability Payment and a Regional Supplement which would acknowledge the higher costs of disability and of living in some areas.

This section also outlines the supplements that would be established by taking out the value of additional cost components currently in the Domestic Purposes Benefit, Widow's Benefit and Invalid's Benefit. In the case of the Invalid's Benefit component, it could be incorporated and restructured into our proposed Disability Payment.

### ***A new Regional Supplement***

The Working Group considers that there is value in a move towards a new Regional Supplement to reflect the variable living costs across regions in New Zealand to replace the Accommodation Supplement. A new Regional Supplement could:

- be set at a flat rate within each region (rather than being tied to an individual's current housing costs);
- explicitly make it more affordable to live in areas where there are more job opportunities (which usually have higher living costs) by setting higher rates of payment for these areas;
- enable recipients to make choices about how to spend their money, including how much to spend on housing;
- reduce the incentives for landlords to increase the rents of beneficiaries because they know rent increases are partially offset by the Accommodation Supplement;
- be simpler to administer because there would be no need to take account of other adults that welfare recipients live with when determining an individual's rate of payment; and

- replace Accommodation Supplement and Temporary Additional Support.<sup>94</sup>

There may be a risk that a change in the way that assistance for housing is targeted could lead to people living in sub-standard housing as they attempt to economise on housing costs. There may be situations where affordable housing is not available for some families living in particular areas, such as sole parents with many children living in Auckland. It is critical that Housing New Zealand targets state housing and Income Related Rents to people with exceptional housing needs. In 2010, the Housing Stakeholders Advisory Group provided advice on the social housing sector in New Zealand. The Government has recently agreed to adopt many of the Group's submissions, which would see the current delivery model for social housing transformed to better help those most in need. It is important that the final design of the social housing sector considers the interface with the welfare system.

In order to ameliorate this risk there would also need to be an additional, temporary component of the Regional Supplement that would help people with high housing costs while they adjust to their new circumstances after losing their job or following the break-up of a relationship. This component would be related to the person's actual housing costs, which would only be available for a specific period, such as 26 weeks. After this transitional period, the person would continue to be supported with the basic Regional Supplement.

### ***A new Disability Payment***

Currently, the benefit system provides financial assistance for ongoing disability costs through the additional cost component of Invalid's Benefit and the existing Disability Allowance. We propose that reform of payments to support people with the costs of disability should examine whether these payments can be combined to form a new Disability Payment, which could be provided in different ways to two groups of people:

- a cost-based Disability Payment for people with part-time work expectations; and
- a higher, flat-rate Disability Payment for people with a permanent exemption from work expectations.

A Disability Payment for people with partial work capacity would provide assistance that is related to their disability costs. A cost-based Disability Payment would reflect the wide range of actual costs disabled people have. This is in contrast to the existing additional cost component paid through Invalid's Benefit, which is only paid to people who demonstrate that they have limited ability to work. This proposal would shift resources towards supporting people with ability to work into paid employment.

For sick people and disabled people with a permanent exemption from work expectations a higher flat-rate Disability Payment could be provided. If a person cannot be in paid work for long periods, it is likely that their long-term costs will be higher. The cost of replacing a fridge, for example, would not count as a disability cost that could be paid through the current Disability Allowance. It is therefore appropriate that people with little or no work capacity are provided with greater assistance to reflect these less direct, long-term costs.

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<sup>94</sup> Nearly all (98 per cent) of people receiving Temporary Additional Support receive it to cover housing costs not covered by Accommodation Supplement.

There are about 20,000 people in New Zealand with high support needs who are not in employment. This could be used as an estimate for the number of recipients who would be exempted from work expectations. This group would have an increase in financial assistance under the proposed system.

For example, Jim might be receiving \$242.63 through the Invalid's Benefit and \$30 through Disability Allowance to cover his ongoing costs of disability. His Disability Allowance payment is below the current maximum of \$58.13. If, under our proposed system, Jim was assessed as having no work capacity, he would receive \$194.12 through Jobseeker Support payment and \$106.64 through the new Disability Payment (higher rate for people with no work capacity), leaving him with \$28.13 more direct financial assistance. He would also receive additional support from the new delivery agency to participate in the community.

The new system will lead to better assessment of work capacity and more support to enable disabled people to work. People currently receiving Invalid's Benefit who are found to have some work capacity would qualify for the cost-based Disability Payment. This would consist of about 65,000 of the 85,000 people who were on Invalid's Benefit in June 2010, assuming the remaining 20,000 would be exempt from work expectations. Most of these 65,000 people may receive less direct financial assistance under the proposed system, but receive more targeted active support focused on transitioning them into paid work.

For example, Judy might have higher disability costs and receive \$242.63 through the current Invalid's Benefit plus the maximum Disability Allowance of \$58.13. Under the proposed system, if she was assessed as having partial work ability, she could receive more through the new Disability Payment, say \$180.00 to meet her disability costs, but her Jobseeker Support payment of \$194.12 would be less than the \$242.63 available through Invalid's Benefit. Judy would receive better support into paid work (as outlined in Chapter 4) and additional financial incentives (outlined in Section 5.7) but she would receive \$26.64 less direct financial assistance while she is being supported into work.

Further consideration needs to be given to whether this group should have their financial assistance continued for a period to allow them to adjust to their new rate of financial assistance as the welfare delivery agency works with them to obtain paid work. Alternatively, existing recipients could have their payments continued indefinitely.

### *Other directions for reform of supplementary payments*

In Section 5.3, we proposed that additional cost components of main benefits are shifted out of main benefits to create a common work-focused Jobseeker Support. Complexity in the system would remain under our proposal because the additional cost components would be paid as supplementary payments to retain current benefit levels. Further simplification of supplementary payments would be possible in the future to move the welfare system further towards implementing the principles outlined in Section 5.2. We outline here some potential directions for future reform of supplementary payments.

A new payment for caring for a disabled person could be introduced. This supplementary payment would involve merging the additional cost component of Domestic Purposes Benefit – Care of Sick or Infirm, the additional cost component of Invalid's Benefit paid to partners of a disabled person, and the Child Disability Allowance paid to carers of children with serious disability.

Consideration could be given to reducing the partnering penalty inherent in the sole parent supplementary payment. An additional payment for sole parents preserves a financial disincentive for sole parents to find a long-term partner and a financial incentive for parents to split up. This is an aspect of the 'partnering penalty' discussed in our Options Paper. This issue is beyond our

Terms of Reference. We therefore propose that the Government should consider ways to mitigate these partnering penalties in the future.

A new transitional payment should be developed for people who in the future meet the current criteria for Widow's Benefit or Domestic Purposes Benefit – Women Alone. This could provide people who have lost a partner with assistance. Consideration could be given to making the payment gender neutral. The additional cost component of Widow's Benefit and Domestic Purposes Benefit – Women Alone would continue to be paid fortnightly for current recipients.

## 5.6 A new approach to address hardship

The new welfare system is designed to reduce the number of people relying on welfare, particularly long-term dependence. Nevertheless, there would continue to be some people who temporarily need more financial assistance than the basic and supplementary payments. There would also continue to be some need for one-off emergency costs.

The Working Group's view is that a new approach is needed to provide assistance to people in hardship. The current system has created dependence on hardship assistance and discourages saving by providing assistance that operates like an ongoing entitlement. The current system of one-off payments and Temporary Additional Support does not effectively support people to live within their income. In particular, Temporary Additional Support, while being temporary by design and aiming to support people while they economise, has in many cases become a long-term form of support. In addition, Temporary Additional Support provides poor work incentives to recipients because each dollar of earnings from work reduces the Temporary Additional Support by one dollar.

We propose that a new discretionary fund be established to provide assistance to people who face a one-off emergency. This capped fund should be allocated to the regions to distribute with discretion to people who need assistance. It is worth considering giving this fund to not-for-profit organisations to administer, where appropriate. The principle of this fund would be to temporarily assist with pressing hardship costs, without creating dependency.

A discretionary system would acknowledge that regions and service co-ordinators are best suited to delivering discretionary hardship assistance. The service co-ordinators working with recipients are well-placed to know what the recipients' needs are and can work with recipients to prioritise these needs as part of their work-focused action plan. Decisions made at the regional level can also accommodate the different needs faced across New Zealand.

The Working Group is aware of the risks around a discretionary system of financial assistance. International experience is that discretionary systems tend to become rule-governed systems over time when administered by Government departments. A discretionary system would need to set clear objectives for assistance and be delivered by an organisation that devolves responsibility for decisions to well-trained service co-ordinators.

Further work would be required to develop guidelines by which this discretionary funding could be used at the regional and service co-ordinator level, based on best practice. Clear guidelines would reduce the risk of inappropriate inconsistencies across regions and between recipients.

In addition to this discretionary fund for general emergency costs, a separate capped fund administered in the same way, should be established to meet emergency health and disability costs faced by recipients and other low income people.

## 5.7 A single abatement regime for Jobseeker Support <sup>95</sup>

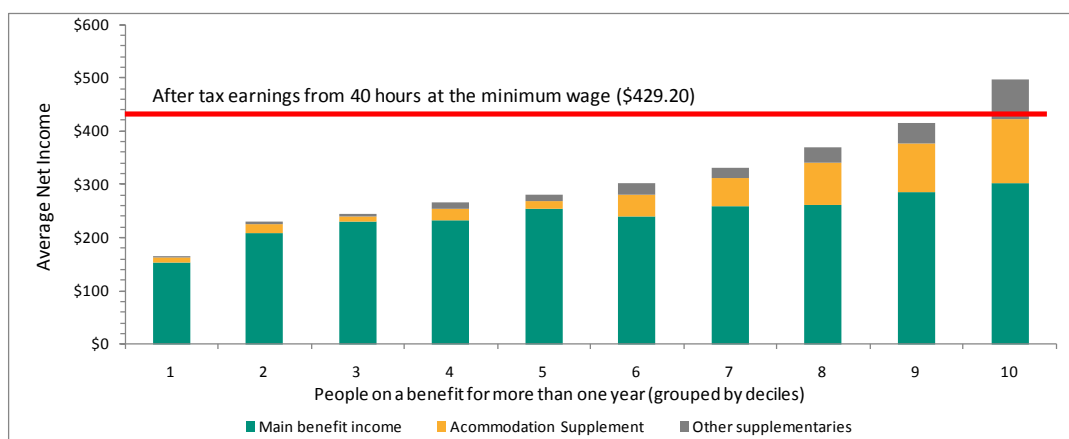
In line with removing the benefit categories and implementing a work focus for all recipients, we recommend simplifying the abatement regime.

We propose that for most working age welfare recipients that there be a single abatement regime (with a small area where earnings do not affect payment levels). We also propose that there would be value in increasing the incentives for people to accept jobs that would move them off welfare, rather than accept jobs of less than one or two days per week and remain on welfare (which tend to be more casual and associated with less training). A single abatement regime would also highlight the financial incentives of moving into paid work and would be consistent across beneficiaries.

Under current benefit levels, the majority of people would receive more income off benefit in work of 40 hours per week than on welfare, even at the minimum wage, as shown in Figure 5.2. Our proposals for improving the financial incentives for full time work are therefore particularly focused on people with part-time work expectations. Full-time work incentives for people currently incentivised to work part-time would be improved by:

- a small ‘abatement-free zone’, such as \$20 per week, where earned income does not reduce benefit payment. This allows people to do odd jobs such as mowing a neighbour’s lawn without affecting their financial assistance;
- a steeper abatement rate for subsequent income, such as 55 cents in the dollar; and
- a greater incentive for people to accept paid work of 20 hours or more, rather than less than a day or two per week, by increasing the additional amount (through in-work incentives) that they receive in jobs of more than 20 hours per week.

**Figure 5.2: Net weekly income from benefits compared to net income from 40 hours work at the minimum wage, March 2010**



*Note: This data is based on an analysis of all people on the four major benefits as at June 2010. This analysis of replacement ratios estimates the additional return from working at the minimum wage, given the abatement of benefits, tax credits and income tax. The estimates do not include Special Needs grants, Child Support payments, or work related costs for transport or childcare. This data is based on all people on a main benefit for more than a year, divided into deciles based on net benefit income.*

*Source: Ministry of Social Development and IRD website. The estimated income includes a deduction for earners’ ACC levy, and the benefit income excludes income-related rents administered by Housing New Zealand.*

<sup>95</sup> In this Section we consider abatement of Jobseeker Support. During the implementation phase it would be important to consider how the abatement of Jobseeker Support interacts with abatement of supplementary payments and hardship assistance.

This proposed abatement regime combined with in-work incentives would create significant incentives for people to work a greater number of hours and move off welfare. This contrasts with the incentives of the current part-time abatement regime, which incentivises people to remain on welfare and work only a few hours.<sup>96</sup> Around 12 per cent of benefit recipients are currently working part-time and those that would be unable to find more hours, would financially be worse off until they worked more hours. If the Government was concerned about the impact of abatement changes on existing recipients who are currently working a small number of hours, then it could consider additional financial support to them during the transition. (See Chapter 8 for a further discussion of grandparenting of payments).

Forty-four thousand beneficiaries (12 per cent of all beneficiaries) declared earned income at the end of June 2010. Of these around 30 per cent were on the full-time abatement regime and the remaining 70 per cent were on a part-time abatement regime. The proposed single abatement regime is designed to incentivise recipients to work more hours and therefore leave welfare, rather than almost permanently combine small amounts of paid work and welfare. These incentives would be supported with strengthened work expectations and improved services.

We consider that this abatement regime should be applied to all people receiving a Jobseeker Support payment although a larger abatement-free zone (for example, \$150 per week) is appropriate for permanently and severely disabled people with no work expectations.

#### *Additional support for people with part-time work ability*

The new welfare system should place particular focus on supporting people with part-time work expectations into regularly working a significant number of hours. Moving a person who earns a regular, substantial income out of the benefit system and into the tax system reinforces the expectation that the benefit system is a temporary means of support during periods of financial difficulty.

Tax credits and wage subsidies should be targeted to those who would most benefit from them. The key message should be that full-time work is the most preferred outcome for everyone and that part-time work is only appropriate for those with partial ability to work. It is also important to maintain the discretionary nature of these generous interventions to avoid creating an incentive for people to seek financial assistance in order to qualify for them. Decisions of when to provide tax credits and wage subsidies should be made with reference to the recipient's risk of long-term dependency and the sustainability of paid work for the individual.

In-work support for sole parents to move into paid work of at least 20 hours is already provided through Working for Families Tax Credits. The in-work components of these tax credits are only available when the sole parent is not receiving a benefit. This incentive could be strengthened by a requirement that the sole parent must move off Jobseeker Support and take up the in-work support once they are in ongoing paid work of at least 20 hours.

The Working Group's view is that there is merit in providing in-work incentives to a wider group of recipients with part-time expectations, particularly disabled recipients. This could involve:

- for those with part-time expectations and working 20 hours, their remaining payment after abatement on account of income, be made by way of a jobseeker incentive. This would

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<sup>96</sup> Currently, beneficiaries on part-time abatement can earn up to \$100 without any effect on their benefit payment and each dollar of income between \$100 and \$200 reduces their benefit by 30 cents, whereas each dollar of income above \$200 reduces their benefit by 70 cents.

incentivise all recipients with significant partial work ability to undertake a significant amount of paid work rather than working a small number of hours and remaining on welfare; and

- making more extensive use of wage subsidies to employers so that they take on people with partial work ability to work a significant number of hours.

Planned improvements in Inland Revenue's ability to estimate income on a real-time rather than annual basis are an important element of smoothing the transition between the benefit and tax systems, and in our view should be given a high priority.

## 5.8 Complaints procedures

Currently, beneficiaries can seek a formal review of decisions within three months of the original decision. A review is first undertaken internally by Work and Income. If the beneficiary does not agree with the outcome of the internal review, their complaint would be referred to the Benefits Review Committee. The Committee is made up of three people who have had no involvement with the original decision. One will be a person from the community (appointed by the Minister for Social Development and Employment). The other two are usually experienced staff from the Ministry of Social Development.

The beneficiary can appeal the Committee's decision to the Social Security Appeal Authority. The Authority is an independent judicial tribunal made up of people who do not work for the Ministry of Social Development. There is a separate review process for decisions made on medical grounds relating to the Invalid's Benefit, Child Disability Allowance or Sickness Benefit. The Medical Appeals Board reviews decisions made about the medical reasons for declining or cancelling a benefit. The Board is made up of three experts such as doctors, rehabilitation professionals or vocation experts. The decision of the Medical Appeals Board is final.

As the new system is developed it will be critical to maintain and further develop internal and external dispute resolution systems.

## 5.9 Reducing fraud and abuse of welfare payments

Maintaining the integrity of the welfare payment system is an important objective. It is important that payments, obligations and support are only received by those eligible for assistance. Having a welfare system with high levels of integrity is important to ensure that those in genuine need are helped, and that taxpayer confidence in the welfare system is maintained.

Welfare abuse occurs when a beneficiary does not make reasonable efforts to meet their obligations. Fraud occurs where a person deliberately misrepresents their circumstances or fails in their obligations in order to get money to which they are not entitled.

An accurate assessment of existing levels of fraud and abuse is difficult to estimate. Official data on prosecutions show that in 2009/10 the Ministry of Social Development prosecuted 789 cases of fraud with a value of \$15.9 million (one-tenth of one per cent of all payments). It also discovered 35,411 overpayments resulting from abuse (four-tenths of one percent of all payments). Domestic Purposes Benefit and relationship issues accounted for a significant proportion of the value of all fraud and abuse. We heard many anecdotal examples of the extent of fraud and abuse in the current benefit system. Both beneficiaries and non-beneficiaries have stated concerns about fraud.

There are a number of drivers of fraud and abuse. These include the broader public acceptability of abuse and fraud, the perceived fairness and reasonableness of the welfare system, the complexity of the welfare system and the effect of compliance costs on beneficiaries, the extent to which information provided by beneficiaries is verified, and the processes for investigating and penalising fraud and abuse.

More could be done to minimise fraud and abuse and the following specific initiatives have merit and should be explored. These include:

- a publicity campaign aimed at reducing the public tolerance of fraud and abuse and also raising awareness of the existing reporting channels (0800 556 006);
- exploring low cost electronic methods of verifying relevant information from beneficiaries through data matching and voluntary disclosure of bank statements;
- timely reviews or reassessments of entitlements to reduce the temptation for people to abuse the system by providing false information or not informing the delivery agency of changes in circumstances that effect entitlements;
- making supplementary payments simpler and less vulnerable to fraud and abuse (for example, our Regional Supplement proposal);
- clarifying rules about partnership status; and
- a review of penalties for abuse and fraud.

In the existing benefit system there are a number of differences in rates (for example for sole parents and young people living at or away from home) that attempt to reflect difference in living costs. These differences in rates inevitably create issues around defining who is eligible for each rate, and also create some incentives for people to misrepresent their circumstances. Further simplification of the Jobseeker Support rate structure would also help to minimise fraud and abuse.

## 5.10 Summary

The way the current benefit system is structured in terms of discrete benefit categories creates barriers to addressing long-term welfare dependency. The different expectations which are attached to each category do not reflect current social and labour market trends. We therefore recommend replacing the categorical benefits with a single payment, called Jobseeker Support, set at the single, couple and young person rates for the Unemployment Benefit.

The Welfare Working Group notes that the current payment rates structure is itself problematic. We consider that further reform is needed of the additional amounts that are currently paid in the main benefits, however, consideration of benefit rates is outside our Terms of Reference. We recommend re-structuring the rates so that additional cost components that reflect circumstances currently in the main benefit (for example, for sole parents, people caring for the sick and infirm, widow's, women alone and for people on the Invalid's Benefit) be made supplementary payments. This will not change the amount recipients receive, but it will improve transparency and could be adapted in the future to more appropriately reflect additional costs and promote movement into paid work.

In accordance with our Terms of Reference we have reviewed the current supplementary payments – the second and third tier payments. We recommend that, along with the additional cost components that are being brought into the second tier, the current supplementary payments:

- be simplified;
- be more focused on paid work;
- have reduced incentives for couples to separate or increase costs of accommodation to gain higher payment; and
- be more focused on addressing underlying hardship.



We recommend a new unified payment for people needing help with disability costs be developed. We also recommend that consideration be given to replacing the accommodation supplement with a regional supplement, and to replacing the existing range of hardship support (the third tier) with capped discretionary funds targeted at those who have taken all reasonable steps to manage their costs. For third tier payments, we note that the current rule-bound process is bureaucratic and results in payments that are seen as part of an on-going entitlement, rather than an emergency payment to deal with unforeseeable additional costs. This has the unintended consequence of reinforcing benefit dependency.

### **Recommendation 20: Jobseeker Support**

The Welfare Working Group recommends:

- a) replacing the existing categorical main benefits, the first tier (Unemployment Benefit, Sickness Benefit, Invalid's Benefit, Domestic Purposes Benefit, Widow's Benefit, Independent Youth Benefit and associated emergency benefits) with a single Jobseeker Support payment;
- b) that there be a presumption, until determined otherwise, that people receiving Jobseeker Support are required to be actively seeking and available for paid employment, with more tailored expectations where people have significant vocational or non-vocational barriers;
- c) that Jobseeker Support:
  - i. be paid at the current rates of the Unemployment Benefit for single people, couples and people between the ages of 18 and 25. The additional cost components of the current Invalid's Benefit, Domestic Purposes Benefit, Widow's Benefit and sole parent rates should be converted into supplementary payments (referred to in Recommendation 21 below). These changes will restructure current rates, but in a manner which retains their total value;
  - ii. not be available to 16 and 17 year olds. Those 16 and 17 year olds currently eligible for a benefit should instead be supported through assistance paid to their parents or a responsible adult unless they are a sole parent who has demonstrated that they can manage their finances and support their children (in accordance with Recommendation 8);
- d) that the way Jobseeker Support is reduced as more income is earned (abatement) be better aligned with paid work expectations. Consideration should be given to:
  - i. there being as small as possible abatement-free zone (for example \$20) for those with paid work expectations;
  - ii. there being a single abatement rate which cuts out at approximately 30 hours paid work at the minimum wage for a single recipient (for example, a rate of 55 cents in the dollar);
  - iii. jobseeker incentives (such as tax credits or other in-work financial support) to work 20 hours or more per week, for people with temporary exemptions from work expectations or who have part-time work expectations, such as some sick people or disabled people and sole parents with children under six years;
  - iv. how the proposals will interact with Working for Families, and ensure that the incentives for people to work 20 hours or more per week are increased; and
  - v. there being a larger abatement-free zone (for example \$150 per week) for those with permanent and severe disabilities to have no work expectations.

### ***Recommendation 21: Supplements***

The Welfare Working Group recommends:

- a) that the value of additional cost components in current base benefit rates which reflect particular costs associated with disability, sole parenthood, caring, widowhood and being a women alone, be made into second tier supplements as a transitional measure until further policy work is done to simplify rates;
- b) that the welfare system move towards having a second tier Disability Payment that combines the current Disability Allowance with the existing additional cost component within the current Invalid's Benefit rate, comprising:
  - i. a cost-based Disability Payment for people with part-time work expectations, who have disability related costs; and
  - ii. a higher, flat-rate Disability Payment for people with a permanent exemption from work expectations, who have disability related costs;
- c) that a payment for Carers of the Disabled replace the existing additional cost components of Domestic Purposes Benefit – Care of Sick and Infirm, and the Child Disability Allowance;
- d) consideration be given to replacing the existing accommodation supplement for working age welfare recipients, with a regional supplement which:
  - i. has a higher rate related to accommodation costs for first the six months a person receives Jobseeker Support; and
  - ii. is then paid at a flat rate that is higher in areas where there are more jobs and housing costs are higher; and
- e) consideration is given to replacing the existing third tier payments (including Temporary Additional Support, Special Need Grants and other one-off emergency loans and payments) with a regional capped discretionary fund.

### ***Recommendation 22: Social housing***

The Welfare Working Group recommends that the final design of changes to the social housing sector arising from the 2010 Housing Stakeholders Advisory Group report (which would see the current delivery model for social housing transformed so that it is better able to help those most in need) considers the interface with housing assistance provided through the welfare system.

### ***Recommendation 23: Implementing Jobseeker Support***

The Welfare Working Group recommends that the detailed design of the new system needs to consider:

- a) how existing welfare recipients are transitioned into the new system; and
- b) simplifying the supplementary payments so they are more transparent and provide for clearer work incentives.

### ***Recommendation 24: Reducing fraud and abuse***

The Welfare Working Group recommends that specific consideration be given to ways to ensure the integrity of the welfare system, and to reduce fraud and abuse, including:

- a) a publicity campaign aimed at reducing public tolerance of fraud and abuse, including promoting awareness of the existing Benefit Fraud Hotline;
- b) exploring further electronic methods of verifying information;
- c) regular reassessments to reduce fraud;
- d) clarifying rules about partnership status; and
- e) a review of current penalties for fraud and abuse, which date back to 1993.

# Chapter 6. Support for sick people and disabled people with long-term needs

## 6.1 Introduction

While emphasising the importance of paid work, we recognise that obligations about activities leading to paid work are not reasonable for a small group of people living with significant health or disability issues. We have heard from disabled people that they want to lead an ordinary life and make a contribution to society. People with health problems have similarly expressed the importance of paid work and community participation. Many sick people and many disabled people have a strong desire to participate in paid work.<sup>97</sup> Both groups tell us that they often feel excluded or isolated from decisions that directly affect them. They and their families want to be able to contribute to decisions that will affect their lives, rather than being seen as recipients of services.

More needs to be done to support people with long-term support needs to participate in paid work or in their community. There is strong evidence that paid work is associated with better physical and psychological health and that the longer people are out of paid work the harder it is for them to return to paid work. Dame Carol Black's review highlights that there is compelling evidence that work has an inherently beneficial impact on an individual's state of health.<sup>98</sup>

Currently a range of disability supports are provided through the benefit system. The current way that people living with permanent and severe disabilities apply for support is through a rules-based approach, centred on a set of entitlements. There is little focus on providing the support services needed for disabled people to participate in paid work and the community. The rules-based approach is not flexible to the needs of the permanently and severely disabled person and is disempowering.

Two major components of disability support are the appropriation for Vocational Services for People with Disabilities (\$86.14 million in 2009/10)<sup>99</sup> and the Disability Allowance (around \$313 million per annum in 2009/10, 40 per cent of which goes to New Zealand Superannuation recipients). The major programmes in the Vocational Services for People with Disabilities appropriation are Community Participation (\$42.1 million), Supported Employment (\$11.25 million), Employment Placement (\$9.28 million), Support Funds (\$8.93 million) and Very High Needs (\$8.31 million). Major expenditure items in the Disability Allowance include: gardening (19 per cent of total), medical alarms (16 per cent of total), medical fees (16 per cent of total) and alternative medical treatments (6 per cent of total).

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<sup>97</sup> In the Options Paper we discussed how it is important to not assume that people with sickness and disability are in similar circumstances or face similar issues. Indeed, people with temporary illness, people with complex health or disability issues, people with permanent partial work capacity and people who have high long-term support needs face different circumstances and issues.

<sup>98</sup> Black, C (2008), *Working for a Healthier Tomorrow*; Review of the Health of Britain's working age population.

<sup>99</sup> To be eligible for these services, a person must have a disability that is likely to continue for a minimum of six months and result in a reduction of independent function or social well-being to the extent that support is required. The level and type of support required depends on the nature of the person's impairment, skills and abilities.

## 6.2 Principles for reform of the supports for sick people and disabled people with long-term needs

A number of submissions from disabled people and organisations underlined the importance of taking into account the New Zealand Disability Strategy and the United Nations Convention on the Rights of People with Disabilities. The New Zealand Disability Strategy recognises that disabled people aspire to an ordinary life where they can participate fully in the community alongside other New Zealanders, but that this will not be achieved until the barriers to participation are addressed.

Objective 4 of the New Zealand Disability Strategy is to 'provide opportunities in employment and economic development for disabled people'. In the Strategy this includes planning and training for entering employment, educating employers about the abilities of disabled people, ensuring a smooth transition from school to work for disabled people, and – in the context of flexible income support – making access to work and training easier. Objective 13 of the Strategy is to 'enable disabled children and youth to lead full and active lives'.

When the Disabled Person's Assembly (New Zealand) Incorporated calls for disabled people to participate in New Zealand society, it is talking about adequate provision of opportunities to live an ordinary life.

*"...Over the years disabled people have repeatedly told politicians and bureaucrats that we can work. That is so, but for employment to be successful there needs to be a good fit between workplace needs, skills and accommodations."*

*Submission on the Options Paper from Disabled People's Assembly (New Zealand) Incorporated*

The preamble to the United Nations Convention on the Rights of Persons with Disabilities states that "disability results from the interaction between persons with impairments and attitudinal and environmental barriers that hinder their full and effective participation in society on an equal basis with others". The general principles of the Convention, which was ratified by the New Zealand Government on 26 September 2008, refer to the independence of people, non-discrimination, full and effective participation and inclusion in society. Article 27 of the Convention recognises "the right of persons with disabilities to work, on an equal basis with others", including access to employment-related services and reasonable accommodation being provided in the workplace.

Both the New Zealand Disability Strategy and the United Nations Convention emphasise that disabled people are part of society, and have the same expectations, aspirations and responsibilities as everyone else. The challenge is to address the barriers to participation that disabled people face.

The Government has established a Ministerial Committee on Disability Issues to provide visible leadership and accountability for implementing the New Zealand Disability Strategy and the United Nations Convention on the Rights of Persons with Disabilities, and set a clear direction for disability issues. The Ministerial Committee on Disability Issues has a vision of:

*A fully inclusive New Zealand where people with impairments can say: "We live in a society that highly values our lives and continually enhances our full participation."*

Underpinned by the New Zealand Disability Strategy and the United Nations Convention on the Rights of Persons with Disabilities, the Ministerial Committee on Disability Issues has commissioned a range of work on:

- *modern disability supports* – simple and easy entry, choice and early support, resilient families and community development;
- *accessible New Zealand* – accepting communities, accessible Government and accessible cities; and

- *contributing citizens* – achieving at school and work, looking after self and whānau, equal access to justice – ‘Nothing about us, without us’.

Cabinet has approved a new model of Ministry of Health disability support services, based on the following key principles:<sup>100</sup>

- *a stronger focus on information and personal assistance*. Local area co-ordinators will walk alongside disabled people. The co-ordinators will help them and their family or whānau work out ‘a good life for me’, build up support that helps the person to live that good life, and become the primary source of information and advice;
- *allocation of funding, not services*. The funding a person is allocated will reflect individual circumstances with clearly defined rules about what the funding can and cannot be used for. There will be greater use of self-assessment, and less use of assessments by professionals;
- *more choice and control for people over the support that is purchased*. Individualised funding available to most people and for most support will make contracted support and services more flexible; and
- *stronger accountability*. Broader accountability arrangements between the Ministry, providers and disabled people, with a stronger focus on contractual and regulatory quality monitoring of whether people are living a good everyday life.

The Working Group considers that reforms to services provided to the group of working age people for whom expectations of paid work is not reasonable should be based on these principles of Ministry of Health disability support services. In addition, reforms to the support and services for this group of people should co-ordinate with approaches in other portfolios, particularly the work being undertaken by the Ministry of Health on disability support services.

As for other areas of change, reform to support for disabled people and people with ill-health is complex and requires all people (including sick or disabled people themselves, employers, health professionals, family/whānau) to re-think what is possible. Therefore, the model outlined here should be further developed, in partnership with disabled people and employer organisations, including the Employers Disability Network.

### 6.3 Better delivery of financial support

There are many permanently and severely disabled people, and other people with permanent and severe ill-health, who want to access financial support, but want a light touch approach without being managed so that they can get on with their lives like other people.

In Chapter 5 we propose that the Disability Payment for disabled people due to significant health issues who have a permanent exemption from work expectations should be provided with a higher, flat rate of financial assistance. The Disability Payment for this group would consist of the additional component currently paid through Invalid’s Benefit plus the maximum rate of the existing Disability Allowance. This rate reflects the long-term support needs of this group, including the ongoing living costs and ongoing costs arising from their disability.

This proposal would therefore empower disabled people and people with ill-health to make decisions based on their own circumstances, rather than being defined by terms that limit opportunities. It would also reduce the incentive for disabled people to change their behaviour to meet the eligibility criteria for payment. Finally it would reduce the amount of compliance activity that the person and the delivery agency need to go through to process the payments.

<sup>100</sup> See <http://www.moh.govt.nz/moh.nsf/indexmh/disability-keyprojects-model> for further discussion.

## 6.4 Better delivery of support services

The current model of support services for permanent and severely disabled people has a range of prescribed services that eligible people and their families can apply for. There currently is no coherent or system-wide approach to service delivery built around better outcomes for disabled people. In addition, the focus is on the delivery of services, rather than how to co-ordinate and navigate resources and funding from across Government to produce better outcomes tailored to the needs of individuals.

For people who need more active and co-ordinated support, a new flexible model needs to be developed based on achieving better outcomes. The new model needs to move from service contracts and rules-based allowances to Individualised Support Plans, see Table 6.1. These Individualised Support Plans should identify the assessments required and the needs that should be addressed in order to participate and have a better life. They should describe how needs would be met and set a date when an individual can reasonably expect to regain independence by returning to full-time work or normal social activities, no longer needing home help or meeting other outcomes consistent with their circumstances. A key advantage of this approach is that it moves from a service and entitlement focus to an individualised process. It also enables better cross-agency co-ordination and better targeting of resources with a greater focus on outcomes and less on the services and allowances that would be provided.

**Table 6.1: Comparison of new and old models of service delivery**

	Old model	New model
<i>Planning process</i>	Individual enters the welfare system with no proactive plan to identify rehabilitation and support needs.	Individualised Support Plans would see the individual and provider identifying assessments and needs, deciding how needs will be met and setting a goal date for regaining independence.
<i>Application process</i>	Individual applies for specific support and services, including disability allowance and support services, with applications based on a set of rules.	Planning process will proactively identify needs to increase participation and quality of life. Those that will make the biggest difference are actioned.
<i>Referral to services</i>	If the application is successful then the individual is referred to a service, support or provider.	Individual has information on a range of providers, and can choose the provider that will best meet their needs.
<i>Service provision</i>	Services are provided based on a complex set of contractual rules and processes.	Decision-making on services are devolved to the individual and the provider, identifying the needs of the person at a particular point in time. Funds are available to support activities.
<i>Outcome monitoring and business reallocation</i>	Some high level monitoring of outcomes, but little contestability in the delivery of services, and little reporting information is available.	Outcomes (paid work, participation, quality of life) are key drivers of business allocation rules and are transparently reported.

Currently in the model of support service delivery disabled people and their families have limited choice over the providers that would support them and there is limited transparency and accountability over the outcomes. A new model of engaging with contracted providers needs to increase choice and build quality, transparency and accountability. This could include public reporting of outcomes such as employment, participation and well-being. Providers who achieve better quality outcomes for the people they support could be allocated additional contracts. It may also include more of a focus on support that meets each individual's specific needs, such as one-

on-one advice, co-ordination, coaching and mentoring, and less of a focus on the type of services that is provided, such as community participation.

The approach of empowering disabled people to make decisions for themselves is consistent with the principles outlined in the New Zealand Disability Strategy, the United Nations Convention on the Rights of Persons with Disabilities, and the new model of disability support services.

***Example: How a model of support services may work for sick people and for disabled people with permanent exemptions from work obligations.***

A contestable funding pool would be available to community, non-Government and other providers to provide high quality support services to people with no work obligations.

There would be a network of providers who would offer one-entry access to a whole range of support and assistance. This would include one-on-one support, coaching and mentoring, as well support with navigation of the assistance and health systems. It would encompass work-related intervention and modification, such as planning and goal setting, developing work skills and skills for independence to help people to get to and from work, building natural support networks that help people to gain and keep work, facilitating access to holiday jobs and work experience. It would also include workplace education for employers and colleagues, internships and graduate programmes, exploring opportunities and building effective relationships with employers, unions, training providers and community agencies.

There would be transparent reporting of the outcomes of different providers, potentially using a star rating system. The providers would be measured against the following outcomes: paid employment; participation including community participation, voluntary work, education and training; and measures of well-being. These relationships should be long term and driven by the individual, their families and the relative performance of the organisations in providing support. Decision-making around services should be devolved to the intensive support provider and the individual where possible, with strong accountability and transparency around outcomes.

A new flexible service model should enable innovative approaches to improve well-being of people with permanent and severe impairment. One such innovative approach raised in feedback on the Options Paper was that welfare funds could contribute to people's employment in social-profit (non-profit) organisations as 'civic contributors'. Civic contributors would negotiate a contract for non-essential duties to be performed as and when possible, with appropriate caveats to protect the organisation. Civic contributors gain the social status of being an employee and the opportunity for meaningful contribution.

In addition, a new outcomes-focused participation fund would be administered by delivery agents, including intensive support providers, and would include:

- education and training, including short-term work-related courses;
- workplace and participation-related modifications and services, such as modifications to the physical work environment and work vehicles, adaptive equipment for workplace information and communication devices, services for employees with learning disorders and mental health conditions, disability and deafness awareness training, and mental health first aid training;
- health and rehabilitation support;
- support to overcome specific issues, such as drug and alcohol abuse, financial management and gambling, family breakdown, domestic violence, homelessness and social isolation;
- wage subsidies and jobseeker incentives;
- clothing and work equipment; and
- transport and interpreters.

## 6.5 Summary

Many people who enter the welfare system because of illness or disability can engage in paid work, but need support to address their health issues or disability barriers so that they can move into or return to employment. Early access to appropriate health services can facilitate a faster return to paid work. Shortcomings in these health services result in significant welfare costs.

However, a small group of people do have significant ongoing barriers to employment and participation in the community more generally. For this group, reform of disability support services within the welfare system should be consistent with the Ministry of Health's proposed new model for supporting disabled people. There should be a stronger focus on information and personal assistance through co-ordinators that help disabled people build up and access natural and other supports. There should also be greater emphasis on access to funding, rather than a focus on services, in order to provide more choice and control by the disabled person over the support that is purchased. This will need to be supported by strong accountability arrangements.

### ***Recommendation 25: Support for sick or disabled people with permanent exemptions from work obligations***

The Welfare Working Group recommends that:

- a) a new model of disability support services within the welfare system should be based on:
  - i. individualised support plans focused on outcomes;
  - ii. services allocated with respect to a person's needs as identified in individualised plans;
  - iii. more choice for service users of both the types of services and the range of providers, and better information to inform that choice;
  - iv. greater individual control over what services are purchased and how services are provided, based on a person's specific requirements rather than being limited by what the service offers;
  - v. transparently reported outcomes of paid work, participation and well-being;
- b) the new individualised support planning process should be consistent with mainstream services and flexible enough to include mainstream services, so that disabled people can opt into mainstream services to support their needs;
- c) this model be further developed in partnership with disabled people and employer organisations, including the Employers Disability Network; and
- d) the Government should review the allocation of funding for Vocational Services for People with Disabilities and the Mainstream Supported Employment Programme in order to support the provision of disability support services as set out in a) to c) above.



# Chapter 7. Promoting the well-being of children

## 7.1 Introduction

There are currently 222,000 children in benefit-dependent households. Most parents who receive assistance from the welfare system understand the responsibilities they have to care for their children and do not need extra support to meet these obligations. However, we also know that there are at-risk children in households dependent on welfare.<sup>101</sup> As we noted in Section 1.12, children of teen parents are at higher risk of adverse outcomes across a range of dimensions. In our discussions with the wider community there was strong public support for ensuring the well-being of children within the welfare system. Many Māori we have spoken to have expressed their concern about the over-representation of Māori among at-risk children.

At the present time, participation in programmes aimed at families experiencing disadvantage is voluntary. The evidence also suggests that the most disadvantaged families are often the most likely to withdraw from these programmes.<sup>102</sup>

There is a range of ways the welfare system can support the well-being of children including setting expectations on parents and providing parenting support. For Māori, there is both a need and opportunity to have vulnerable tamariki included as an integral part of a wider effort to increase employment for parents which also includes more health and social supports. These supports should be integrated into the whānau home, centred around the tamariki.

The welfare system can promote the well-being of children by making payments conditional on meeting parenting obligations or supporting participation in certain activities. These include attending parenting and budgeting classes, attending Plunket/Tamariki Ora Wellchild or health nurse checks, ensuring children attend pre-school education and school, and completion of immunisations, along with various other support programmes for at-risk families.

The Working Group has given close consideration to the issue of how requirements for participation in activities which benefit children in at-risk families should be balanced against encouragement and support for these families. Requirements can provide a strong signal of what the community's baseline expectations are for the care of children and a level of compulsion means more vulnerable families will receive help. It can also support the overall effectiveness of other policies aimed at improving results for children by identifying and seeking to resolve the barriers some parents face in meeting these obligations, and connecting families with the services they need. A number of Māori community providers have indicated to us that a requirement to engage whānau in their programmes would improve the 'stickability' of whānau to complete their programmes and more importantly increase the access and uptake of programmes for whānau at risk.

Addressing long-term dependency involves addressing issues for the current working age population, and also reducing the chances of avoidable dependency for future generations. A proactive welfare system should improve outcomes for children, by reducing the risk of families being

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<sup>101</sup> Research from the 1990s showed that children of beneficiaries were at considerably higher risk of abuse than children who were in families not receiving benefits. This study estimated that children and young people whose caregivers were beneficiaries were 3.8 times as likely as other children and young people of the same age to be the subject of a care and notification order. Rochford, M. and Walker, B. (1996), *The Benefit Status of Caregivers of Children and Young People who come to the notice of CYPFS*, Social Policy Journal, December 1996.

<sup>102</sup> The Families Commission (2005), *Review of Parenting Programmes*, Wellington.

socially and economically isolated. The detailed nature of specific policy changes and how those changes are implemented would however determine the actual impact. It would be important as policy design is refined to assess the likely impact on children, in order to promote the best outcomes, and to mitigate the risks to the well-being of children that might inadvertently arise. It would also be crucial to monitor the actual impact on children as changes are implemented. The Children's Commissioner<sup>103</sup> has suggested that any legislative or policy changes resulting from the Working Group's recommendations include explicit statements about the impact of the proposed changes on children. The Working Group agrees that there should be ongoing assessment of the impact of the welfare system, and any changes in welfare policy, on the well-being of children.

### ***Welfare reform and the rights of the child***

The United Nations Convention in the Rights of the Child, was adopted in 1989, and New Zealand is signatory to that Convention (which defines 'child' as a person under the age of 18). The Convention states in its preamble 'that the family, as the fundamental group of society and the natural environment for growth and well-being for all of its members and particularly children, should be afforded the necessary protection and assistance so that it can fully assume its responsibilities within the community'.

In Article 18, the Convention states that 'States Parties shall render appropriate assistance to parents and legal guardians in the performance of their child-rearing responsibilities' and that States Parties 'take all appropriate measures to ensure that children of working parents have the right to benefit from child-care services and facilities for which they are eligible'. Article 27 states that 'The parents(s)... have the primary responsibility to secure, within their abilities and financial capacities, the conditions of living necessary for the child's development'. Article 28 talks about the right of the child to education.

The proposals in this Report look to meet the obligations which New Zealand has under this Convention, by putting strong emphasis on supporting parents to be able to support themselves and their children through paid employment, but with welfare assistance provisions where paid employment is not possible or appropriate. The proposals related to childcare, education, and parenting support all address issues faced by families with dependent children. They have a role to play in New Zealand meeting its Convention responsibilities.

## **7.2 General requirements on parents who receive Jobseeker Support**

Plunket/Tamariki Ora Wellchild services are offered free to all New Zealand parents with children from birth to five years. The services cover a range of health checks and also family/whānau care and support. As part of the service, Plunket/Tamariki Ora Wellchild checks provide 12 free health visits. These checks are made by a variety of health providers, including Plunket, Māori or Pacific health providers, general practitioners and the public health service. Immunisations are a key part of these services.

The Working Group proposes that all parents receiving their main income from the welfare system should be required to complete the 12 Plunket/Tamariki Ora Wellchild checks as a condition of receiving Jobseeker Support. If parents face barriers to participation in these free services these may be identified and addressed as part of the compliance process. Immunisations would not be required on the basis of an informed objection.

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<sup>103</sup> Children's Commissioner (2010), *Review of Long term Benefit Dependency, Submission to the Working Group*.

The Working Group supports policies which promote the participation of all children over three years old in approved Early Childhood Education (ECE). There is compelling evidence that participation in good quality early childhood education (particularly from the age of three) has a beneficial impact on the child's social and cognitive development and can be protective for at-risk children.<sup>104</sup> A high proportion of New Zealand children currently participate in some early childhood education - in 2009, 94 per cent of all children attended an ECE service prior to starting school. However, participation rates are lower for Pacific children (84 per cent) and Māori children (89 per cent).<sup>105</sup> While only a minority of children whose parents are receiving a welfare payment are not likely to be engaging in ECE, the Working Group's view is that given the importance of early childhood education to child development, every attempt should be made to ensure that no child, especially those at greatest risk of disadvantage, misses out on its benefits.

Improving the participation of Māori and Pacific children in early childhood education should be a key priority of the Government and we support moves to facilitate the provision of Early Childhood Services which are responsive to the needs of these communities.

Parents currently have a legal requirement to ensure their children attend school. The welfare system could reinforce this expectation by requiring parents to ensure their child's attendance at school as a condition of receiving Jobseeker Support.

These parenting requirements should be clearly communicated and compliance processes be straightforward, such as showing records of checks in the Plunket/Tamariki Ora Wellchild Health Book. We propose that systems be put in place to measure and monitor the compliance with the expectations proposed in this section.

**Recommendation 26: Identify the likely impact of welfare reform on the well-being of children**

The Welfare Working Group recommends that there be ongoing assessment of the impact of the welfare system, including any changes in welfare policy, on the well-being of children.

**Recommendation 27: Parenting obligations**

- a) The Welfare Working Group recommends that every recipient receiving a welfare payment who is caring for children be required to meet the following expectations:
  - i. ensure their children are attending school when they are legally required to;
  - ii. ensure their children participate in approved early childhood education once their child reaches three years of age; and
  - iii. ensure their children complete the 12 free Wellchild/Tamariki Ora health checks, which include completion of the immunisation schedule, unless they make an informed choice not to;and that failure to meet these expectations after efforts to address reasons for non-compliance would result in the recipient's income being managed by a third-party or some other means, such as a payment card; and
- b) The Welfare Working Group recommends that systems be put in place to measure and monitor the compliance with the expectations set out in a) above.

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<sup>104</sup> Taskforce on Early Childhood Education (2010), *Research Summary- Introductory Briefing*, Wellington available at <http://www.taskforce.ece.govt.nz/essential-reading/>; OECD (2009,) *Doing Better for Children*, OECD, Paris; Mitchell, L., Wylie, C. and Carr, M. (2008), *Outcomes of Early Childhood Education: Literature Review – Report prepared for the Ministry of Education*. New Zealand Council for Education Research, Wellington.

<sup>105</sup> Ministry of Education (2010), *Annual Report 2010*, Wellington.

### 7.3 Parenting programmes for teenage parents and other at-risk families

Children who get a good start in life are more likely to do well later in life. Issues affecting the family and mother such as stress in pregnancy, smoking and poor nutrition can be strong influences on a child's development even before birth. Similarly after birth factors such as post-natal depression, socio-economic stress and harsh and erratic parenting styles are strongly associated with negative outcomes for children.<sup>106</sup>

The evidence is clear that the children of teen parents are at considerably higher risk of adverse impacts than other parents.<sup>107</sup> While many teen parents and their children do well, the Working Group is of the view that there is a clear case for requiring that teen parents under 18 years of age who enter the welfare system participate in an approved parenting programme focused on the child's early years.

Support with parenting can also be of benefit to at-risk families where the parents enter the system as adults. Assessment of which families are at risk is a difficult and intrusive exercise, especially if the aim is to prevent harm before the risk factors have been demonstrated through neglect or other abuse. At the present time, referrals to parenting programmes are made through a range of agencies and providers, including the Plunket/Tamariki Ora Wellchild checks, general practitioners, Child, Youth and Family services and Work and Income, especially through the Co-ordinated Response Teams. Participation in programmes is voluntary. An assessment and streaming process as part of determining eligibility for Jobseeker Support for all recipients provides an opportunity to assess the need for parenting support on entering the welfare system. A starting point for this assessment could be the criteria currently used to refer families to the existing Family Start early intervention programme. These criteria include factors such as being a young parent, having no or minimal ante-natal care, being a sole parent without parental or whānau support, having mental health needs or a family history of abuse.

The evidence suggests that the best parenting programmes are effective in improving outcomes for children.<sup>108</sup> Early intervention with family programmes centred on the child's early years have been shown to be the most cost effective means of reducing long-term welfare dependence.<sup>109</sup> Without intervention, it is likely that the young people in these families will disengage early from school, resulting in a poor education that does not ensure the numeracy and literacy skills needed for successful employment or further training. There is evidence that high quality early education for disadvantaged children from an early age improves outcomes in later life, including reducing the risk of early pregnancy and parenthood.<sup>110</sup>

Among the wide range of parenting programmes available in New Zealand, Family Start, an early intervention programme with a strong home visit component, attracts the largest share of

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<sup>106</sup> For example, a recent study showed that there is a clear independent association between parenting styles and child development outcomes for infants and older pre-school children after adjusting for parental income, education, employment, family structure and parental well-being (Zubrick, S., Smith, G., Nicholson, J., Sanson, A. and Jackiewicz, T.(2008), *Parenting and families in Australia*. Social Policy Research Paper for the Department of Families, Community Services and Indigenous Affairs (FaHCSIA).

<sup>107</sup> Boden, J.M., Fergusson, D.M. and Horwood, L. (2008), Early Motherhood and Subsequent life outcomes. *Journal of Child Psychology and Psychiatry*, 49 (2), 151-160.

<sup>108</sup> Taskforce on Early Childhood Education (2010), *Research Summary- Introductory Briefing*, Wellington available at <http://www.taskforce.ece.govt.nz/essential-reading/>

<sup>109</sup> Beinert, S. et al (2002), *Youth at Risk? A National Survey of Risk Factors, Protective Factors and Problem Behaviour among Young People in England, Scotland and Wales*, York: Joseph Rowntree Foundation.

<sup>110</sup> Harden, A., Brunton, G., Fletcher, A., Oakley, A., Burchett, H., and Backhans, M. (2006), *Young people, pregnancy and social exclusion: A systematic synthesis of research evidence to identify effective, appropriate and promising approaches for prevention and support*. London, EPPI-Centre, Social Science Research Unit, Institute of Education, University of London.

funding.<sup>111</sup> A report for the Children’s Commissioner identified that there is insufficient evidence of the effectiveness of interventions to prevent child neglect and its recurrence, and that more monitoring of programmes is required.<sup>112</sup> Evaluations suggest there is mixed evidence about the success of different programmes, and it can be difficult to measure the effectiveness of programmes which are locally developed within an overarching approach.<sup>113</sup> Some programmes improve some aspects of parenting behaviour, but appear less effective in preventing abuse.<sup>114</sup>

Under the Family Start and Early Start programmes, additional childcare subsidies are provided to parents to enable their children to be in early childhood care and education from 18 months of age. There are currently around 1,700 families who receive childcare support through Family Start. The Working Group supports a high priority being placed on assisting the most at-risk families, especially teen parents, to access quality childcare and early education services for children over 18 months of age.

As we have noted earlier, improving the outcomes for whānau must be given strong emphasis in any approach aimed at improving the well-being of children and be designed in a way that is effective for Māori. For whānau with complex health and social needs, parenting programmes should be part of a wrap-around service thereby reducing excessive intrusion by multiple agencies into the whānau home. These services should be holistic in design and culturally appropriate. Strengths-based approaches which build on the existing capability within whānau are critical to success. These family-centred approaches are also likely to be more effective for Pacific people and migrant communities.

#### 7.4 Mandatory reporting of child abuse

The Government has announced that it will be introducing new laws to toughen the penalty for neglecting or ill-treating a child, as well as introducing a new offence of failing to protect a child from the risk of death, serious injury, or sexual assault. We strongly support this legislation and suggest it proceed with urgency and recommend the Government monitor implementation by Child, Youth and Family, and give consideration to making reporting of child abuse mandatory.

#### 7.5 Budgeting activities and income management

A recent New Zealand review found that most families reported their financial situation improved as a result of using budgeting services and this is an essential service for low income families in

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<sup>111</sup> The Family Start Core programme covers just over 6,000 families, at a cost of \$4,700 per family per year. The Ministry of Social Development estimates this programme reaches just over 30 per cent of the most vulnerable children. Note to the Welfare Working Group.

<sup>112</sup> Mardani, J. (2010), *Preventing child neglect in New Zealand: A public health assessment of the evidence, current approach, and best practice guidance*, Report prepared for the Office of the Children’s Commissioner, December 2010.

<sup>113</sup> Daro, D. and Dodge, K. (2009), *Creating community responsibility for child protection: Possibilities and Challenges*, Future of children, 19, 2. A recent review of early intervention programmes for at-risk families suggests that with the exception of Early Start (a variant of the Family Start programme operating only in Christchurch), Incredible Years and Triple P, other programmes have either been insufficiently evaluated. A comprehensive review of home visit and parent management training programmes was recommended. The Maxim Institute (2009), *Broken Boughs: The role of effective family interventions*. Other reviews suggest programmes such as the Nurse-Family Partnership, Early Start and Triple P have some positive effects, particularly in terms of reducing child maltreatment. MacMillan et al (2009), *Interventions to prevent child maltreatment and associated impairment*, Lancet 373: 250-266. The World Health Organisation (2006) are more positive suggesting that home visitation programmes are effective in preventing child maltreatment and that there is strong evidence for programmes focusing on parenting improvement and support.

<sup>114</sup> For example, Howard and Brooks-Gunn (2009) concluded that overall there is little evidence that home visiting programmes directly prevent child abuse and neglect but they can impart positive benefits to families by influencing parenting practice, the quality of the home environment and children’s development. Howard, K. and Brooks-Gunn, J. (2009), *The Role of Home-Visiting Programmes in Preventing Child Abuse and Neglect*, Future of Children, 19, 2.

crisis. Many parents accessing the services were motivated by the desire to improve their children's lives.<sup>115</sup> The Social Assistance legislation passed in August 2010 includes a provision that beneficiaries who have had more than three hardship grants may be referred for budgeting advice. Currently around \$270 million is spent on hardship payments within the benefit system, while around \$10 million is spent on support for budgeting services.<sup>116</sup>

The Working Group supports families being referred to budgeting services and required to participate where there is a clearly demonstrated need for this support. We also propose that all teen parents under the age of 18 be required to complete a budgeting course as a condition of receiving welfare assistance. In Chapter 3 we proposed that welfare payments for teen parents who are under 18 years of age be initially managed until these programmes have been undertaken and participants have demonstrated that they can manage their budget themselves.

#### ***What is income management?***

Income management is the control of a recipient's welfare payment by a third party and can be voluntary or compulsory. It can cover a range of approaches, from intensive support for budgeting to direct control over how a person spends their payment. The third party would typically be the Government welfare agency, but may also be another responsible person or agent, such as a community support organisation.

#### ***What is the rationale for income management?***

The overriding rationale for income management is to help people on welfare who are at risk or have demonstrated they are unable to manage their resources without intensive help. Income management would normally form part of a wider strategy to strengthen independent budget management skills in the future.

Removing control a recipient has over their payment may be for these reasons:

- as part of budgeting service to help people who are finding it difficult to manage their resources in a way that ensures essential needs are met;
- to ensure that Jobseeker Support is spent on appropriate items which meet essential needs and not on inappropriate items such as tobacco or alcohol. This may be particularly important if there is a known problem with drug or alcohol dependency or dependent children;
- to ensure that families who have been identified as being at risk for reasons other than budgeting issues (for example, notifications for child neglect) are supported and the essential needs of their children are met; and
- to ensure that other obligations that are tied to receipt of Jobseeker Support (such as ensuring children are in school) are met. Circumstances where income management could apply include repeated truancy notifications, failure to complete immunisations when given assistance to do so, or failure to complete an agreed parenting or budgeting programme. In this situation, income management can be used as an alternative to a monetary sanction so that families do not have less to spend on their children.

Where income management was used, it would be desirable to clearly distinguish whether its objective was as a support service or sanction; in some cases income management would be voluntary and in other cases it may be a required step. Referring to 'a requirement to have intensive budgeting support' might be more appropriate in the service context.

<sup>115</sup> Families Commission (2009), *Experiences of New Zealand families accessing budgeting services*, Research Report, No 6/09, Wellington.

<sup>116</sup> The \$270 million includes hardship payments for superannuitants.

### ***When should income management be used?***

In practice income management is likely to be used as a last resort for the most at-risk people, who need ongoing help to manage their resources to ensure their own or their children's basic needs are being met. Income management would only be applied after other avenues to address the issues with their budget had been exhausted, including recourse to temporary additional payments and budgeting advice.

Management of the payment may be by the welfare agency or another contracted provider or responsible person. It can involve varying degrees of control and full or partial management of payments.

There are a range of approaches to income management, including:

- providing very intensive budgeting support, say through weekly meetings and agreements with an advisor, until budgeting issues are resolved;
- a programmed 'payment-card' which allows the person to buy certain approved items but not others (such as alcohol, tobacco). This can apply to part or all of the total payment a person receives;
- paying part or all of the payment as a voucher for certain items; and
- direct debits from the welfare agency to providers for essential services, such as housing and power, or as part of a debt repayment programme.

The agency in control of the payment would have a clear duty to ensure the essential needs of the parent and children are being met.

In order to ensure income management does not become a new form of dependency, it is important that the person's control over their money is reinstated once they have demonstrated their competence. Measures, such as monitoring of receipts, would also be needed to prevent misuse, such as the on-selling of the 'payment-card'.

### ***Income management approaches currently in use***

Work and Income currently controls the types of spending that some people receiving special needs grants for food can make.<sup>117</sup> This is through the provision of a 'payment card' or a hologram form. Suppliers who do not adhere to restrictions on spending on alcohol and cigarettes are removed from the approved supplier list. In the three months since implementation to January 2010, 101,000 payments were made through the system, totalling \$10.3 million.<sup>118</sup>

Some community agencies currently provide money management and banking services, including the Downtown Community Ministry, through its Street People project.

In the United States, the Food Stamps programme has been a long-standing form of 'in-kind' support which provides assistance to buy essential items. Other countries, including the United Kingdom and Australia, use income management in a range of forms to support at-risk individuals and families. The Australian programme includes voluntary and compulsory management of a beneficiary's money and incentives for saving.

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<sup>117</sup> Special needs grants are one-off payments to meet extra needs due to temporary hardship, including food.

<sup>118</sup> Ministry of Social Development (2010), Internal briefing note to the Working Group.

We support the use of income management in these circumstances:

- as a form of intensive budgeting support for the most at-risk families who have shown a demonstrable need for this service. We propose that income management be used in extreme circumstances and as a last resort, for example when families are failing to meet the essential needs of their children through neglect or substance abuse; and
- as an alternative to a monetary sanction where parents have failed to meet obligations that are linked to their payment, and after attempts have been made to support efforts to re-comply. Specifically, we propose that failure to comply with the requirements proposed in Section 7.2 should not involve a reduction in the level of payments parents receive, but instead may lead to income management, either by a third party or by payment card.

We suggest using a form of programmed 'payment card' which allows the person to buy essential goods and services. Use of a programmed card can reduce the administrative cost of managing the person's welfare payment. Detailed development of the use of this approach requires careful consideration of mitigating any risks, such as on-selling of the cards. Management of the person's income would cease once the person has demonstrated their capacity to manage their assistance and/or once they had complied with parenting requirements. There is likely to be the need to build capability and increase funding if this proposal is to be practically advanced.

## 7.6 Summary

Assistance through the welfare system should aim to improve the well-being of children. Any future policy advice on changes to the welfare system should take account of its impact on child well-being. Once implemented, the actual impact should be monitored and evaluated.

Whilst most parents who receive welfare take their parenting responsibilities very seriously, the Working Group is concerned that a small number do not, and that this puts the well-being of their children at risk. There is a need to ensure that all parents receiving assistance through the welfare system meet their parental obligations which promote the well-being of their children. Increased support, including early intervention programmes, should be available to at-risk families to help parents who are struggling. At the same time, people should be clear that having additional children while on welfare should be discouraged.

For parents who are repeatedly having difficulty managing their budget, using income management by an agent or a payment card to temporarily manage a recipient's assistance may be warranted, as long as there is a clear objective of assisting the person to manage their income independently in the future.



***Recommendation 28: Support for at-risk families***

The Welfare Working Group recommends that:

- a) all teenage parents under the age of 18 and other parents of at-risk families be required to participate in an approved budgeting and parenting programme and that access be provided to these programmes free of charge;
- b) an assessment of risk to the well-being of children should form part of a more systematic assessment of long-term risk of welfare dependency and provide a basis for intervention through participation in intensive parenting support;
- c) at-risk families and whānau with complex needs be provided with wrap-around services, preferably by single, integrated providers which address family and whānau needs as a whole. These programmes need to be responsive to Māori through culturally appropriate, holistic, and whānau-centred solutions. In addition, they need to meet the needs of other parts of the community, such as Pacific, migrant and refugee communities; and
- d) at-risk families participating in an intensive early intervention parenting programme have access to quality early childhood education and childcare services from 18 months of age, as currently provided through Family Start.

***Recommendation 29: Mandatory reporting of child abuse***

The Welfare Working Group strongly supports the Government's decision to introduce legislation to strengthen obligations to protect children, including a new offence of failing to protect a child, and recommends that the Government enacts the legislation to put this into effect as quickly as possible and then monitor the responsiveness of Child, Youth and Family to notifications, and give consideration to making reporting of child abuse mandatory.

***Recommendation 30: Income management and budgeting support***

The Welfare Working Group recommends that in situations where a parent receiving welfare has shown they have a clear need for budgeting support due to repeated difficulties in managing their budget, such that their child or children's well-being is put at risk:

- a) the person be given access to budgeting support services;
- b) Government consider using a third party to manage the person's income, on the understanding that that this income management would cease once the person has demonstrated their capacity to manage their assistance; and/or
- c) this may entail provision of a 'payment card' programmed for use only on essential items, to ensure that children's needs are properly met.

# Chapter 8. Implementing work-focused welfare

## 8.1 Introduction

Earlier in this Report a new model for the delivery of welfare in New Zealand was proposed. At its heart is a shift towards work-focused welfare and a significant expansion in the number of people expected to seek paid work. We also propose a strong emphasis on ensuring better outcomes for those at risk of long-term dependency by explicitly accounting for the long-term costs of receiving assistance. Key to this is early identification of those most at risk of long-term dependence and supporting people with cost effective early intervention to secure and maintain employment.

Clear expectations about paid work, combined with well targeted support for those who need it, would be core components of a successful welfare system. We propose two fundamental changes to welfare in New Zealand:

- a new Jobseeker Support payment to replace all existing categories of benefit; and
- the establishment of a new delivery agency, Employment and Support New Zealand, which would deliver the new approach.

The success of the welfare reform identified in this Report is fundamentally linked to implementing both Jobseeker Support and Employment and Support New Zealand. To achieve sustained increases in paid work for people at risk of long-term welfare dependency, the welfare system needs to have both a common work-focused set of support *and* effective and targeted service delivery.

## 8.2 Overview of what the new system will need to achieve

Crucial to successful implementation is a realistic understanding of the scale of the proposed reform. After the Future Focus changes, around 130,000 people would have work expectations. To support these people the current service employs nearly 5,000 people across New Zealand in 147 service centres, 11 regional offices and a national office. In 2009/10 over a million working age people were dealt with face to face and there were a further 6.4 million calls to the phone centres.<sup>119</sup>

The Working Group proposals would increase the number of people with work expectations to around 280,000, with many requiring work-focused support. This requires a different approach to be embedded in the organisation managing the welfare system. The new system would require additional skills to those used in the current system. Managers would have new performance expectations and the organisation would need to adopt a new approach to its own performance. One of the biggest risks to the successful implementation of the work-focused welfare system is that the change to the organisation is not deep enough to deliver a different approach, with the same level of work focus, over the 10 years required to achieve the target described in Chapter 2.

While rejecting the notion of a full insurance model for the welfare system, the Working Group has seen that much can be learned from an insurance approach. In particular, accounting for the estimated full cost of payments and services incentivises investment in those who need it most and

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<sup>119</sup> Information supplied by Work and Income to the Welfare Working Group. The staff numbers include people working for other parts of Ministry of Social Development supplying services for Work and Income (for example, the Integrity Services Group).

those who would benefit the most. In addition, transparency in the way risks are funded is a powerful incentive to provide cost effective services.

Applying these lessons to the welfare system would require a new organisation to manage funding and improve accountability for organisational performance in a way that a Government department cannot. Service delivery needs to be focused on improving work outcomes for people at risk of long-term welfare dependency and reducing the long-term costs of welfare dependency. We propose a new organisational approach to welfare delivery in New Zealand, Employment and Support New Zealand, that would:

- be held accountable for improving work outcomes for people at risk of long-term welfare dependency and reducing the long-term costs of welfare dependency (as measured by the forward liability);
- be measured against the achievement of a target of at least 100,000 people off welfare and in paid work by 2021, including achieving significant improvements for Māori, and an equivalent reduction in the forward liability;
- be expected to develop efficient and effective contracting arrangements with private, not-for-profit and community organisations for the delivery of support to welfare recipients based on the principles of contestability, focus on outcomes and strong accountability arrangements that reallocates services away from those that are under-performing;
- have strict accountability arrangements for delivering better outcomes for Māori and would be expected to introduce innovative approaches to reduce long-term welfare dependency amongst Māori (particularly in working with Iwi, Māori service providers and using whānau-centred approaches);
- need new organisational skills and a new culture especially in service contract management to invest in reducing forward liability, possibly through the creation of a Welfare Fund; and
- allow greater accountability for multi-year investment and long run outcomes, to transparently apply expertise, and to be able to use the expertise of a Governance Board.

The value in considering a Crown entity model is that, unlike a department, a Crown entity is at arm's length from central Government, has external expertise through its Board, and its performance management is based on delivering specified outcomes. Thus, it would deliver sustained change in the operation and culture of the welfare system, a long-term focus on performance (including through a possible welfare fund), more robust contracting for outcomes and greater transparency.

We would expect that when people enter the welfare system there would be clear work expectations, and a range of tailored support would be provided. Other supports and services that we expect to emerge from a clear focus on improving outcomes include:

- flexible and early intervention approaches that are focused on reducing the risk of people spending long periods on welfare;
- contracting for a range of innovative approaches that look comprehensively at an individual's vocational and non-vocational barriers and provide multi-disciplinary approaches to addressing an individual's barriers to getting a job;
- partnerships with Iwi and Māori organisations to support better outcomes for Māori;
- strong partnerships within the health system, and with doctors and medical professionals to promote better health outcomes and the health benefits of work, and highlight the health risks of long-term inactivity and disengagement;

- forming strong partnerships with employers and employer bodies to support better outcomes for welfare recipients and encourage employers to take a chance on employees that they may otherwise not consider; and
- introducing positive incentives to encourage people to move from low employment to high employment regions and to re-train for new job skills.

The Ministry of Social Development would be responsible for providing advice on strategic welfare policy, overseeing the independent assessment of the forward liability, evaluating the effectiveness of welfare settings, advising Ministers on welfare policy and monitoring the performance of Employment and Support New Zealand against the agency's objectives, including forward liability. The Ministry of Social Development would have a crucial role in negotiating across Government to ensure services provided by agencies, such as health and education, support welfare recipients into work. To provide clear direction to Government on how changes in policy would affect the achievement of the reduction in working age welfare numbers by 100,000 people, the Ministry would need to have a sound understanding of the drivers of long-term welfare dependency.

### 8.3 The current model

The Ministry of Social Development is a public service department of Government, responsible for policy design, research and evaluation and, through Work and Income, administering income support and delivery of employment services for working age people receiving a benefit. It is funded on an annual basis through the Government's budget. Incorporating payment and service delivery in the same organisation provides the opportunity to have an employment focus even during the benefit application process.

Just over half of Work and Income's core employment services are delivered in-house, focusing mainly on people receiving Unemployment Benefit. This includes collecting and listing job vacancies, the Job Search Service, administering financial assistance and service co-ordination for those needing more complex help.

The remaining 46 per cent of Work and Income's annual spend are on national and regional contracted services to deliver work-focused social services. The contracts are a mix of outcome-based agreements (for example, Employment Placement Service, Pacific Youth Mentoring Service, In-work Support) and more general programmes to enhance employability (sole parent employment coaching and ability assessment for people receiving Sickness Benefit). Providers include private companies, community trusts, training providers and other entities.

A mixed model has been successful in a number of OECD countries.<sup>120</sup> However, the Ministry of Social Development model has a number of limitations. First, the annual funding of welfare does not cover the financial commitment the Government has made when agreeing to pay a benefit. For instance, when agreeing to pay an Invalid's Benefit, the Government has committed to make payments for as many years as that person qualifies for the benefit.

Second, funding for the delivery of employment services is budgeted annually by Cabinet, while funding for benefit payments is driven by demand. If the number of people paid a benefit increase during the year they are funded unless an objection is raised by Ministers.

Finally, there is considerable short-term movement on and off benefit, where additional support is of marginal value. The annual appropriations process encourages a focus on those easiest to move

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<sup>120</sup> OECD. (2005), *OECD Employment Outlook*. Paris.

off benefit, and away from those with greatest disadvantage, where investment based on managing a long-term cost would make the greatest difference.

#### 8.4 Forward looking and transparent approach to cost

The Working Group has found that the best way to evaluate the welfare system's performance is by assessing its impact on the expected long-term costs or the forward liability. In doing so the incentives for good financial management are aligned with the incentive to cost effectively invest in people needing interventions. This can be achieved through a full or partial funding model.

The future liability is the future cost (liability) that might result from having agreed to insure against adverse events.<sup>121</sup> Full funding of the forward liability is achieved when all reasonable steps are taken to ensure money is available to meet estimated financial commitments, whenever they would occur, with contributions to the fund set to cover the costs. In practice, moving from annual funding to full funding is costly and requires a long transition period, so partial funding is a better option over the period discussed in this Report. Partial funding requires that full liability be calculated and some defined fraction of the funding built up, thus creating incentives for financial discipline and transparency.

In practice, partial funding requires the creation of a distinct fund that can be used to objectively measure expected liability and the level of partial funding. This approach has been used by both the New Zealand Superannuation Fund and ACC. A New Zealand Welfare Fund would start as a traditional budget allocation. Each year tax revenue would need to be raised that would cover the expected long-term annual costs of the scheme. In years when fewer people need assistance, revenue would be higher than the cost of the scheme and reserves could be accumulated. These reserves would be drawn down when there was more need for assistance, for instance during an economic recession.

The agency implementing the welfare system has wider non-financial objectives, including the alleviation of hardship and reducing child poverty. It is essential there is independent evaluation of the agency's performance to minimise the unintended consequences of better financial control. These and other practical and legislative issues would need to be worked through, but the view of the Working Group is that a separate fund would significantly improve the accountability and performance of the welfare system.

Whether full or partial funding is used, the advantages of a forward liability approach are that:

- policy makers and the delivery organisation accurately understand the commitments that have been made to provide financial support and take reasonable steps to ensure those commitments can be met;
- it incentivises an appropriate level of intervention for individual clients, with most resources going to those who can most benefit from them;
- it improves accountability by making the full cost and agency performance more transparent;
- robust and transparent multi-year accountability measures can be set out in agreements between the Government and the relevant agencies;
- an emphasis on prevention becomes a priority; and
- there is a greater level of equity within the system for those who may take longer to support into paid work.

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<sup>121</sup> Martin Jenkins, (2010), *Lessons from Insurance for Welfare*. See <http://ips.ac.nz/WelfareWorkingGroup/Meetings.html>.

One approach would be to incorporate a forward liability approach to the welfare system into the standard annual Government budget process. Currently, the Budget documents include an investment statement with information on Government assets and liability, including the investments that partially fund the New Zealand Superannuation Fund and ACC.<sup>122</sup> The Ministry of Social Development has provisionally estimated the future cost of a benefit at an average lifetime cost of between \$125,000 and \$160,000 for each beneficiary at June 2009.<sup>123</sup>

Moving to a system which uses a future liability model would require a more comprehensive understanding of the expected durations and flows onto welfare than currently available. Nevertheless, these could be developed to include an estimate of the welfare system's liability and be used as a key performance indicator for the delivery agency, its Board and Government policy.

Alone, incorporating a forward liability approach to the welfare system into departmental budget processes would not generate the required transparency. First, the partial funding of ACC is crucial to the financial transparency of those funds. Partial funding opens them up to independent actuarial evaluation and the financial discipline this creates. It is independent evaluation that makes those funds more than an accounting exercise.

Second, the power of forward liability as a performance indicator lies in having an objective link between *current* financial decisions and their *future* consequences. Thus partial or full funding means the financial consequences of policy decisions are assessed using standard actuarial criteria with parameters and definitions that are in wide use. This objectivity provides a powerful incentive for better financial discipline.

An alternative model is provided by the ACC Non-Earners' Account (NEA). This covers injuries to people not in the paid workforce, including students, people receiving a benefit, older people and children. The NEA is funded from the Crown through an annual appropriation on the same basis as other appropriations. However only 55 per cent of the amount collected in any one year is paid in that year, with the remainder invested by ACC to pay for the lifetime costs of those injuries. The funding and investment requirements of the NEA are based on a calculation of forward liability using an analysis of claim behaviour (number and nature of claims incurred, costs and trends in treatment and rehabilitation, claim duration, etc) carried out by ACC's actuaries with quality assurance provided by external actuaries.<sup>124</sup>

While the ACC NEA does not have the work focus and level of support we would expect from the new welfare system, there are substantial similarities between the ACC NEA and the Working Group's recommended organisational form. There would be value in further analysis to see what would be needed for the new model of welfare to be implemented by being amalgamated with the ACC NEA.

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<sup>122</sup> Budget 2010 *Investment Statement of the Government of New Zealand*, p52.

<sup>123</sup> Ministry of Social Development. (2010), *Future Liability: Estimating time on benefit and the associated cost*, Centre for Social Research and Evaluation, Ministry of Social Development, Wellington, New Zealand; Ministry of Social Development – scenarios A and C, p6.

<sup>124</sup> Accident Compensation Corporation. (2010), *Annual Report*.

### The ACC model

ACC is a semi-independent Government body that administers the Accident Compensation Act 2001. Currently it has three overarching goals, to:<sup>125</sup>

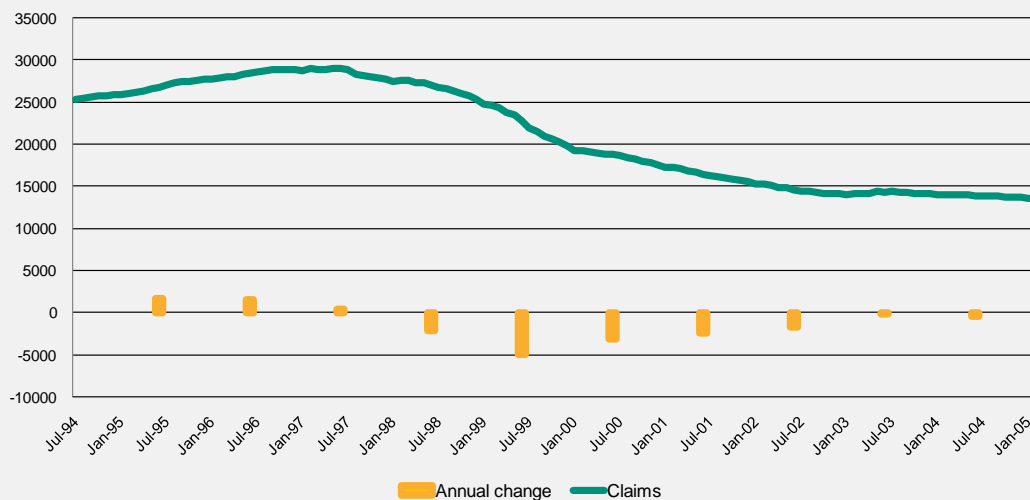
- ensure the scheme is financially sustainable and represents value for money;
- rehabilitate injured people in New Zealand more efficiently; and
- reduce the incidence and severity of injury.

To achieve this ACC collects levies to fund compensation payments; provides rehabilitation and employment services; pays compensation to claimants; and provides service co-ordination and services to claimants, primarily to rehabilitate them. ACC has considerable discretion as to the level of investment in treatment, vocational and social rehabilitation services. It contracts out a lot of these functions. The ACC model differs from Work and Income in that it is funded primarily by levies so it has a strong incentive to keep the future liability of its claimants down. As a result, ACC:

- invests in interventions to prevent accidents from occurring;
- has a strong focus on work, with the majority of clients supported to remain in work. Most cases are co-ordinated with small amounts of resource, while more complex clients receive specialist service co-ordination; and
- uses contestable service delivery, including the option for accredited employers to opt out of most of the coverage and take on the obligations themselves.

The ACC reforms in the late 1990s, that included forward liability as performance indicator, lead to a marked reduction in the number of ACC recipients receiving ongoing payments.

**Figure 8.1: Long-term ACC claims 1994 to 2005**



Source: ACC Annual Report 2002.

## 8.5 Outcomes-based contracting and contestability

A new approach to welfare, with earlier intervention and an investment focus to minimise dependence, requires highly responsive and effective services able to assess individual capacity

<sup>125</sup> Accident Compensation Corporation. (2010), *Annual Report*, p6.

and locate jobs for larger numbers of people. The new agency would need to balance the costs and benefits of building internal capacity against using the considerable untapped capability and innovation in non-Government organisations and the private sector. Any substantial service delivery expansion would need to be done at a pace to allow capability to be developed and ensure there is sufficient competition to realise potential benefits where possible.

Countries that have introduced contestability in employment services have reduced the per capita cost of job placements. For example, when the Australian service became contestable, it was able to find more people jobs for half the cost of the previous system. The cost of providing service packages in the Dutch 'reintegration market' fell from €4,700 to no more than €3,000 for each client while achieving the same outcomes.<sup>126</sup>

Contestable contracting and active performance management are crucial to achieving cost effective service delivery. Well designed contracting out improves the incentives and gives robust accountability on contracted agencies to deliver services efficiently. It also:

- incentivises greater creativity and efficiency in the delivery of services;
- enables risk to be spread across providers, so poorly performing providers can be identified and resources shifted towards better performing providers; and
- provides more flexibility to fill capability gaps.

Contracts would need to be well designed and well delivered to minimise unintended consequences and manage risks. For delivery agencies, the most important element is having clearly specified outcomes. A recent survey of evaluations suggests performance-based contracting in Australia and the Netherlands improved short-term job prospects for participants by five to 10 per cent. In New Zealand programmes conducted in 2002 linked payment to success at finding and sustaining employment for people who had been on the Unemployment Benefit for at least six months.<sup>127</sup>

In addition, services that are contracted out should limit the ability of contractors to choose people who are easiest to place into employment. Such a deterministic referral process limits the ability of contractors to 'cream skim' clients who are easiest to place into work while 'parking' those requiring the greatest investment.<sup>128</sup>

#### ***The Australian model***

The Australian welfare system gives responsibility for delivering welfare payments and delivering employment services to two separate agencies: the Department of Education, Employment and Workplace Relations (DEEWR) (for contracting employment services) and Centrelink (welfare payments). Job Services Australia is contracted by DEEWR to provide access to training, skills development and work experience for jobseekers in more than 2,000 locations across Australia.<sup>129</sup> The providers are a mix of small, medium and large, for-profit and not-for-profit organisations.

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<sup>126</sup> Joseph Rowntree Foundation. (2008), *Lessons from contracting out welfare to work programmes in Australia and the Netherlands*.

<sup>127</sup> DEEWR. (2008), *Welfare to Work Evaluation Report*; Ministry of Social Development (2002), *Outcome Based Contracting*.

<sup>128</sup> Ministry of Social Development. (2010), *Contracting for Employment Outcomes*.

<sup>129</sup> <http://www.deewr.gov.au/Employment/JSA/EmploymentServices/Pages/serviceProviders.aspx>



A star rating system is used to assess the performance of contracted service providers. Performance in a given year will be influenced by a number of factors including some outside of a provider's control such as local labour market conditions and the characteristics of individual participants. These factors outside the provider's control are taken into account during the star rating assessment process. Every three months, providers are awarded a star rating, based on their performance compared to providers nationwide. For example, all providers who perform 40 per cent or more higher than the national average receive a five star rating. The June and December assessments each year are published on the internet and all assessments are circulated to service providers.<sup>130</sup>

One model the Working Group considers has much merit is similar to that proposed by David Freud in the United Kingdom.<sup>131</sup> In that model Government manages a small number of contracts with consortia of voluntary and private sector organisations, which then further contract out the work. The advantage of splitting up the contracting process is that the incentives operate where they are most effective. Thus the strategic contracts specifying the outcomes desired by Government are managed by a Government department, while the detailed contracts for each service are managed by organisations that are incentivised to provide services at minimum cost.

Applying this to the New Zealand context, where there is less opportunity for organisations to form consortia large enough, Employment and Support New Zealand would be equivalent to the consortia and would be performance-managed on its delivery of a quality service and minimised forward liability. However, Employment and Support New Zealand would primarily be a contracting agency that contracted non-Government providers for services. This allows for the greatest operational flexibility since all service providers, including those delivering early intervention and job search, could be changed if they did not meet objectives.

## 8.6 A local risk sharing approach to welfare

There are areas of the country where full community engagement is needed to activate people who are long-term welfare dependent. This is particularly acute for Māori living in areas of New Zealand where there are few jobs. Since the 1980s Māori unemployment has been higher than for non-Māori and initiatives within the welfare system have not eliminated the difference.

The view of the Working Group is that the forward liability approach provides a way to empower local organisations to take greater ownership of the problem and create local initiatives to reduce long-term welfare dependency. This could be through economic development initiatives to bring together local voluntary, private and Government organisations, or collaborative partnerships to provide better services for those needing support into work. What is crucial is that the local organisations are budget holders, facing both the rewards and risks of finding local solutions to dependency. The international evidence is clear that regions need to promote their own growth by mobilising local assets and resources to capitalise on their specific competitive advantage, rather than depending on Government subsidies that carry substantial risk that any jobs created will not be sustained.<sup>132</sup> It is the combination of incentives provided by a forward liability approach that will encourage long-term solutions.

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<sup>130</sup> Questions and Answers on 30 June 2010 Job Services Australia (JSA) Star Ratings  
<http://www.deewr.gov.au/Employment/JSA/PerformanceFramework/Documents/JSAStarRatingsQA.pdf>

<sup>131</sup> Freud, D. (2007), *Reducing Dependency, increasing opportunity: options for the future of welfare to work*. Department of Work and Pensions, United Kingdom.

<sup>132</sup> OECD. (2009), *How Regions Grow trends and analysis*. Paris. Organisation for Economic Co-operation and Development.

While this is a new approach to welfare in New Zealand, the United Kingdom's Employment Zones have developed into a consortium delivery approach over the last two years.<sup>133</sup> In New Zealand, it is in line with the recommendation of the Housing Shareholders Advisory Group that Government suppliers work with non-Government suppliers of affordable housing to improve supply.<sup>134</sup> It has also already been successfully used to provide health services. For example, The Ngāti Hine Health Trust is an Iwi run charitable trust that provides health services in the mid North Island to 7,800 clients. The aim of the Trust is to improve Māori access to health services by making them affordable, reachable and culturally appropriate. It holds contracts to provide health, education and training, social services and other business interests.<sup>135</sup>

How the local approach is operationalised would vary with local circumstances. One model would see the Whānau Ora concept extended so a consortium of Iwi, voluntary and private sector organisations could contract to provide all payment and employment services in an area. For example, an organisation like the Ngāti Hine Health Trust could contract with an insurance company to provide payments and early intervention services to people at risk of dropping out of work due to health problems. What was actually delivered would be for the contracted organisations to decide and could include engaging local businesses, the economic development wing of local Iwi, or training and employment services. The contract would specify the financial rewards of success, but would also commit the contractors to cover the costs if it was unable to find or create employment. The highest rewards would be for finding employment for people facing the greatest difficulties.

As with other contracting arrangements, tight definition of outcomes and monitoring would be required to ensure this was implemented to provide cost effective services.

## 8.7 A forward looking agency to manage the new welfare system

The OECD is clear that institutional reform needs to be considered as part of welfare reform and has argued that "countries willing to address, rather than shy away from, fundamental reform enjoyed the greatest improvements". Examples include the United Kingdom creating Job Centre Plus as part of its reforms and the integration of financial and rehabilitation tasks in Sweden.<sup>136</sup> In New Zealand, a crucial part of the shift to a work-focused welfare system in the 1990s was accompanied by the merger of Income Support with the New Zealand Employment Service.

The Working Group has two considerations: whether or not new organisations are needed to implement the reforms it recommends, and, if so, the form and structure of those organisations. Given the scale and scope of the changes proposed by the Working Group, with stronger work expectations, a greatly expanded range of services, more contracting and greater financial control through partial funding and clear targets, the welfare system envisaged by the Working Group will necessarily lead to fundamental changes in the organisations managing the welfare system. The issue is whether this will be best achieved by changing the organisations, or whether the current organisations could achieve this through internal changes.

Creating a new organisation is not in itself going to lead to a new approach to welfare. There needs to be a high hurdle for making structural changes that increase the number of agencies, with the

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<sup>133</sup> Freud, D. (2007), *Reducing Dependency, increasing opportunity: options for the future of welfare to work*. Department of Work and Pensions, United Kingdom.

<sup>134</sup> Housing Shareholders Advisory Group. (2010) *Home and Housed: A vision for Social Housing in New Zealand* <http://www.dbh.govt.nz/UserFiles/File/Publications/Sector/pdf/vision-for-social-housing-nz.pdf>

<sup>135</sup> <http://governance.tpk.govt.nz/share/ngatihine.aspx>.

<sup>136</sup> OECD. (2009), *Sickness, Disability and Work: Keeping on track in the economic downturn* Background Paper to the High Level Forum, 14-15 May 2009.

key consideration of whether the additional costs of setting up an agency are outweighed by the improved efficiency and effectiveness of the agency.<sup>137</sup> If change was to happen from within the current organisation, building the new culture would require changes to existing practice. Work and Income's main employment focus has been on people on an Unemployment Benefit, with some additional expertise to support sole parents, sick and disabled people. By attaching work expectations and services to robust and accurate assessments of work ability and complexity, the new agency would need a greater level of expertise than Work and Income currently requires. The new agency would employ people with greater skills to better support a wider range of jobseekers, many with more complex and severe barriers to work. In some cases this may require knowledge about health conditions. Co-ordinators employed by the service delivery agency would need to be supported by robust assessment tools and information about effective interventions.

### *A single organisation*

The expertise for delivering this service model does not all need to be located within one service delivery agency, particularly when specialist expertise already exists elsewhere. General practitioners would play a valuable role in providing medical advice through 'fit notes'. Other health practitioners would be needed to undertake specialist and comprehensive work ability assessments. More specialist services would be needed from businesses and non-Government organisations that have expertise supporting sole parents, sick and disabled people and other people with high complexity into work. However, actively managing these relationships for a more diverse group of clients would be new and would require substantial change to current practice.

One possible way to meet the diverse needs of clients is to have more than one agency, with one focused on the interventions needed by those with health and disability problems and another focused on the interventions needed by others, including sole parents. Having two entities would ensure there was an agency that specialised in those with health and disability problems and would ensure those clients were not 'managed' in a way that favoured other clients.

However, the Working Group decided that such a split has many disadvantages. Many current clients can be on more than one type of benefit over a period of time, so there would need to be a great deal of overlap between services. Such overlap creates unintended consequences and the possibility of inequitable treatment between people who have been managed by different agencies. But most importantly, the Working Group recommends a process that emphasises what a person can do, not what they cannot. The system needs to take into account personal factors such as health and disability, but avoid medicalisation of labour market difficulties.

### *Type of organisation*

The core issue becomes how best to ensure clear accountability is consistently aligned to incentives to cost effectively deliver the new welfare system. The Working Group has recommended the need for:

- a sustained change in the operation and culture of the welfare system;
- a long-term focus on the financial obligations of the system, including better management of the forward liability;
- a stronger focus on supporting more potential welfare recipients into work;
- more robust contracting for outcomes; and
- greater transparency and evaluation.

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<sup>137</sup> Further information at [http://www2.justice.govt.nz/lac/pubs/2001/legislative\\_guide\\_2000/chapter\\_9.html](http://www2.justice.govt.nz/lac/pubs/2001/legislative_guide_2000/chapter_9.html) and <http://www.ssc.govt.nz/display/document.asp?DocID=5747>.

Within Government there are a number of organisational forms with different characteristics that vary depending on their function. Broadly, Government departments are best when the organisation's functions require significant coercive powers (such as taxation and occupational regulation), it has a continuing, close relationship with the Minister requiring it to responsively offer policy advice, and the agency carries out multiple functions making it difficult to provide a robust contract. Crown entities are more relevant where a greater separation of the agency from Ministers allows an increased focus on its operational activities. Such a separation allows the agency to have accountability for multi-year investment and long-run outcomes, to transparently apply expertise and use the expertise of a Governance Board.<sup>138</sup> Table 8.1 summarises the relevant agency options.<sup>139</sup>

**Table 8.1: Types of public agencies**

	<b>Public service department</b> (Treasury, MSD)	<b>Crown agent</b> (ACC, TEC and health DHBs)	<b>Autonomous Crown entity</b> (Charities Commission, NZSO)
<i>Agency characteristics</i>	Policy advisor Work for Ministers	Operational agency of the Crown Can be directed by Ministers	Independent Crown service Can be advised by Ministers
<i>Board</i>	No statutory board	Elected or selected by Ministers Ministers can dismiss without reason	Elected or selected by Ministers Ministers can dismiss with reason
<i>Ease of establishment</i>	Legislation may be required	Specific legislation required	Specific legislation required
<i>Scope</i>	As required by Minister	Set in legislation Performance goals set by Ministers	Set in legislation Performance goals set by Ministers
<i>Sustaining change</i>	Designed to work closely on current Ministerial priorities	Independent of day to day shifts in Ministerial priorities	
<i>Focus on long-term financial outcomes</i>	Weak long-term budgeting processes	Stable objectives and focus on operational outcomes Minister can change Board where it is not meeting Minister's expectations	Stable objectives and focus on operational outcomes Harder for Minister to change Board
<i>New culture</i>	Similar to current departmental organisation	Operational focus and responsive to Board that includes people from non-Government and private sectors	
<i>Robust outcome contracting</i>	Difficult to implement robust, evidence based contracting processes	Contracting processes directly linked to specified objectives	
<i>Transparency</i>	Governed by the Official Information Act	Governed by the Official Information Act and Ministerial direction. Objective setting is a public process	

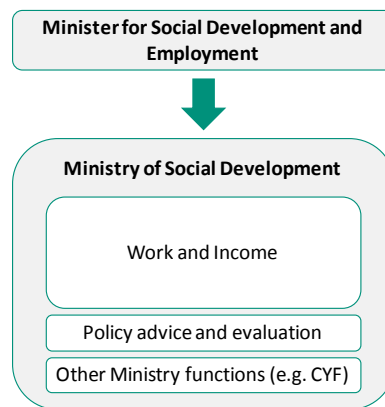
<sup>138</sup> Summary of submission to the Welfare Working Group from the States Services Commission.

<sup>139</sup> For a full list of the entities see <http://www.ssc.govt.nz/display/document.asp?DocID=7981>.

A new entity could be legislated for as part of the legislation already required to implement the proposed changes to the welfare system. Further, there will continue to be a need for policy advice to Ministers, including information and evaluation of the reform.

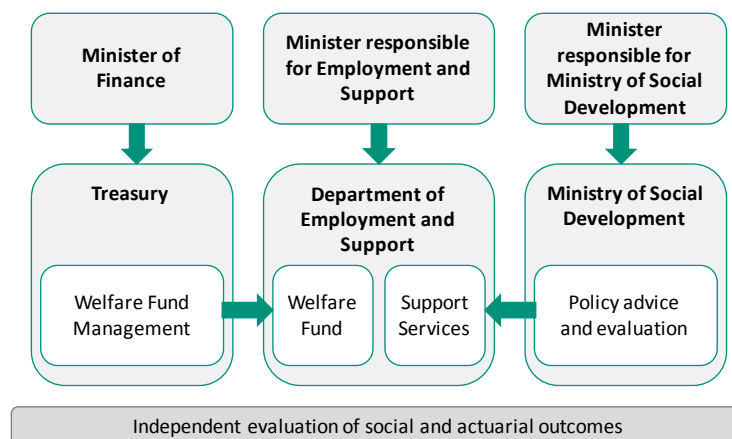
To understand how the new model could work, the diagram below shows the current model. The Ministry of Social Development includes Work and Income and Child, Youth and Family. It also provides policy advice to Ministers, and evaluation and information on social policy. The Ministry is accountable through its Chief Executive to the Minister for Social Development and Employment.

**Figure 8.2: Current model**



If a departmental model was used to meet the Working Group’s need for an organisation with a focus on work, transparency and better financial management, a distinct department would need to be established with its own Minister, but with oversight from Treasury (for the financial outcome) and a Ministry of Social Development that offered policy advice and social evaluation. While this has greater transparency, accountability for the fund is equivalent to the current budget accountability and the Minister is responsible for the operational decisions of the agency.

**Figure 8.3: Organisational responsibility for policy and delivery**

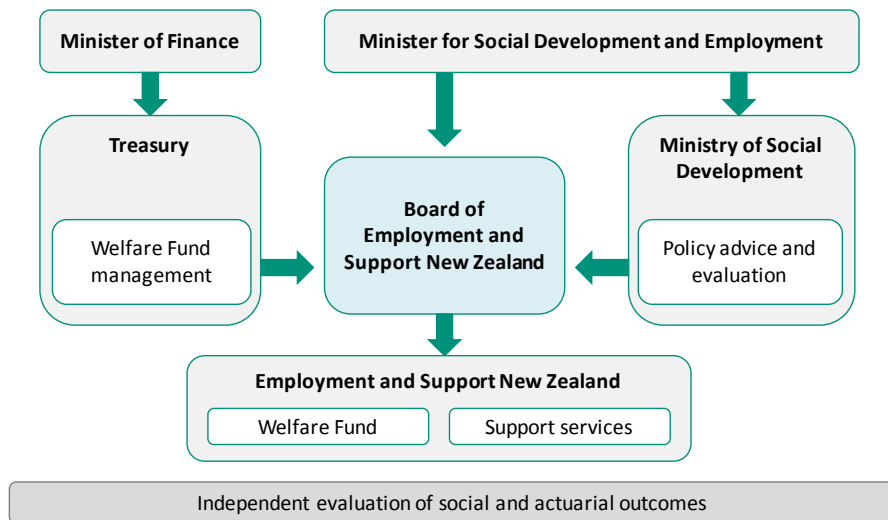


The Working group recommends that a new Crown entity, Employment and Support New Zealand, implements the new work-focused welfare system. The crucial difference between a Crown entity and a department is the greater accountability provided by a Board that includes expertise on financial and actuarial obligations. Employment and Support New Zealand would have both the expertise to use forward liability and be accountable for its performance in using that expertise. It would also give greater flexibility in the investments used to reduce the costs of long-term welfare dependence. This move to greater transparency and flexibility in funding would need to be carefully managed, particularly with the one-off costs associated with implementation of the new

welfare model. The other advantage is long-term operational focus that is possible in an agency that is not required to respond to the wider needs of Ministers. Among other advantages, it would mean Employment and Support New Zealand would be able to address local needs by independently contracting with local non-Government and Government service providers, for instance DHBs and educational providers, without the need to deal with central Government.

The Treasury oversight role would be necessary because a fund of this size has the potential to impact on the wider economy. The Ministry of Social Development would be responsible for providing advice on strategic welfare policy, evaluating the effectiveness of welfare settings, advising Ministers on welfare policy and monitoring the performance of Employment and Support New Zealand against the agency's financial and service objectives, including forward liability. The Ministry of Social Development would have a crucial role in negotiating across Government to ensure services provided by agencies such as health and education, support welfare recipients into work. To provide clear direction to Government on how changes in policy will affect the achievement of the reduction in welfare numbers by 100,000 people, the Ministry would need to have a sound understanding of the drivers of long-term welfare dependency.

**Figure 8.4: Crown entity model for the Employment and Support agency**



## 8.8 Independent evaluation

Implementation of the proposed reform would take a number of years and would be required to be managed by the Board of Employment and Support New Zealand. A dedicated unit such as a cross-departmental team would monitor the implementation of reform and provide second opinion advice for Ministers. Part of this latter function would involve measuring performance of the new agency in relation to the target.

Successful reform of the welfare system would require information as the implementation occurs to ensure that the reform achieves its objectives, and any adverse unintended consequences are adequately managed. This could include real time monitoring, more intensive studies of aspects of the new system, and longer term evaluation of outcomes. The Joseph Rowntree Foundation emphasises the importance of 'independent research, challenge, and scrutiny' to minimise the opportunity for contracted agencies to avoid accountability.<sup>140</sup> A good example of the value of such

<sup>140</sup> Joseph Rowntree Foundation. (2008), *Lessons from contracting out welfare to work programmes in Australia and the Netherlands*.

research is the 2009 United Kingdom National Audit Office report, which found the benefit of changing the management of incapacity benefit came from bringing forward the medical assessment, rather than from the relatively expensive service contracts.<sup>141</sup>

The Working Group has been impressed by the Australian employment services model which gives star ratings to providers. Those with the strongest results are allocated more business, while those with the poorest outcomes receive less.<sup>142</sup> This creates a clear and transparent link between evaluated results and the allocation of resources, and would help Employment and Support New Zealand move resources away from less effective to more effective approaches.

In the Australian model, the evaluation organisation is in the monitoring department, Department of Education, Employment and Workplace Relations (DEEWR). The New Zealand equivalent would be a substantially revamped Ministry of Social Development. This approach has a number of advantages. It would enable the evaluation capacity to be built on existing knowledge of policy, it embeds evaluation in policy development and strengthens the capacity of the monitoring organisation. There is also a potential for implementation incentives to be aligned if the organisation designing the policy, and thus with an interest in seeing it put in place properly, oversees implementation.

However this needs to be balanced with potential conflicts of interest. A key issue is how independent the current policy organisation can become once the delivery agency is split away. The regulator, using a scheme like the star system, would need new skills and a more robust approach to assessment, either through contracting out the evaluation or having independent review of the evaluation material.

## 8.9 Managing the transition

The reform package outlined in this Report is significant. It will require the building of new capabilities, the development of new services and preparing welfare recipients to enter a new welfare system.

A more detailed implementation plan will need to be devised in the next phase of development, including steps to ensure other work by the Ministry of Social Development is not disrupted. As well as the policy functions, the Ministry of Social Development includes the Integrity Services group that deals with fraud and overpayment, Senior Services group that deals with New Zealand Superannuation and other services for older people, Child Youth and Family, and Family and Community Services. An important part of successful implementation is ensuring this other work by the Ministry of Social Development is not unduly disrupted.

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<sup>141</sup> National Audit Office. (2010), *Support to incapacity benefits claimants through Pathways to Work*. London.

<sup>142</sup> For background to Star Ratings in the Australian model see:  
<http://www.deewr.gov.au/Employment/JSA/PerformanceFramework/Pages/JSASTarratings.aspx>.

We consider a reasonable indicative timeframe is as follows:

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### Preparing for reform

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**Stage 1: Technical advice and implementation design (completed by September 2011)** There is a range of technical issues that the Government will need advice on (including a detailed implementation process and advice on, and introduction of, new legislation).

**Stage 2: Establishment of Ministerial Committee and Advisory Board (from May 2011)** We consider that a Ministerial Committee may need to be established in order to provide leadership of the reform (including on detailed design and the sequencing of reform). This Committee would be supported by an Advisory Board that would include expertise on social policy, welfare delivery, organisational design, managing to an estimated forward liability, Māori and employer perspectives.

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### Establishment of Employment and Support New Zealand

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**Stage 3: Employment and Support New Zealand established (between July 2012 and January 2013)** Given the breadth of new capability to be developed we consider that it is critical that there should be significant time allowed following the appointment of the Establishment Board of Employment and Support New Zealand. This will enable it to develop a clear and comprehensive approach to its strategic and operational framework and robust systems for its implementation. In this phase Employment and Support New Zealand will need to develop:

- system design issues, including how it will create an effective service delivery model to achieve the Government's long-term outcomes;
- running the contracting process, including how it will contract for outcomes, what services it will contract for, and how it will design its tendering processes;
- build capability in service delivery where currently no capability exists;
- managing the transition from Work and Income; and
- negotiating its Statement of Intent with Government and building relationships with other Government and community agencies.

**Stage 4: Employment and Support New Zealand taking progressive responsibility (January 2013 to end of 2014)** After Employment and Support New Zealand is established we propose that it would take over all contracting of services, the design of the system to achieve better long-term outcomes and would be accountable for the delivery of former Work and Income services. At this stage it should have a new service delivery model, a range of contracted support services (including employment support and intensive support), and a clear front-end payment and work process building on the capability within Work and Income.

As Employment and Support New Zealand is implemented, monitoring of the reforms would be critical. The monitoring of the achievement of the long-term outcomes (meeting agreed targets to reduce the forward liability and therefore reduce long-term welfare dependence) would need to be supported by a detailed examination of the strategies and processes that were established.

**Stage 5: Evaluation of Employment and Support New Zealand** After a period of initial implementation we propose that there would be a full external evaluation of Employment and Support New Zealand and the work-focused strategy. This evaluation should provide a comprehensive evaluation of the outcomes of Employment and Support New Zealand against the objectives of the agency (reducing the forward liability and a consequent reduction in long-term welfare dependency). It should provide a detailed assessment of the performance of the agency in achieving the targets and expectations.

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## Introducing Jobseeker Support

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For welfare recipients, due to the scale of the changes proposed, we suggest that implementation should be staged. New entrants to the system should be initially placed on the new Jobseeker Support (given that they are new to the system). Following that, we consider that it would be sensible for achievement of the target that there be a focus on addressing the number of young people on welfare (given the importance of early intervention and prevention) through an integrated approach to expectations, service delivery and paid work.

All new welfare recipients from June 2012 would have payments, expectations and support in the new model (Jobseeker Support). We would expect that gradually as the model is rolled out welfare recipients who entered before June 2012 would be increasingly incorporated into the model. Initially there would be a focus on the expectations and support that is provided to them, and over time there would be movement to ensure everybody was on the same payment structure. Following the evaluation (and implementation of its recommendations) of stage 5 above, all existing clients should be fully included in the new model.

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### **Grandparenting**

There may be merit in temporarily ‘grandparenting’ some changes for people already being paid a benefit. Grandparenting of payments means a person currently receiving payments would see no change in payment unless their circumstances changed or they volunteered to move to the new model. Grandparenting of work expectations would mean a person has no new obligations unless their circumstances changed or they volunteered to move to the new model.

Practically, it would simply not be possible to implement the new model for everyone receiving assistance from the first day, and thus some grandparenting would need to be a part of phasing implementation. Further, there are costs in running two systems side by side, not least because similar people may be treated differently depending when they started receiving a payment.

In the past grandparenting has been seen as a way of shielding people from changes they would find difficult to adjust to. While any grandparenting comes at the cost of considerable complexity, the Working Group sees some merit in grandparenting payments, but not work expectations. Thus benefit recipients’ rate of payment is maintained, but they have the work expectations in the new welfare system. Grandparenting work expectations would be confusing and considerably weaken the opportunity to alter welfare dependency.

The Working Group recommends that work expectations are not grandparented, though it recognises that during the implementation phase there may be a delay before this makes a practical difference for some people. If the Government was concerned about impacts of abatement changes on existing recipients, then it might consider grandparenting, or additional financial support to be in work, for existing recipients. More generally, grandparenting of payments should be on an exception basis and only where change would create a hardship that could not be mitigated by a change in behaviour.

### **Key risks to be managed**

Changes of this magnitude, which require consistent implementation over a number of years, always carry implementation risks. The key risks are set out below.

#### **Needs are not addressed**

The new welfare system is intended to be more work-focused and lead to investment that supports more people into paid work. There is a risk this shift in emphasis will lead to people who are not able to support themselves by paid work being refused Jobseeker Support. The Working Group has addressed this by:

- having Employment and Support New Zealand include performance indicators on the quality of the service they offer;

- outcome based contracting to ensure that people are supported into sustainable employment;
- comprehensive assessment of work ability to identify and tailor support to individual's needs; and
- a strong external dispute resolution process.

#### ***Cost control***

Throughout the Working Group's recommendations are reforms with cost implications. Where possible these have been quantified and incorporated into the analysis, but the reality is that any substantial change in large organisations carries the risk of unforeseen costs. It is necessary to include in the ongoing reform process mechanisms that limit this risk. The Working Group has addressed this by:

- clear accountability for delivering outcomes in the new welfare model;
- transparent long-term funding through the use of forward liability;
- ongoing evaluation and monitoring during and after the transition to the new system; and
- extending contracting out and competition to minimise costs.

#### ***Capacity and capability gaps***

The reforms proposed here require a shift in the number and location of people with specialist skills in the health, social and education sectors. The Working Group has addressed this by:

- forward liability accounting that incentivises long-term investment in capability; and
- operational independence for the new Crown agency giving it the freedom to internally train or contract others to train people with the necessary skills.

#### ***Reform not sustained***

The shift to the new system is the start of the process of reform and not the end point. The target proposed in Chapter 10 is modelled to be reached over 10 years and it is in the period following the reforms, when political and public attention will have shifted elsewhere, that gains need to continue to be realised to meet the target. The Working Group has addressed this by:

- the creation of a new agency with a focus on meeting the targeted changes;
- ongoing evaluation and monitoring during and after the transition to the new system; and
- greater transparency, using a forward liability measure that makes clear when future problems are emerging.

#### ***Default to previous practice limits gains***

We have proposed a new delivery agency to enable a new workforce and culture to deliver the new welfare system. Even where there is a new workforce, their practice and the practice of their managers will be based on the experience of similar agencies. While this learning is important, there is potential for poor practice being retained. The Working Group has addressed this by:

- recommending external expertise to advise the transition process and the board of Employment and Support New Zealand; and
- creating a self-reinforcing package of proposals so those operating in the new system are very clear that defaulting to previous practice is not expected.

### ***Change in external economic circumstances***

Changes in the international economic situation, to the education and health systems and many other sectors have an impact on the numbers using the welfare system. Some of these may be benign, such as a greater work focus in secondary education; others may make it harder to reach the proposed target, such as an economic recession in China.

### **8.10 Summary**

We propose a new delivery agency, Employment and Support New Zealand, to:

- improve outcomes for those at risk of long-term welfare dependency and reduce the costs of welfare dependency (as measured by the forward liability);
- focus on reducing the number of recipients of welfare assistance by at least 100,000 by 2021;
- provide effective support to people at risk of long-term welfare dependency through the use of contracted private and not-for-profit providers, including Iwi, Māori service providers, employers and whānau-centred approaches where these lead to better outcomes; and
- operate respectfully within a clearly defined set of rules about what support welfare recipients and their children can expect to receive and provide access to strong external dispute resolution processes.

The Ministry of Social Development would continue to provide advice on strategic welfare policy, evaluate the effectiveness of welfare settings and monitor the performance of Employment and Support New Zealand. It would also oversee the independent calculation of the life-time cost of welfare (the future liability) and have a crucial role in negotiating across Government to ensure services provided by agencies such as health and education support welfare recipients into paid work.

#### ***Recommendation 31: Actuarial assessment of the future costs of welfare receipt***

The Welfare Working Group recommends that the new work-focused welfare system should:

- a) manage the performance of the system using a regularly estimated actuarial calculation of the forward liability;
- b) explore the setting up of a distinct welfare fund to cover the costs of the welfare system, with the ultimate possibility of partially funding the system; and
- c) manage the Crown's contribution to such a fund on a contractual basis that specifies the outcomes expected from any investment.

### ***Recommendation 32: The establishment of Employment and Support New Zealand***

The Welfare Working Group recommends that Employment and Support New Zealand be established as a Crown entity to implement the new welfare system, and be:

- a) accountable for improving work outcomes for people of working age at risk of long-term welfare dependency and reducing the long-term costs of welfare dependency (as measured by the forward liability);
- b) measured against the achievement of a reduction of at least 100,000 people on welfare through increased employment by 2021 (including achieving significant improvements for Māori), a significant reduction in numbers moving onto welfare and an equivalent reduction in the forward liability;
- c) required to provide effective, tailored and innovative support to those people at risk of long-term welfare dependency through the use of contracted private, not-for-profit and community responses;
- d) expected to develop efficient, effective contracting arrangements for the delivery of support to welfare recipients based on the principles of contestability, focus on outcomes and strong accountability arrangements that reallocates services away from providers who underperform;
- e) expected to provide comprehensive assessments of individual's work ability, particularly for sick people or people with impairment, and to identify and tailor support and expectations to individuals' needs; and
- f) required to adopt a respectful approach, within a clearly defined set of rules about what support welfare recipients and their children can expect to receive, and provide access to strong external dispute resolution processes.

### ***Recommendation 33: The role of the Ministry of Social Development***

The Welfare Working Group recommends that strategic policy and evaluation functions would reside in the Ministry of Social Development, which would also be responsible for:

- a) oversight of the independent assessment of the forward liability;
- b) monitoring the performance of Employment and Support New Zealand against the forward liability;
- c) evaluating the effectiveness of welfare policy settings and administrative performance;
- d) leveraging cross-Government initiatives to reduce the need for individuals to use welfare; and
- e) providing policy advice to Government on how future policy changes will affect the achievement of the reduction in working age New Zealanders on welfare by 100,000 people by 2021.

### ***Recommendation 34: Employment services***

The Welfare Working Group recommends that:

- a) employment services be based on contestable, outcome based contracts; and
- b) contract referral processes and contract payment structures be designed to financially incentivise contractors to achieve positive outcomes for those with greatest risk of long-term dependency.

***Recommendation 35: Developing risk sharing approaches***

The Welfare Working Group recommends that:

- a) Employment and Support New Zealand pilots and evaluates contracting with consortiums of Iwi, voluntary and private sector organisations to provide payment and employment services in some areas; and
- b) these contracts use the forward liability approach to share the risks between Government, employers and local organisations.

***Recommendation 36: Implementation***

The Welfare Working Group recommends that the reform of the welfare system be:

- a) overseen by a Committee of Senior Ministers supported by:
  - i. a senior officials group with an independent chair; and
  - ii. an Advisory Board (involving expertise on social policy, welfare delivery, organisational design, managing a forward liability, and Māori and employer perspectives);
- b) implemented in a staged approach with Employment and Support New Zealand, focusing initially on young people and working age people newly entering the welfare system;
- c) that implementation commence as soon as possible, with the following indicative timeline:
  - i. establishment of Ministerial Committee and Advisory Board from May 2011;
  - ii. technical advice and Implementation design completed by September 2011;
  - iii. Employment and Support New Zealand being set up and expectations for new and re-entering welfare recipients established between July 2012 and January 2013;
  - iv. Employment and Support New Zealand taking progressive responsibility for all other working age welfare recipients January 2013 to end of 2014; and
- d) that 'grandparenting' of payment levels be used where this helps implementation, but that work and parenting expectations not be 'grandparented'.

# Chapter 9. A Government and community-wide approach

## 9.1 Introduction

Reducing long-term welfare dependency will require a community-wide approach to tackle the large numbers of people accessing welfare, promote rapid transitions to employment and reduce the long tail of existing beneficiaries.

Central to the Working Group's proposals in this area is a coherent cross-Government plan clearly focused on reducing long-term future liability and achieving the future target of at least 100,000 less people on welfare by 2021. The plan should drive fundamental change in areas such as schooling for at-risk young people, vocational training, health service provision and organisations dealing with released prisoners.

The cross-Government plan is designed to address drivers of long-term welfare dependency outside the welfare system. For example, there are important changes that should be made to school funding and accountability to ensure that less young people leave school with no qualifications. There are also significant improvements that need to be made in health service provision, as there are shortcomings in core health services such as mental health, rehabilitation and generic managed health care.

We envisage a clear action plan that drives practical initiatives as well as fundamental strategic change across Government. Key stakeholders outside of Government will also need to be engaged for this to be successful. The role of employers is essential, as success depends on creating an environment where it is profitable for business to expand and employ people who have previously been on welfare.

This Chapter sets out the proposals for a cross-Government plan, and discusses in more detail the sort of changes that will need to occur across different areas of Government and the wider community.

## 9.2 A cross-Government plan to reduce long-term dependency

Commitment and action is required in the welfare system to tackle the problem of long-term welfare dependency and joblessness. However there are also a number of factors outside the welfare system including the economy, the labour market, the education and training system and the health system where significant change is also needed.

Our proposal is for a cross-Government plan driven by the overall target of at least 100,000 less people on welfare by 2021. It should have clearly defined actions and initiatives. Progress should be reported annually. It should not be approached as a public relations exercise on the part of Government agencies, but be a clear and honest appraisal of what is working, what has been found to be ineffective and what more needs to be done.

We see the Ministry of Social Development taking a leadership role in creating this cross-Government approach. The Ministry needs to secure a commitment across other agencies about practical and strategic actions. The Ministry of Health, the Ministry of Education, the Tertiary Education Commission, Te Puni Kokiri, the Department of Labour, the Department of Corrections, the Department of Building and Housing, ACC, the Ministry of Economic Development and the Treasury all have a role. Non-Government stakeholders will also need to be actively involved in this approach including employer organisations, representatives of people receiving welfare, iwi leaders and mayors.

The new agency - Employment and Support New Zealand - would also play a central role in this approach. It will have a strong incentive to engage with Government policy and delivery, particularly around housing (particularly state housing), the labour market, education and health. There may be certain circumstances where Employment and Support New Zealand will also need to contract other operational parts of Government for the delivery of services.

### ***Recommendation 37: A Government-wide plan to reduce long-term welfare dependence***

The Welfare Working Group recommends a Government-wide plan aimed at reducing long-term benefit dependence be developed with clear targets and practical initiatives. Key aspects of the plan should cover education (including early childhood education and care) and training, health, housing, social services, temporary work and immigration, justice and economic growth. The plan should be developed in partnership with key stakeholders including employer organisations. It should be renewed annually, hold Government agencies clearly to account for performance and be based on evidence of effectiveness.

## **9.3 Policies to improve results for young people**

The Working Group has identified that young people are a key priority for reducing long-term welfare dependency. With their working life ahead of them, it is imperative that long-term welfare dependence is not an option for young people.

In earlier chapters we outlined proposals for a range of additional expectations and supports for young people in receipt of Jobseeker Support. We emphasised obligations to be in education, training, and also increased pastoral support. We have also emphasised the need to focus on teen parents and in particular the well-being of their children. We have suggested that there should be requirements on teen parents to participate in parenting programmes and meet obligations in relation to their child's health and education.

The welfare system is however the ambulance at the bottom of the cliff, and prevention is by far the most effective and human approach. A cross-Government plan would drive a more cohesive, cross-agency approach to address the needs of disadvantaged young people. This should ensure that significantly fewer young people leave school early or with few qualifications. It would also bring together funding for post-school programmes for at-risk youth. It would build on the wide range of local initiatives that have been developed in association with the Mayor's Taskforce for Jobs.

There are a number of critical areas of action that are needed to prevent welfare dependence among at-risk young people.

### ***Early support among disadvantaged families, particularly those on welfare***

There is increasing evidence that children born into long-term welfare dependent families are more likely to become long-term welfare dependent as adults. There is ample evidence about the nature of cost effective and intensive early intervention programmes that can break this cycle.

### ***Improving schooling outcomes for at-risk young people***

A key component of any action to reduce long-term welfare dependency among young people rests with the education sector. Poor education, especially inadequate numeracy and literacy skills,

makes it difficult to secure jobs or undertake further training. It also exposes young people to a higher risk of joblessness which is accentuated in an economic downturn.<sup>143</sup>

Compared to other OECD countries, New Zealand has a high proportion of young people who leave school early, and who do not achieve basic secondary school level qualifications.<sup>144</sup> Currently more than one in 10 people aged 16 to 24 years are not in education, training or employment. These poor results are particularly concentrated among Māori and Pacific young people.<sup>145</sup>

Much of the focus of improving educational attainment clearly rests with the education system, educators and parents supporting their children to achieve. The Working Group supports current initiatives within the education system aimed at improving results for children at risk of educational failure. In particular any focus on improving engagement by Māori and Pacific students is likely to yield significant gains in terms of improved employment outcomes and reduced rates of welfare receipt.

There is increasing evidence from overseas about the nature of interventions and strategies to reduce the level of education failure in schools.<sup>146</sup> The Working Group suggests that the Government should review policies that will tackle the high levels of under-achievement in schools.

Successful approaches range from targets for individual secondary schools to reduce the proportion of students leaving school with few qualifications, linking funding to the achievement of these targets, ensuring that funding mechanisms give parents greater choice (as occurs in many Swedish schools), school improvement programmes that emphasise high quality teaching practice, building community-wide support for individual schools, increasing the range of services provided by schools (for example after-school care and literacy programmes), and practical learning environments linked to real work opportunities provided by local employers. Some of these best practice initiatives, for example Trades Academies, are already being implemented in some schools.

### ***Comprehensive tracking of young people from 12 to 18 years who are not participating in school, further education, training or work***

Too many young people are allowed to drop out of secondary education or drift into inactivity after leaving school. A variety of agencies collect information on young people. However, apart from some good local initiatives, there is little co-ordination among agencies and many young people fall through the cracks of agency responsibilities. We suggest that a useful starting point to ensure that at-risk young people do not end up on welfare is to build on the current local youth transitions services and give responsibility to one Government agency to maintain a database with information about young people who are not in school, education, training or paid work. This would then form the basis for better targeting of services and support.

### ***Vocational training for disadvantaged young people***

The Working Group's view is that more extensive vocational skills training and employment is a key factor in diverting at-risk young people from welfare. To be effective, this training needs to match

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<sup>143</sup> Oreopoulos, P. (2005), *Stay in School: New Lessons on the Benefits of Raising the Legal School-Leaving Age*, CD Howe Institute Commentary, 223; Higgins, J. (2003), Youth Transitions Report Series 2003: *Labour Market Programmes for Young People: A Review*, Ministry of Social Development, New Zealand.

<sup>144</sup> OECD. (2010), *Jobs for Youth Synthesis Report*.

<sup>145</sup> Household Labour Force Survey. (2010), See also Quintini, G. (2008) *Jobs for Youth: New Zealand*. Paris, France: OECD, p.49-50; Rea, D. and Callister, P. (2009), *The changing nature of young people's transitions in New Zealand*, IPS Working Paper 09/10, Wellington: Institute of Policy Studies.p.6.

<sup>146</sup> See for example Balfanz, R. et al (2010,) *'Building a Grad Nation', America's Promise Alliance*.



what is needed by employers, be practical and suitable for young people with non academic learning styles, and provide sufficient pastoral care to ensure that students complete their training. In our consultations, the now disbanded Māori Trade Training scheme was often mentioned as an example of a successful approach in this regard. There are also a variety of current local initiatives that provide useful guides on what can be effective. For example, the Otorohanga Trade Training Centre has been successful at linking young people and local employers, and has provided extensive support for apprenticeships in the local area.

Further investment beyond the secondary school system in vocational training is needed. There is also a need to build better links between schools and these opportunities. The Youth Guarantee scheme provides a foundation on which to build better linkage between school and further study. Allowing funding to follow students should also provide more opportunities for the needs of at-risk students to be met.

Currently funding mechanisms do not promote strong enough links between secondary and tertiary study. They do not allow many secondary students to study vocational subjects which provide a pathway into an apprenticeship. While there are promising initiatives, such as the Manukau Institute of Technology's School of Secondary-Tertiary Studies, and the Health Science Academies in South Auckland schools, in the Working Group's view a more comprehensive approach is required.<sup>147</sup>

### **Reducing duplication and improving the quality of programmes for at-risk young people**

A significant number of Government agencies fund programmes for at-risk young people. These programmes typically aim to get a young person into a position where they can be employed or enrol in training.

Internationally there is good evidence that these programmes can be effective for young people with multiple risk factors.<sup>148</sup> The essence of effective programmes is that they provide young people with the support of caring supportive adults with clear expectations of pro social behaviour. They also work with the wider family and provide young people with challenges and opportunities to develop. In terms of providing effective youth services, evidence suggests that best practice occurs where existing proven programme methodology is used, where the programmes are based in the local community, where there is good training and quality assurance, with emphasis on ownership by young people in the programme.<sup>149</sup>

The fact that many Government agencies are funding programmes for at-risk young people suggests there may be duplication. At the same time, the funding is often to small community organisations with limited emphasis on employment outcomes of employment and being off welfare. There is sometimes an absence of standards and training. The Working Group's view is

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<sup>147</sup> The School of Secondary-Tertiary Studies is a consortium of Counties Manukau secondary schools that targets disengaged students entering Year 11. The aim of the programme is to keep at-risk students in school. They are enrolled in a Manukau Institute of Technology programme that supports their pastoral and education needs, and provides a positive pathway to secondary and tertiary vocational-based qualifications. The Health Science Academies operate in Otahuhu College and James Cook High school and are virtual foundation programmes that ready students to enter a range of health career training schemes.

<sup>148</sup> Beinert, S. et al, (2002), *Youth at Risk? A National Survey of Risk Factors, Protective Factors and Problem Behaviour among Young People in England, Scotland and Wales* (Communities That Care).

<sup>149</sup> Barwick, H. (2006), *Youth work today: A review of the issues and challenges*, Wellington, New Zealand: Ministry of Youth Development; Higgins, J. (2003), *Labour Market Programmes for Young People: A Review*, Ministry of Social Development. Martin, L. (2006) *Real work: A report from the national research project on the state of youth work in Aotearoa* The National Youth Workers Network; McLaren, K. (2003), *Reconnecting Young People: A Review of the Risks, Remedies and Consequences of Youth Inactivity*, Ministry of Social Development.

that there is considerable scope for improvement in the alignment and overall quality of spend on youth programmes across Government.

### *Preventing teen pregnancy and better supporting teen parents*

New Zealand has one of the highest rates of teenage birth in the OECD.<sup>150</sup> This is a particular driver of high rates of long-term benefit receipt, and is also concerning as the evidence suggests that the children of teen parents are at an elevated risk of poor outcomes.<sup>151</sup>

The Working Group has proposed that parents under 18 years of age be required to complete their education or be in training. Enabling teen parents to do this requires a supportive education environment with childcare provided. There are currently 20 teen parent units attached to schools. There will need to be an expansion in facilities, both within mainstream schools as well as teen parent units, if more teen parents are to stay in education.

The Working Group's view is that there needs to be a clear focus on reducing teen pregnancy rates. Around 15 per cent of young people engage in unsafe sexual practices and the proportion is higher in the most deprived neighbourhoods.<sup>152</sup> Evidence from both New Zealand and overseas suggests that informing school students of the consequences and responsibilities that come with teenage pregnancy, providing information and access to effective and cheap contraception (including long-acting reversible contraception), should form part of a strategy to reduce teenage pregnancy. Providing counselling and contraceptive advice as part of ante-natal care for teenage sole parents may also contribute to reducing repeat pregnancies of teen parents. Ultimately prevention also needs to be based on community views about what is appropriate.

### ***Recommendation 38: Youth should be a major focus of the Government-wide plan to reduce long-term welfare dependence***

The Welfare Working Group recommends that the Government give a high priority to:

- a) further investment in early intervention programmes for at-risk families that will reduce the risk of intergenerational benefit dependency;
- b) policies that will tackle the high levels of under-achievement in schools, including best practice teaching methods for at-risk students, the development of full services schools, and funding mechanisms that ensure more choice and diversity to better fit children's learning needs and lift their achievement levels;
- c) creating a comprehensive database of at-risk young people aged 12 to 18 to ensure youth services are targeted and monitored appropriately;
- d) place increased emphasis on vocational training for young people at risk of benefit dependency, including allowing education funding to more fully follow students; and
- e) rationalising and reviewing youth programmes across all Government agencies so as to ensure that young people at risk of long-term benefit dependence receive appropriate support.

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<sup>150</sup> Ministry of Social Development. (2010), Social Report, <http://www.socialreport.msd.govt.nz/people/fertility.html>.

<sup>151</sup> Collins, B. (2010), *Teen parents and benefit receipt – paper to the Working Group*, Ministry of Social Development.

<sup>152</sup> Adolescent Health Research Group. (2008), *Youth'07, The Health and Wellbeing of Secondary School Students in New Zealand*, 28, University of Auckland.

#### **Recommendation 39: Reducing teen pregnancy**

The Welfare Working Group recommends that the Government give a high priority to developing a programme of initiatives to reduce teen pregnancy, including provision of information about the consequences of teen pregnancy, better youth health services (particularly in schools) and better access to long-acting reversible contraception.

### **9.4 Re-integration of offenders and recently released prisoners**

Ex-prisoners are at high risk of long-term benefit dependency and often find it difficult both to find jobs and sustain paid work. In turn, a high level of unemployment is a risk factor for re-offending. In 2009, almost 9,000 people finished their prison sentence, and around 4,000 were granted a benefit.<sup>153</sup> About half of people who finish their prison sentence return to prison within four years.<sup>154</sup>

Access to appropriate accommodation is the first issue that needs to be addressed for most recently released offenders. Beyond that, there is strong evidence that having a job helps prevent re-offending, particularly for young male offenders. Job-focused training, short-term subsidised jobs and support in the job are known to be effective.<sup>155</sup> While such programmes are expensive, they have significant social and fiscal pay-offs because they reduce welfare receipt as well as criminal offending and imprisonment.

The Working Group is of the view that there are clear gains from a more co-ordinated effort across the relevant agencies, primarily the Department of Corrections and Ministry of Social Development, to ensure there is stronger re-engagement of recently released prisoners in paid work.

#### **Recommendation 40: Offenders and ex-prisoners**

The Welfare Working Group recommends that the Department of Corrections and Employment and Support New Zealand jointly purchase outcome-based services for all people finishing a prison sentence with a clear objective of early re-engagement of recently released prisoners into paid work.

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<sup>153</sup> Data from Ministry of Social Development and the Department of Corrections.

<sup>154</sup> Corrections website [http://www.corrections.govt.nz/\\_data/assets/pdf\\_file/0009/394902/Complete-Recidivism-report-2009-COC.pdf](http://www.corrections.govt.nz/_data/assets/pdf_file/0009/394902/Complete-Recidivism-report-2009-COC.pdf).

<sup>155</sup> Uggen, C. and Staff, J. (2001), *Work as a Turning Point for Criminal Offenders*. Corrections Management Quarterly, 2001, 5(4), 1–16; Bloom, D., Redcross, C., Azurdia, G., Zweig, J. and Pindus, N. (2009), *Transitional Jobs for Ex-Prisoners: Implementation, Two-Year Impacts, and Costs of the Center for Employment Opportunities (CEO) Prisoner Reentry Program*. New York. MDRC. Available at SSRN: <http://ssrn.com/abstract=1667003>.

## 9.5 Health services to support the new welfare system

The New Zealand health system has a key role to play in reducing welfare dependency.

In Chapters 3 and 4 we discussed the key role that general practitioners and other health professionals could play in preventing people from needing welfare, by extending the focus on promoting the benefits of work to their patients and supporting patients to return to work where possible.

However as well as these primary health care implications, there should be a greater focus in the health system on preventative and rehabilitative health services to people at risk of long-term welfare dependency.

Currently there are failures in the health system – particularly around mental health service provision, youth health and alcohol and drug services – the consequences of which are necessarily absorbed by the welfare system. There are also shortcomings in the generic rehabilitation services, and a missing managed care workforce. A focus on reducing long-term welfare dependency will require a rebalancing of health service provision in many areas.

Across the OECD, there has been growing concern about the rising rate of mental illness and its impact on the welfare system through increasing uptake of incapacity benefits.<sup>156</sup> In December 2009, 41 per cent of people receiving a Sickness Benefit and 29 per cent of people receiving an Invalid's Benefit had psychological or psychiatric conditions listed as their first condition.

The improved assessment of work ability proposed by the Working Group is likely to highlight significant unmet demand in current mental health services.

Specialist interventions would be required to support people with mental illness into work as mainstream employment reforms and programmes have been found to have a limited effect.<sup>157</sup> Promising methods for addressing mental illness include stress management techniques, brief individual therapy, early return to work and frequent contact with managers.<sup>158</sup> For people with severe mental illness, individual placement support programmes<sup>159</sup> are more effective at helping people to find jobs than are pre-employment training schemes.<sup>160</sup> However, it should be noted that there is limited research available on the effectiveness of interventions to help people with common mental disorders remain in work or return to work after sickness.

The UK Government recently committed £300 million over three years to 'Improving Access to Psychological Therapies'. This initiative aimed to reduce the number of long-term welfare claimants with mild to moderate psychological needs that could have been better supported in primary care through increased access to psychosocial therapies. This investment would be funded by the resulting reduction in welfare costs and social costs such as crime, family breakdown and tax. Increased funding of early intervention mental health services could play a big part in preventing many people from losing their jobs and needing income support. In 2009/10, only \$27.85 million was spent on specific primary mental health services for people with mild to

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<sup>156</sup> OECD. (2010), *Sickness, Disability and Work; A synthesis report*, Paris.

<sup>157</sup> Black, C. (2008) 'Working for a Healthier Tomorrow', available at <http://www.dwp.gov.uk/docs/hwwb-working-for-a-healthier-tomorrow.pdf>; OECD. (2010), *Mental Health, Disability and Work. Issues for discussion*. Paris.

<sup>158</sup> Hill D., Lucy D., Tyers C., et al., (2007) *What Works at Work: Review of Evidence Assessing the Effectiveness of Workplace Interventions to Prevent and Manage Common Health Problems*. Health Work Wellbeing; Seymour, L. and Grove, B. (2005), 'Workplace Interventions for People with Common Mental Health Problems', British Occupational Health Research Foundation.

<sup>159</sup> These are also referred to as evidence-based supported employment programmes.

<sup>160</sup> Royal College of Psychiatrists (2010) 'No Health without Public Mental Health', available at [http://www.rcpsych.ac.uk/pdf/PS04\\_2010.pdf](http://www.rcpsych.ac.uk/pdf/PS04_2010.pdf); Black, C. (2008), see above.

moderate mental health or substance abuse problems, compared with the \$1.157 billion that District Health Boards received for specialist mental health services for people who are severely affected by mental disorders, including addiction.

Investment in drug and alcohol rehabilitation would also be required to support the additional requirements we propose to place on drug and alcohol addicts. There is a shortage of alcohol and drug treatment services available in New Zealand. Current specialist addiction services can provide treatment to approximately 0.5 per cent of the population. The National Committee for Addiction Treatment suggests that this needs to at least double so that those most severely affected by addiction gain timely treatment.<sup>161</sup>

#### ***Recommendation 41: Health services to support the new welfare system***

The Welfare Working Group notes that significant shortcomings and lack of capacity in core health service provision are putting pressure on the welfare system and recommends:

- a) Employment and Support New Zealand and the relevant health agencies ensure that people have access to timely health and disability services where these conditions impact on a person's ability to work;
- b) the Government reprioritise and address capacity shortages in mental health services, and in generic rehabilitation services and managed health care, so as to provide greater emphasis on early intervention and reduce significant unmet demand;
- c) health services for young people, particularly around mental and sexual health, be given a priority; and
- d) additional investment in drug and alcohol treatment services to support stronger requirements to address substance dependence for people on welfare.

### **9.6 Wider economic policies to support more jobs for people leaving welfare**

Future job growth is critical to the success of welfare reform, and new jobs need to be suitable for the circumstances of people leaving welfare.

#### ***Policies that support employment***

Employment growth requires effective macro and fiscal policies, a general regulatory environment that reduces the costs of doing business, and well designed labour market policies. These policies were a focus of some submissions.

Some submissions on our Options Paper argued that Government should be more proactive about creating a vibrant labour market that generated more jobs. For example the New Zealand Chambers of Commerce argued that 'reforms to increase flexibility of the labour market and remove barriers to employment are possibly the single biggest thing the Government can do to reduce benefit dependency'.

Mandating minimum terms and conditions – for example through minimum wages, dismissal provisions and minimum leave entitlements – involve a balance between job creation and protection of vulnerable employees. The OECD urges care in the use of such policies as they sometimes have the unintended consequence of reducing employment, often among the vulnerable workers the policies are designed to address.

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<sup>161</sup> National Committee for Addiction Treatment New Zealand (2008).

We are of the view that employment growth is an important area, and Government should undertake an investigation into whether labour market barriers to employment need to be addressed as part of a strategy to reduce welfare dependency.

### *Jobs for people leaving welfare*

Submissions and feedback on our Options Paper identified both the opportunities and the difficulties of employing people who had been on welfare.

Some employers told us that they had problems with employing people on a benefit who had low skills and poor employment records. They mentioned that it was risky to employ people who had been on a benefit because they had lost appropriate work habits and motivation. The widespread use of drugs was also frequently mentioned as a barrier to employing some beneficiaries.

Others employers told us about the considerable efforts they were making to ensure that the design of workplaces and jobs were suitable for people leaving the benefit system.

We were told of many examples of dedicated training and induction programmes and concepts such as tiered training wages, partnering with polytechnics to provide NZQA-approved training and programmes combining classroom time with on-the-job training alongside experienced older employees. There was also considerable joint investment in taking on workers from a benefit through the use of subsidies. A number of employers commented on the importance of ensuring that employment programmes were targeted at the specific needs of their industry.

### *Supporting employers to provide flexible work arrangements*

Flexible work arrangements and assistance to overcome physical or other workplace constraints can be an important factor in sustaining employment of people who have been on welfare. The Human Rights Commission, as part of its 'National Conversation on Work' recommended that partnerships between the Commission and business organisations be developed to promote human rights at work, including information about anti-discrimination in employment.<sup>162</sup> As part of the 2006 Welfare to Work reforms in Australia, a range of approaches were used to encourage employers to provide more employment opportunities for the target priority groups which included sole parents and disabled people. These approaches included an advice service and information for employers along with specific targeted incentives.<sup>163</sup>

### *Flexible arrangements for sole parents*

A comprehensive OECD review concluded that workplace flexibility is an important factor in allowing sole parents to juggle the demands of parenting and work.<sup>164</sup> This was echoed in some of the responses we received on the Options Paper, which suggested that parent-friendly workplaces are an important part of arrangements that would have more sole parents enter paid work. Responses also highlighted that there needs to be more recognition that parents sometimes need to be able to take time off work to take their children to the doctor, attend school meetings and care for sick children.

The OECD review also found that for many businesses there was a strong business case for flexible working hours and conditions which improve recruitment and retention of staff and reduce

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<sup>162</sup> Human Rights Commission. (2010), *"What next? National Conversation about Work"*, Wellington.

<sup>163</sup> These included the Workplace Modification Scheme and Wage Subsidy Scheme.

<sup>164</sup> OECD. (2007), *Babies and Bosses: Reconciling work and family life – synthesis report*. Paris.

absenteeism.<sup>165</sup> However, there are some specific approaches that could be considered to support strong and sustained relationships between employers and ex-beneficiaries.

Compared to the OECD average, New Zealand has a high rate of part-time employment amongst women.<sup>166</sup> This suggests that many firms are providing family friendly workplaces. In addition, a range of initiatives have been developed to support the reconciliation of work and family and showcase best practice. These include the EEO awards, paid parental leave, flexi-leave provisions, the Holidays Act and early childhood education.

Despite these initiatives, we have heard from some sole parents that they find it difficult to find family friendly employment. We recommend that further information on the provision of flexible working hours and conditions is provided to employers.

### **Supporting employers to address workplace related health and disability issues**

Prevention of employment-related sickness and disability starts in the workplace. There is growing evidence that health and well-being programmes bring many benefits to firms.

*PriceWaterhouseCoopers found considerable evidence from literature reviews and over 50 United Kingdom-based case studies that health and well-being programmes have a positive impact on intermediate and bottom-line benefits. Intermediate business benefits include reduced sickness absence, reduced staff turnover, reduced accidents and injuries, reduced resource allocation, increased employee satisfaction, a higher company profile, and higher productivity.*

*PriceWaterhouseCoopers (2008) as cited in Black (2008)*

In many countries, policies to support more employer commitment to prevention and rehabilitation have focused on providing information to employers on the financial benefits of promoting a healthier workforce and stronger engagement in the rehabilitation process, especially through early intervention approaches. For example, the UK's Health Work and Well-being is a cross-Government initiative promoting links between health and work with initiatives in a range of workplaces.

The Working Group recommends that information is provided to employers to support them in employing sick and disabled people and to help their injured staff back to work. Early intervention when sickness or impairment occurs is critical for a return to work or staying in work. As we noted in the Options Paper, the ACC's Better@Work pilots provide a promising model for supporting employers to help their injured staff get back to work as early as they can. The formation of the Employer Disability Network is also an especially positive development.

### **Other support arrangements**

It can be more risky for employers to consider offering employment to the small group of people who have little work history or been out of work for a long period because of complex personal circumstances. To overcome this, targeted programmes could be used to support some employers. For example, in-work support for six months, where a third party contractor ensures the employee commits to the job and resolves any out-of-work problems, may be sufficient to overcome these risks. This time-limited in-work support would form part of contracting for outcomes services for those at high risk of long-term welfare dependency.

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<sup>165</sup> OECD. (2007), *Babies and Bosses: Reconciling work and family life – synthesis report*. Paris.

<sup>166</sup> Ibid.

Broadening the concept of in-work support could involve providing support to both employers and new employees to manage work and family commitments. This may involve the development of practical ways to enable new employees to manage their family commitments in a way that does not impede their work. It could also involve practical support for new employees as they adjust to working, by addressing particular issues such as how to manage work when a child becomes sick. Finally, it may involve providing practical advice to employers about how to manage and support new employees with specific issues.

The Industry Partnership and Contracted Services approaches that involve a delivery agent partnering with industries and firms to address labour and skills needs, as well as to support beneficiaries into work have been successful. Consideration could be given to an expanded role for such services to provide practical support for employers and industries to build practices that would enable them to recruit and retain sole parents and reduce absenteeism.

## 9.7 Summary

Addressing long-term welfare dependence cannot be done by looking at issues within the welfare system alone. As well as making changes to welfare policy and delivery, there needs to be a concerted plan across a number of areas of Government activity.

Priority areas for attention include education and health. The number of people leaving school without the skills or aptitude to find or sustain employment is a major concern, and this needs to be addressed as a matter of urgency. Reducing teen births is a high priority, as is assisting teenage parents to give their children the best start in life and preparing the teen parent to move into the workforce. Similarly, reducing the number of people unable to work because of sickness points to the need to address areas within the health system where there are long-standing deficiencies in services. Gaps in mental health, rehabilitation services and managed care services create costs which inevitably show up in the welfare system, not to mention costs to individuals in terms of their well-being. Engagement in paid employment by previous offenders is a key strategy to reduce recidivism.

Stable economic policy and policies which support employment growth are critical, and will provide a platform for employers to play their part. There are strong examples of private sector leadership working with vulnerable groups to reduce barriers to employment which can be learnt from and built on.



***Recommendation 42: Policies to support employment growth***

The Welfare Working Group recommends that the Government:

- a) ensure that stable macro-economic policy, employment-focused labour market regulation and policies which foster job creation and reduce skill mismatches in the labour market support a strategy of reducing long-term welfare dependency; and
- b) undertake an investigation into whether labour market barriers to employment need to be addressed as part of a strategy to reduce benefit dependency.

***Recommendation 43: Promoting responsive workplaces***

The Welfare Working Group recommends:

- a) that an information package be developed in association with employers to showcase best practice in assisting people with employment barriers to enter and stay in paid employment, and that this include information about the benefits of investing in family friendly and healthy workforce policies;
- b) that an investigation of how an early intervention approach that links a person with a illness or disability, with their family doctor and their employer, be carried out for use in the welfare system (similar to the ACC Better@Work scheme);
- c) that access to practical advice and support for those leaving the welfare system and entering new workplaces is expanded to enable strong and sustained employment relationships through:
  - i. the provision of targeted in-work support for at-risk individuals and their employers; and
  - ii. an expansion in the Employers Disability Network and other services so as to better support employers who are implementing cost-effective health, disability, and family-friendly workplace policies.

# Chapter 10. What could be achieved from the new approach?

## 10.1 Introduction

Over the past eleven months the Welfare Working Group has presented a range of options and directions for reform in the Issues Paper and the Options Paper. These options and directions have intentionally been high level, designed to guide Ministers' decisions about the further detailed work needed to implement the Working Group's recommendations. A specific welfare reform implementation plan would also need to take account of a variety of other considerations, including:

- the current and future fiscal situation;
- complementary areas of reform;
- overlapping policy decisions that need to be made to implement reform;
- decisions Government makes on priorities for programme change; and
- capacity to deliver reform with available organisational and human resource capability.

The overall impact of the reforms is dependent on the nature of the system, the many factors outside of the welfare system (including the education system and the economy), and the way that people respond.

For the purposes of this review it is not possible to precisely model and cost the sub-components of the programmes and then aggregate the effects to a total reform cost-benefit analysis. In part this relates to the degrees of uncertainty in each of the components and in part it relates to the complex interactions between different components of a package – particularly the importance of an approach that combines better support and greater work-focused expectations.<sup>167</sup> We therefore model the package as a whole, rather than attempting to model specific components.

In this section we review some of the evidence on welfare reform and the impact on different groups and discuss the likely impacts. We examine the potential impact on long-term welfare receipt, employment, fiscal costs, on children and families, on poverty, for sick and disabled people, for Māori, and for other economic and social outcomes that could result from a large scale, well-implemented reform. The scenarios presented here scope the opportunity for improvement and, while upper estimates, demonstrate the scope of what could be achieved by the reforms recommended in this Report.

We then undertake some scenario analysis of a reform to the system as a whole that show the costs of inaction and the benefits of action. In Chapter 2 we discussed the importance of reducing the number of people on welfare by 100,000 people by 2021. In the past many successful welfare reforms have led to large increases in employment and reductions in welfare. These reforms include: the reforms to ACC in the late 1990s; reforms to the Unemployment Benefit in the mid 1990s and early 2000s; the Australian Welfare to Work reforms; and cross-country differences in numbers on welfare that reflect differences in policy settings.

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<sup>167</sup> OECD (2006) shows that for an activation strategy to be successful it must include policy decisions across a range of dimensions (including targeting, levels of support, expectations and the ways that services are delivered). OECD (2006), *OECD Employment Outlook*, Chapter 3, OECD.

Our analysis indicates that if the reform outlined in this Report were to proceed it could potentially result in:

- a reduction in the numbers of people on welfare in New Zealand of between 49,000 and 93,000 people;
- an expected cost of between \$215 and \$285 million per year in additional services;
- reduction in the future liability from around \$47 billion to \$34 billion by 2021;<sup>168</sup>
- annual net savings of around \$1.3 billion per annum if the scenario outcomes are achieved;
- the numbers of partners reliant on welfare declining by around 8,000 people taking the overall decline in numbers reliant on welfare to 101,000 people; and
- higher employment, lower poverty, reduced inequality, better economic outcomes and improved outcomes for children, disabled people, those who are sick, Māori and other key at-risk groups.

## 10.2 The policy foundation for the assessment

The Working Group is proposing a major change to welfare in New Zealand to improve employment outcomes and to reduce the numbers of people on welfare for long periods. This reform is not simply about providing a range of new programmes within existing arrangements, but it is about a fundamentally new welfare system, for participants, for people delivering welfare and for the broader community. The major components of the reform are:

- the establishment of a feasible medium term target reduction of 100,000 fewer people on welfare by 2021;
- a new delivery agency that is responsible for achieving this target, that is transparently measured against the achievement of this target, and that has access to the full range of instruments to achieve this target (while ensuring a strong welfare system for those that need it);
- a default expectation of work for people who are currently classified as unemployment beneficiaries, sickness beneficiaries, some invalid's beneficiaries, sole parents with children aged three years and over, Domestic Purposes Benefit-woman alone and widows beneficiaries;
- no work expectation for sole parents with children under three years old, some invalid's beneficiaries, Domestic Purposes Benefit-caring for sick and infirm beneficiaries, and people in some other specific temporary circumstances such as bereavement;
- a range of new interventions and support that are targeted at those people for whom it would have the greatest effect, with a particular focus on providing more intensive support for those at risk of long periods of welfare dependency;
- a new welfare system with a simpler payment structure; and
- a greater focus on supporting people into work so that they no longer need to use the welfare system, through better engagement with doctors and employers as people apply for welfare.

The new system is a multi-dimensional approach to reducing welfare dependency with:

- increased levels of personal responsibility for people on welfare to find work;

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<sup>168</sup> Figures are projected in 2021.

- increased expectations for those stakeholders outside of the welfare system – the education system, the health system, employers and the community more broadly; and
- increased accountability on the delivery agent to provide cost-effective interventions to support people to find and move into work.

### 10.3 The evidence for the potential large impact of welfare reform

The impact that welfare reform has on outcomes is the subject of a large and significant debate internationally.<sup>169</sup> While there is some consensus in the mainstream literature about the consequences of welfare reform, there remain significant uncertainties. These uncertainties are in part driven by the observation that similar types of reforms can have different effects depending on the context that they are undertaken, particularly:

- the nature of people on welfare and their capacity for paid work now or in the future;
- the economic climate and the availability of vacancies;
- the coherence of the reforms as a package;
- the capacity, capability and institutional arrangements of the organisation(s) implementing the reform; and
- the ways in which reforms are implemented.

It is therefore difficult to be precise about exactly how many people will leave welfare as a result of a specific reform, before the reform is implemented. This uncertainty suggests that it is important that reforms are based on a model of continuous improvement taking account of what works. The system needs to be adaptable and monitoring and evaluation needs to be undertaken throughout the reform process to identify what elements are or are not working and how modifications can be made quickly.

In the Issues Paper and the Options Paper we have presented broad ranging evidence on the effectiveness of reforms in different countries. Our reading is that the reforms that we have proposed are consistent with identified best practice. In particular, reforms that combine greater levels of work expectations (including preparing for work) for more people, combined with more intensive support for those that need it, and with strong governance and accountability arrangements lead to significantly stronger outcomes (see the Options Paper for further discussion).<sup>170</sup>

In this section we review the evidence presented in the Issues Paper and the Options Paper that shows that the welfare system can be a significant driver of being on assistance or being in employment.

#### *The impact of successful previous reform for sole parents*

The welfare system for sole parents does have a significant influence over their employment rates and their likelihood of being out of the welfare system.

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<sup>169</sup> OECD (2006), *OECD Employment Outlook*, chapter 3, OECD. Heckman, J.J., Lalonde, R.J. and Smith, J.A. (1999), "The Economics and Econometrics of Active Labor Market Programs", in Ashenfelter, O. and Card, D. (eds.), *Handbook of Labor Economics*, Vol. 3A, North-Holland, Amsterdam. Martin, J.P. and Grubb, D. (2001), "What Works and for Whom: a review of OECD countries' experiences with active labour market policies", *Swedish Economic Policy Review*, Vol. 8, No. 2, pp. 9-56. Kluve, J. (2006), "The Effectiveness of European Active Labor Market Policy", IZA Discussion Paper. No. 2018, Bonn.

<sup>170</sup> See Options Paper and references therein particularly: OECD (2006), *OECD Employment Outlook*, chapter 3, OECD.

Until recently New Zealand, Australia and the United Kingdom did not have work expectations for sole parents prior to their youngest child being in secondary school or later.<sup>171</sup> In Figure 5.2 of the Issues Paper we showed that these countries now all have a work expectation when the youngest child reaches school age. In contrast we showed that France, Germany, Norway and Switzerland have a work expectation when the youngest child is three years of age. A range of other countries have work expectations at an earlier age (including Sweden, Japan and Denmark).

The impact that low levels of work expectations have on employment rates is demonstrated by the fact that New Zealand, the United Kingdom and Australia have low employment rates for sole parents (at 62 per cent or lower).<sup>172</sup> Countries with a work expectation around a child reaching three years of age (France, Germany, Norway and Switzerland) have medium levels of employment (between 65 per cent and 75 per cent). Countries with an earlier work expectation tend to have even higher employment rates (for example, 80 per cent or higher in Japan, Denmark and Sweden).

Another comparison is that New Zealand's rate of sole parent benefit receipt (3.7 per cent of the working age population) is nearly a third higher than the OECD average (2.8 per cent) and more than six times that in the United States (0.6 per cent).<sup>173</sup> The differences in sole parent welfare are likely to be driven by a range of factors (including social expectations about sole parenthood, sole parent participation in welfare, and sole parent employment), but welfare design is likely to be one of the key drivers of differences across countries.

The 2006 welfare reforms in Australia provide a useful comparison for New Zealand as they increased the work expectations and support for sole parents who had children between the ages of six years and 15 years. Many sole parents who previously would have received a sole parent payment were transferred to the equivalent of New Zealand's Unemployment Benefit (Newstart Allowance), while others had increased levels of work expectation while remaining on a parenting payment. In addition, increased level of support (with childcare, to find employment and other support) was provided. This reform in Australia resulted in a drop of around 15 per cent of the number of sole parents applying for welfare and 11 per cent more sole parents left welfare as a result of the reform.<sup>174</sup>

The reforms to sole parent welfare in the United States were significant. Changes included introducing time limits to welfare, a new earned income tax credit, and introduction of programmes to reduce the need for sole parents to use welfare. The impact of these reforms (in very strong economic conditions) was to reduce the numbers on sole parent welfare from a peak of 5.1 million families in 1994 to 1.6 million families in mid-2008.<sup>175</sup>

In February 1999 New Zealand introduced new expectations and supports for sole parents, with a part-time work expectation for sole parents with a child aged six to 13 years and a full-time work expectation for sole parents with older children. The number of people on the Domestic Purposes Benefit declined from 113,329 in 1998 to 107,821 in 2001. There was a fall in the numbers applying

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<sup>171</sup> Finn, D. and Gloster, R. (2010), *Lone Parent Obligations: A review of recent evidence on work-related requirements within the benefit systems of different countries*, United Kingdom Department of Work and Pensions, London; Kinnear, P., Grant, G. and Oliver, K. (2003), *Welfare Reform in Australia: An Evidence-Based Approach*, paper presented to the National Social Policy Conference, July 9-11, University of New South Wales.

<sup>172</sup> Source: OECD Family Database (Data around 2007).

<sup>173</sup> Latest available data used. The data refers to 2008-09 year for New Zealand, 2008 for United Kingdom, 2006-07 for Australia, 2004 for the United States and OECD-16.

<sup>174</sup> Australian Department of Education, Employment and Workplace Relations (2008), *Welfare to Work Evaluation Report*.

<sup>175</sup> Finn, D. and Gloster, R. (2010), *Lone Parent Obligations: A review of recent evidence on work-related requirements within the benefit systems of different countries*, United Kingdom Department of Work and Pensions, London; Kinnear, P., Grant, G. and Oliver, K. (2003), *Welfare Reform in Australia: An Evidence-Based Approach*, paper presented to the National Social Policy Conference, July 9-11, University of New South Wales.

for and being granted a Domestic Purposes Benefit and a three to five per cent rise in exit rates for sole parents on welfare.<sup>176</sup> The share of sole parents with children aged six to 13 years who were in employment increased from around 50 per cent prior to the introduction of work-testing in 1998 to around 60 per cent in 2002.<sup>177</sup> There are a range of reasons that we would expect more significant effects from the reforms in this Report than those in 1998/99. The reforms in 1998/99 coincided with the introduction of a new delivery agency, they were not in place for a significant period of time, and the reforms proposed in this Report include a new, more tailored approach to employment support.

**Table 10.1: Estimates of the impact of the welfare system on numbers of sole parents on welfare**

	<b>Impacts</b>
<i>Cross-country differences in sole parent employment</i>	Countries with work expectations for sole parents when their youngest child is older (New Zealand, Australia, the United Kingdom) have employment rates at or below 62 per cent, compared to countries with work expectations at earlier ages (Sweden, Denmark and Japan) that have employment rates at 80 per cent or higher.
<i>Cross-country differences in sole parent welfare receipt</i>	New Zealand's rate of sole parent benefit receipt is about 30 per cent higher than the OECD average and nearly six times higher than that in the United States.
<i>2006 Australian Welfare to Work reforms</i>	These reforms resulted in a drop of 15 per cent in the number of sole parents applying for welfare and 11 per cent more sole parents left welfare as a result of the reform.
<i>1990s United States Temporary Assistance for Needy Families reforms</i>	The numbers on sole parent welfare in the United States fell from a peak of 5.1 million families in 1994 to 1.6 million families in mid-2008.
<i>1998/99 New Zealand welfare reforms</i>	The share of sole parents with children aged six to 13 years who were in employment increased from around 50 per cent prior to the introduction of work-testing in 1998 to around 60 per cent in 2002.

Source: Provided in text

### **The impact of successful previous reform for sick people and disabled people**

The numbers of sick people and disabled people on welfare reflects the complex interaction of health and disability, labour market outcomes and the welfare system. While the impact of welfare reform on disabled people and those who are sick is more complex and uncertain than that for sole parents (particularly in the case of New Zealand), there are some conclusions we can draw and some evidence that the components of the package identified in this Report would have significant effects.

A key pillar of the reforms identified in this Report is the establishment of new approach to managing disabled people and those who are sick, based on improved assessment, clear expectations, greater access to the full suite of instruments that can improve outcomes and reduce dependence on welfare, a greater focus on the underlying drivers of long-term cost, more transparent reporting, and clear accountability arrangements. The ACC scheme in New Zealand provides an instructive comparison. In the Options Paper we identified that the number of long-term ACC claims declined from nearly 30,000 in 1997 to around 14,000 in 2004. This was the

<sup>176</sup> Information based on administrative grant and application data. Exit rate analysis described in Department of Labour and Ministry of Social Development (2001); *Evaluating the February 1999 Domestic Purposes Benefit and Widows Benefit Reforms: Summary of key findings*.

<sup>177</sup> Options Paper, Section 3.3.

consequence of a clear understanding of the longer time drivers of cost and consequent policy decisions that reduced these costs (including access to medical treatments and more accurate work ability assessment).<sup>178</sup>

Across the OECD there is a great variation in the levels of sickness and disability receipt. This ranges from above 10 per cent of the working age population in Hungary, Sweden and Norway to less than 4 per cent in Spain, France and Italy. Furthermore there has been a large variation in trends in disability and sickness benefit receipt across countries with some countries addressing increases in numbers on sickness and disability benefits. Sickness and disability benefit rates have declined significantly in a few countries, especially Poland, Portugal, Luxembourg and the Netherlands, following policy changes which tightened access to disability benefits. The beginning of a turnaround in the increasing beneficiary trend is also visible more recently in several other countries, including Sweden, Switzerland and the United Kingdom (however levels in 2008 were still higher than 10 to 15 years before).<sup>179</sup>

The 2006 Australian Welfare to Work reforms involved combining more work expectations with better work-focused support for people with partial work ability. While there were issues with the way that this partial work ability was identified, there was strong evidence that those people who were classified with partial work ability left welfare at significantly faster rates after receiving the support and expectations than equivalent people in earlier years where support was not available. Indeed DEEWR (2008) showed that there was a six per cent increase in the exit rate for people with partial work ability in Australian Welfare to Work initiatives.<sup>180</sup>

The Netherlands had high and rising numbers of people on sickness and disability benefits during the late 1990s and early 2000s. There has been major reform in the Netherlands that has included providing comprehensive work ability assessments for all people on these benefits under the age of 45 years, increased expectations of employers and other stakeholders, and increased expectations of people on sickness and disability benefits. Re-assessment of work ability saw 40 per cent classified with less impairment than previously or fit for work (for people under the age of 45 years) and following the reforms there was a drop in the numbers on sickness and disability benefits by 13 per cent (albeit from a higher level).<sup>181</sup>

In the United Kingdom a significant reform was undertaken to sickness and disability benefits during the mid to late 2000s. These reforms included providing a more active approach to people on sickness and disability benefits, and a better and more precise assessment of work ability. In the United Kingdom around 69 per cent of applicants for an incapacity benefit were classified as fit for work.<sup>182</sup> After a long period of rapid growth, the numbers on sickness and disability benefits stabilised and started to fall over this time.<sup>183</sup>

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<sup>178</sup> David Caygill's presentation to the Working Group forum, available at <http://ips.ac.nz/WelfareWorkingGroup/Downloads/David-Caygill-Will-the-benefit-system-deliver-for-NZ-in-the-future.pdf>.

<sup>179</sup> OECD (2010), *Sickness, Disability and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries*, OECD Publishing.

<sup>180</sup> Department of Education, Employment and Workplace Relations (2008); *Welfare to Work Evaluation Report*.

<sup>181</sup> OECD (2010), *Sickness, Disability and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries*, OECD Publishing.

<sup>182</sup> Department of Work and Pensions (2009), *Employment Support Allowance: Work capability assessment statistical release (October 2009)*, cited in Fletcher (2009) *Addressing the growth in Sickness and Invalid's Benefit receipt: A report prepared for the New Zealand Treasury*. This 69 per cent figure relates to applicants for an incapacity benefit. It is likely that a lesser percentage of those already on an incapacity benefit would be assessed as fit for work.

<sup>183</sup> OECD (2010), *Sickness, Disability and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries*, OECD Publishing.

In general to date in New Zealand the numbers of sick people and disabled people on welfare has continued to grow strongly over the past 40 years. A number of reform efforts have been attempted but with little impact on the overall increase in numbers. The major differences in the reform processes proposed in this Report from earlier reform efforts are that the new approach provides a greater focus on active work-focused support, a new approach to targeting support to sick people and disabled people, strong signals about the value of paid work for more people, and a clearer and accurate assessment of work ability.

**Table 10.2: Estimates of the impact of reform on numbers of sick and disabled people on welfare**

	<b>Impacts</b>
<i>The ACC approach to sick and disabled people</i>	The number of long-term ACC claims declined from nearly 30,000 in 1997 to around 14,000 in 2004.
<i>Reforms to sickness and disability benefits across countries</i>	Sickness and disability benefit rates have declined significantly in a few countries, especially Poland, Portugal, Luxembourg and the Netherlands, following policy changes which tightened access to disability benefits. The beginning of a turnaround in the increasing beneficiary trend is also visible more recently in several other countries, including Sweden, Switzerland and the United Kingdom.
<i>2006 Australian Welfare to Work reforms</i>	DEEWR (2008) showed that there was a six per cent increase in the exit rate for people with partial work ability in Australian Welfare to Work initiatives. <sup>184</sup>
<i>Reforms in the Netherlands in the 2000s</i>	Re-assessment of work ability saw 40 per cent classified with less impairment than previously or fit for work (for people under the age of 45 years) and a drop in the numbers on sickness and disability benefits by 13 per cent (albeit from a higher level).
<i>Reforms in the United Kingdom in the 2000s</i>	In the United Kingdom around 69 per cent of applicants for an incapacity benefit were classified as fit for work. After a long period of rapid growth the numbers on sickness and disability benefits stabilised and started to fall in the mid to late 2000s.

Source: Provided in text

### **The impact of a welfare system focused on paid work**

Beyond reforms to welfare for sick and disabled people and for sole parents, there are some lessons that we can learn from more active work-focused system on the numbers on assistance.

In the late 1990s and early 2000s a range of service delivery changes were made to the way that people on the Unemployment Benefit were processed. These changes included the establishment of Work and Income (combining income support and employment support into one agency) and the introduction of a new job search support model that had a greater focus on supporting people before they needed a benefit (see Section 2.1 of the Options Paper).<sup>185</sup> A work-focused benefit combined with a very strong economy (and some migration to non-work focused benefits) resulted in the numbers on the Unemployment Benefit falling from more than 154,000 in the 1990s to 28,000 in early 2008. Moreover inflows to the Unemployment Benefit fell by a quarter and exit rates from benefit increased by a fifth.

<sup>184</sup> DEEWR (2008); Welfare to Work Evaluation Report.

<sup>185</sup> These reforms include the establishment of Work and Income (joining benefit and employment services), emphasis on work from the first engagement, the introduction of pre-benefit activities, increased job search obligations and a strong focus on the needs of employers.



In 2003 New Zealand introduced a Jobs Jolt package of reform that included a variety of elements, one of which was increased expectations and support for older workers. An evaluation showed a subsequent 4.6 per cent increase in the proportion of older unemployment beneficiaries leaving benefit than a comparison group (see section 2.4 of the Options Paper).

**Table 10.3: Other estimates of the impact of a welfare system on numbers of recipients**

	<b>Impacts</b>
<i>1990s and 2000s reforms to the Unemployment Benefit</i>	Numbers on the Unemployment Benefit fell from more than 154,000 in the 1990s to 28,000 in early 2008, inflows to the Unemployment Benefit fell by a quarter and exit rates from benefit increased by a fifth.
<i>Jobs Jolt</i>	There was a 4.6 per cent increase in the proportion of older unemployment beneficiaries getting off benefit than a control group, resulting from an increase in expectations and supports.

Source: Provided in text

### **The impact of contracting out and alternative service provision**

A key reform outlined in this Report is the change in institutional design of the delivery of the welfare system. The Report proposes greater transparency of the delivery of assistance, more of a focus on outcomes, more contestability in the provision of welfare services and drawing in the capability of delivery agents outside of Government.

There is evidence of large and significant effects of outcome based contracting in New Zealand relative to non-outcome based approaches. In the outcome based funding pilots' evaluation, a group on outcomes based programmes were between 10 and 20 per cent more likely to be off-benefit in the year after participation than a control group who did not participate.<sup>186</sup>

The evidence of the cost-effectiveness of the Australian model of employment services has been well-documented. In the Australian model, employment services are delivered by non-Government and private sector employment service delivery agents. Payments for service are based in large part on outcomes delivered and business is allocated to high performing providers. Following the introduction on the Job Network in May 1998, the costs per employment outcome fell by a quarter and programme participants in Australian employment services consistently have off-benefit rates seven to 11 per cent higher than non-participants.<sup>187,188</sup>

**Table 10.4: Service delivery design and numbers on welfare**

	<b>Impacts</b>
<i>Outcome based funding pilot in New Zealand</i>	A group on outcomes based programmes were between 10 and 20 per cent more likely to be off-benefit in the year after participation than a control group who did not participate.
<i>Delivery of Australian Employment Services</i>	Following the introduction on the Job Network the costs per employment outcome fell by a quarter and programme participants in Australian employment services consistently have off-benefit seven to 11 per cent higher than non-participants.

Source: Provided in text

<sup>186</sup> Ministry of Social Development (2004), Outcome Based Funding (OBF) Pilots Evaluation Report.

<sup>187</sup> Department of Employment and Workplace Relations (2002), Job Network evaluation— stage 3 evaluation report.

<sup>188</sup> Department of Employment and Workplace Relations (2006), Customised Assistance, Job Search Training, Work for the Dole and Mutual Obligation: A Net Impact Study.

## 10.4 Modelling a scenario of reform

In this Chapter we have outlined the major elements of reform and the impacts of previous significant reforms. We now present one reform scenario based on the directions outlined in this Report, and outline its fiscal costs and discuss its potential benefits.

We emphasise that what is presented here is not a costing of the proposals in this Report, but a scenario of what could be achieved from a successful reform package. An important stage of the decision making process will be a formal costing of the proposed reforms.

Based on what has been achieved elsewhere, our assessment is that a large scale and successful reform (if well implemented) could yield the outcomes that follow.

### Modelling scenario - programme costs

There are a wide range of policy choices that would influence the overall programme costs, including how many people would be targeted for more intensive support, how they would be targeted and what types of services and supports that they would receive.

In order to provide a scenario of potential fiscal costs in Table 10.5 below we broadly assume that around 10 per cent of Unemployment Benefit, Domestic Purposes Benefit –Women Alone and Domestic Purposes Benefit –Caring for the Sick and Infirm, 15 per cent of Domestic Purposes Benefit –Sole Parent and Sickness Beneficiaries, and 25 per cent of certain groups currently categorised to Invalid’s Benefit are directed to intensive support, with the remainder being provided job search support. The detailed modelling specification and results are available on the Working Group website. We assume a cost of around \$1,000 per person that receives job search support and a cost of between \$5,000 and \$20,000 for people receiving intensive support (depending on their level of support needs).<sup>189,190</sup> These costs are broadly based on the approach used in the Australian model of employment services, as there is no equivalent publicly available costing information for a streaming model in New Zealand.

**Table 10.5: Costs of service provision in Australian Employment Services**

	Per cent	Service and investment account	Outcome or placement fees
Stream 1 – work ready	53	Up to A\$792	Up to A\$440
Stream 2 – disadvantaged 1	22	Up to A\$1,435	Up to A\$2,800
Stream 3 – disadvantaged 2	10	Up to A\$2,220	Up to A\$6,600
Stream 4 – referral from job capacity assessment	15	Up to A\$4,386	Up to A\$6,600

Source: [http://www.deewr.gov.au/Employment/EmploymentServicesProcurement/esc2009\\_12/Pages/home.aspx#esd](http://www.deewr.gov.au/Employment/EmploymentServicesProcurement/esc2009_12/Pages/home.aspx#esd).

<sup>189</sup> The figure associated with Job Search Service represents the costs of regular contact with the jobseeker regarding obligations and available work opportunities, the collection of job vacancies and building strong relationships with employers, and access to specific funds to overcome specific issues that some jobseekers may face when applying for specific jobs, for example, transport, short-term training for specific work-related skills, work clothes or other costs associated with employment.

<sup>190</sup> The figure associated with Intensive Services refers to regular one-on-one contact between the delivery agent and the jobseeker for a sustained period (13 weeks, 26 weeks or longer) that involves identifying and addressing labour market related barriers, incentives on the delivery agent to promote a focus on paid work, resources to support larger scale interventions to support jobseekers to prepare for and then move into work (personal support programmes focused on addressing personal barriers that prevent access to employment, training or other work related services). The aim of these services would be to be professional, flexible, and sensitive to the participant’s circumstances and background as well as tailored to the needs of both the participant and local services available in the community.

We assume that the new model of services are provided to new entrants to the system from July 2012, and are gradually rolled out to existing clients between July 2012 and June 2014.

We see from Figure 10.1 below that the proposed reform would be expected to cost between \$215 million and \$285 million per year. This figure is made up of two major components:

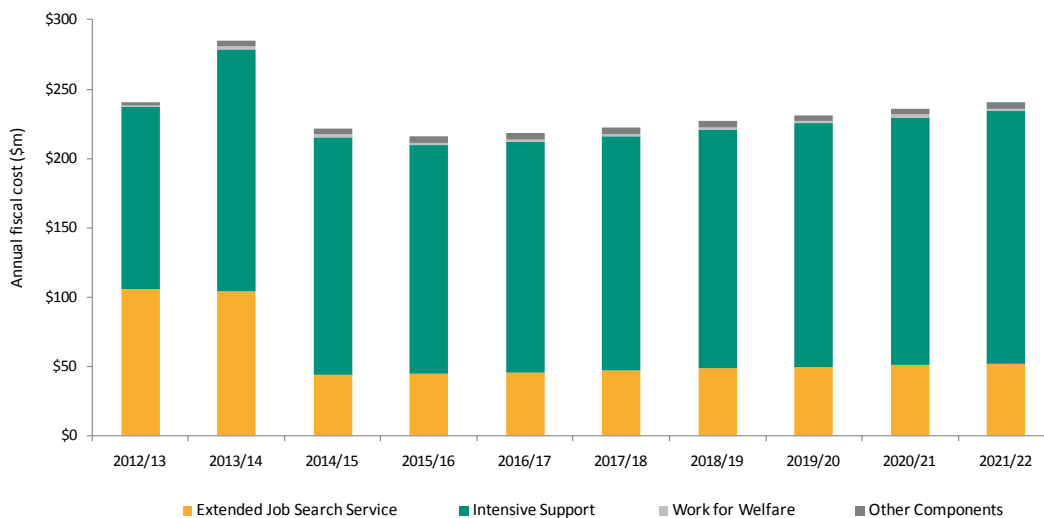
- increased access to the job search service - around \$105 million per annum in the first two years of operation, following by ongoing costs of \$45 to \$50 million per year; and
- a greater level of intensive support to those people at most risk of long periods of welfare dependency - around \$130 million in the first year of operation, followed by an annual cost of \$165 to \$180 million per year after that.

In this modelling we are not including some key costs (and cost savings) of reform that would need to be considered during the implementation phase, because they will be dependent on a wide range of policy and implementation decisions that will need to be made following the agreement to the directions put forward in this Report. These include:

- savings from the consolidation of existing programmes and functions;
- costs involved in changes to the organisations that deliver welfare and building up new capability to deliver employment services;
- new IT infrastructure to meet the new needs of the model; and
- additional costs associated with engaging with medical professionals, developing robust gateways, childcare, specialist support for young people, and transitional support for people to enter employment.

A detailed analysis of these would need to be undertaken during the implementation of reforms in this Report. However, even if the net costs of these elements are significant, the analysis that follows shows that there remains a potentially large and significant fiscal dividend from reform, which sits alongside better social outcomes for those otherwise experiencing avoidable long-term welfare dependency.

**Figure 10.1: Programme costs of an indicative scenario of reform**



Source: Ministry of Social Development and Welfare Working Group Secretariat.

### **Modelling scenario - numbers on assistance**

The impacts that reform would have on welfare numbers depends heavily on the types of reform, the way the reform is implemented, the level of investment that is undertaken, and how the groups respond. Given some of the diversity in the outcomes of reforms outlined in Section 10.3, we model three scenarios - high impact, medium impact and no impact. The no impact scenario assumes that there are no changes to existing entry and exit rates for beneficiaries to provide a scenario of what could otherwise happen to welfare numbers. The high impact scenario reflects upper estimates of what could be achieved from welfare reform.

#### **High impact scenario**

*Changes to inflows:* We assume that around 10 per cent of the population that currently applies for welfare would no longer do so as a result of the reform. These effects are similar to that observed in the Australian Welfare to Work reforms and well below the estimated impact of reforms to welfare in the United States and comprehensive work ability assessment in the United Kingdom and the Netherlands.<sup>191</sup>

*Changes to exit rates:* We assume that around an additional 10 to 15 per cent of people on welfare would exit welfare as a result of the reform. These effects are similar to those observed in Australian Welfare to Work reforms, considerably below the implied effects from ACC reforms in the mid to late 1990s and welfare reform in the United States.

#### **Medium impact scenario**

*Changes to inflows:* We assume that around five per cent of the population that currently applies for welfare would no longer do so as a result of the reform. This is similar to the implied effects of the 1998/99 reforms for sole parents and well below the impacts on inflows in United States welfare reform and Australian Welfare to Work Reforms for sole parents, and reforms to work ability assessment in the United Kingdom and the Netherlands, and changes to the numbers of ACC claims in the late 1990s.

*Changes to exit rates:* We assume that around an additional five to 10 per cent of people on welfare would exit welfare as a result of the reform. This is similar to the implied effects of the 1998/99 reforms for sole parents and well below the impacts on exit rates in United States welfare reform and Australian Welfare to Work Reforms, and changes to the numbers of ACC claims in the late 1990s.

#### **Results**

Figure 10.2 uses the above assumptions relating to how many people may enter and exit as a result of the reform to provide an estimate of the change in the numbers of people on welfare at a point in time.

If no reform is undertaken then the numbers on welfare increase from around 320,000 to 330,000 people over the next decade.<sup>192</sup> This does not include partners of beneficiaries, or beneficiaries under the age of 18 years who are not sole parents and beneficiaries aged 65 years or older.

If the reform is as successful as earlier reforms that had a medium impact then numbers would be expected to fall by nearly 50,000 people on welfare in 2021/22 than it would have been without

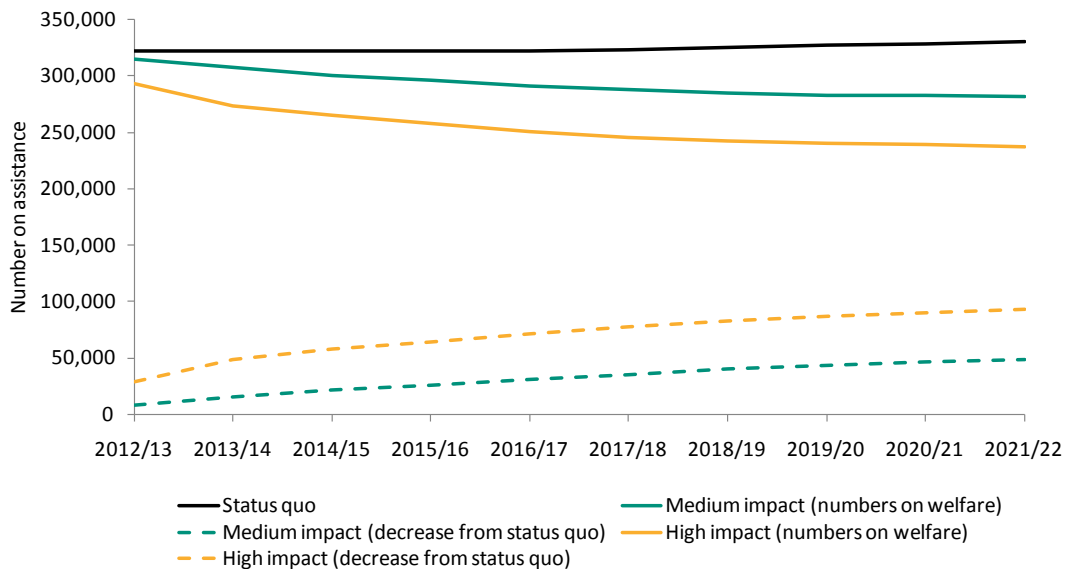
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<sup>191</sup> Across both scenarios we assume larger effects for sole parents with children over 3 years and for sick and disabled people, and smaller effects for people currently classified as unemployed, sole parents with children under 3 years old and little change in behaviour of carers of the sick and infirm.

<sup>192</sup> The increase in numbers on welfare over the period is the result of a rising working age population.

reform (see dark green bar in Figure 10.2). If the reform is as successful as earlier reforms that had a high impact then numbers would be expected to fall by around 93,000 people on welfare in 2021/22 than it would have been without reform (see black bar in Figure 10.2).

**Figure 10.2: Numbers on welfare, with reform and without reform**



Source: Ministry of Social Development and Welfare Working Group Secretariat.

In the modelling we assume that the effects feed through higher exit rates and lower entry rates to welfare gradually over the 10 year period. A key feature that has been observed in earlier reforms is that of an announcement effect.<sup>193</sup> With an announcement effect, there is an early and rapid change in behaviour to the new policy settings and the observed declines in numbers on assistance and reduced economic and social costs may occur more rapidly.

### Modelling scenario - future liability

Under the scenarios presented in this section, the number of people on assistance drops significantly. The numbers on assistance at any point in time are either 49,000 or 93,000 people lower than without the reform in the scenario. Each of these people is associated with a future liability. Further work would need to be done to account for the changes in the forward liability, however drawing on work from the Ministry of Social Development (2010), we can make some observations.<sup>194</sup>

At the time of the study, the average future liability costs of a person on welfare was expected to be \$141,000 (2009 NZ\$). If we apply this estimate of the future liability to the numbers on assistance in the absence of reform (331,000 people) then the future liability is \$47 billion.

If we apply this estimate of the future liability to the numbers on assistance with medium impact reform (282,000 people) then the future liability is \$40 billion (a reduction of around 15 per cent or by around \$7 billion).

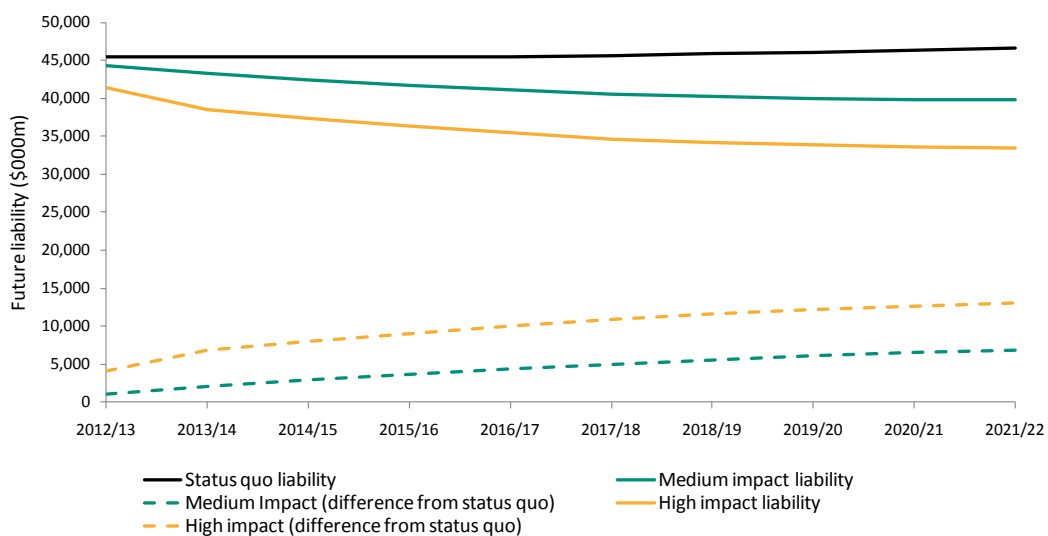
<sup>193</sup> Finn, D. and Gloster, R. (2010), *Lone Parent Obligations: A review of recent evidence on work-related requirements within the benefit systems of different countries*, United Kingdom Department of Work and Pensions, London; Kinnear, P., Grant, G. and Oliver, K. (2003), *Welfare Reform in Australia: An Evidence-Based Approach*, paper presented to the National Social Policy Conference, July 9-11, University of New South Wales.

<sup>194</sup> Ministry of Social Development (2010), *Future Liability: Estimating time on benefit and the associated cost*, Centre for Social Research and Evaluation, Ministry of Social Development, Wellington, New Zealand.

If we apply this estimate of the future liability to the numbers on assistance with high impact reform (238,000 people) then the future liability is \$34 billion (a reduction of around 28 per cent or by around \$13 billion).

If the reforms outlined in this Report reduce the numbers on welfare by the numbers detailed above, then the estimates presented here would provide an under-estimate of the impact on the future liability of the reforms. This is because the estimates here assume that the people who are no longer on welfare as a result of the reforms are drawn proportionately from all durations. There is an argument that successful reform may disproportionately reduce the durations of people on welfare for long periods thereby lowering the average life-time costs of a person on welfare.

**Figure 10.3: Projected future liability, with and without reform**



Source: Welfare Working Group Secretariat based on Ministry of Social Development (2010) data.

### Modelling scenario - net fiscal costs / savings

The numbers above provide estimates of the potential fiscal costs of a programme of reform, the possible effects of successful reform on the numbers of people on welfare and the impacts of the future liability of people currently on assistance. In Figure 10.4 below, we illustrate the potential overall net annual fiscal cost from a programme of reform. By net annual fiscal costs we mean the difference between the costs of the programmes and the savings that are made from people no longer being on welfare.<sup>195</sup>

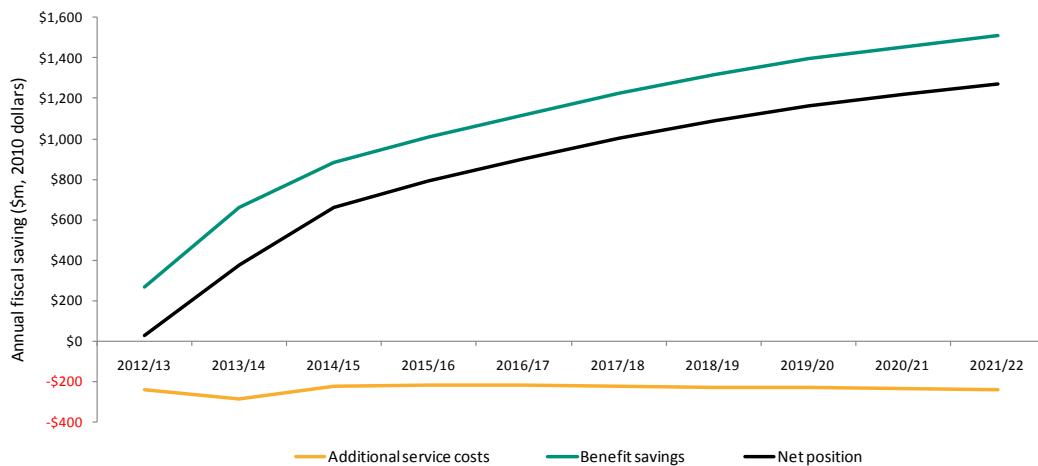
In this Report we have discussed the importance of looking at the long-term future liability of current clients, not only the annual costs of welfare receipt. This is particularly important when considering the relative merits of alternative instruments and policy design. We now describe how the costs and behavioural effects would feed through into the annual costs of welfare. This is important supplementary information to the future liability estimates as it shows when the investment in the new model would start to result in greater annual welfare savings than the

<sup>195</sup> The cost of benefit payments has been estimated from administrative data on average rates paid to beneficiaries between April-June 2010. Costs were measured as average rates per beneficiary within each parent benefit group as it was not possible to break out costs by age of youngest child, Invalid's Benefit reassessment status, or Likelihood of Long Term Benefit Receipt Index. Supplementary assistance impacts have been estimated based on the average rates per beneficiary for Accommodation Supplement, Disability Allowance and Temporary Additional Support/Special Benefit. Savings do not take account possible offsetting costs relating to increased non-benefit supplementary assistance. Benefit costs are net of tax, based on the payment rates for April to June 2010, and expressed in 2010 dollars.

investment placed in the model. It indicates the short term returns to Government from the investment placed into welfare and illustrates how quickly the returns would be achieved.

The overall programme costs of the reform are estimated to be around \$215 to \$285 million per year in the scenario. The number of people in the scenario who are off welfare and who otherwise would be on welfare is expected to rise to up to 93,000 people by 2021/22 as an upper estimate. As the number of people off welfare increases, this generates welfare savings starting at around \$268 million in 2012/13 and rising to nearly \$1.5 billion per year by 2021/22. Therefore, by the end of the period, the net fiscal savings of the reform could be around \$1.3 billion per year.

**Figure 10.4: Net annual fiscal savings of an indicative scenario of reform**



Source: Ministry of Social Development and Welfare Working Group Secretariat.

### 10.5 Adjusting for the number of partners

The modelling and scenario analysis that has been undertaken for this Report has been based on the population of people on welfare aged 18 to 64 years (and sole parents aged 16 to 17 years). The analysis has not included the impact of welfare reform on the numbers of partners of primary welfare applicants reliant on assistance. In Chapter 2 our preferred measure of the target would include reduction in welfare dependence amongst partners not only of primary applicants.

It was not possible to incorporate partners and people aged 65 years and over into the formal model for this Report, because of data and analytical constraints. However, we now undertake a simple adjustment for partners of primary applicants to enable a comparison with the preferred measure of the target in Chapter 2. In June 2010 there were around 30,000 working age partners reliant on a benefit. Our scenario analysis indicates that a decline in welfare numbers of up to 93,000 people, or 28.2 per cent, may be possible with a well implemented and well-designed reform. If we can get a proportionate decline in partners then this would result in a decline of a further 8,000 people. This would take the overall reduction in the number of people reliant on assistance to 101,000 people. Likewise in the medium scenario a proportionate decline in partners would result in a fall of a further 4,000 people. This would take the decline in numbers in this case to 53,000 people.

**Table 10.6: Adjusting the numbers for partners**

	Numbers	Percentage decline
Baseline	331,000	
Scenario 2	238,000	
<i>reduction in numbers</i>	<i>-93,000</i>	<i>-28.2%</i>
<i>reduced numbers of partners<sup>1</sup></i>	<i>-8,000</i>	<i>-28.2%</i>
<b>total decline</b>	<b>-101,000</b>	

*Note 1: The reduced numbers of partners (18 to 64 years) is calculated by multiplying 30,000 (the number of partners dependent on welfare as at June 2010) by the percentage decline in the baseline (28.2 per cent).*

*Source: Working Group Secretariat based on Ministry of Social Development data.*

## 10.6 Assessing the impact of the welfare reform proposals

We have outlined a high level scenario of reform. In this section we provide an overall assessment of the impact of the welfare reform proposals outlined in this Report (at times based on the scenarios presented above). We provide an assessment, see Table 10.7 for a summary, of the proposals on 10 key outcomes:

- numbers on welfare/numbers on welfare long-term/employment (Principle 1: recognise the value and importance of paid work to well-being);
- poverty and inequality (Principle 2: provide support for people when no other resources are available);
- outcomes for children/outcomes for sick and disabled people (Principle 3: foster strong social outcomes, including improved physical and mental health outcomes, and positive outcomes for children);
- outcomes for Māori/outcomes for other key groups; and
- fiscal cost/economic outcomes (Principle 7: be affordable and sustainable).

### *Numbers of people on welfare*

The proposals outlined in this Report would increase the work (and planning for a return to work) expectations, provide more active, tailored early intervention support for more people to enter employment and there would be stronger accountability on service delivery agents to achieve better employment outcomes. In the scenario analysis outlined in Section 10.4 we undertake a range of analyses to show a potential drop of between 53,000 and 101,000 people needing to receive welfare.

### *Numbers on welfare long term*

Our assessment is that much of the decline in welfare numbers would occur through a reduction in long-term welfare dependency, as over half of beneficiaries have been on welfare for five or more years out of the past 10 years. There is evidence that the most disadvantaged have the greatest increases in the exit rates from greater work focus. In a meta-analysis, the impacts for sole parents



were usually larger for more disadvantaged sub-groups.<sup>196</sup> In New Zealand, work testing for sole parents resulted in the greatest increase in exit rates for the most disadvantaged clients.<sup>197</sup>

### Employment

Our assessment is that employment of people at risk of long-term welfare dependency would increase by a similar size to the decline in welfare numbers (see discussion of evidence of cross-country differences in employment and the 1998/99 Domestic Purposes Benefit reform in Section 10.3 above). There may be some effects of people being neither on assistance nor in work (for example, because of entering new relationships), but there is limited evidence of these effects.<sup>198</sup>

### Poverty and income inequality

Higher levels of employment would lower risks of overall poverty (including across generations). Three-quarters of individuals in households where the primary source of income is income-tested benefits are in poverty, compared to only one in 10 individuals in households where the primary source is market income.<sup>199</sup>

Some submissions on the Options Paper noted the importance of income inequality on social and economic outcomes, drawing on the recent work of the epidemiologist Richard Wilkinson and Kate Pickett. Our assessment is that the reforms in this Report would increase the employment of people currently in jobless households, which would increase weekly income for those households currently with the lowest incomes. Without any changes in the rate of payment this would reduce household income inequality. There is evidence in New Zealand that changing patterns of employment had a modest effect on the income distribution over the period 1983 to 1998, but there were big effects of employment on income distributions within household types (i.e. sole parent households versus two adult households).<sup>200</sup>

Higher employment, reduced income inequality, and lower rates of household poverty (including across generations) improve social cohesion and lead to a range of other better social outcomes (see the Issues Paper and references therein). The level of offending by some people on a benefit is high, and there is evidence that this caused by joblessness.<sup>201</sup>

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<sup>196</sup> Greenberg, D., Cebulla, A., & Bouchet, S. (2005), Report on a meta-analysis of welfare-to-work programs. Institute for Research on Poverty, Discussion Paper no. 1312-05.

<sup>197</sup> Ministry of Social Development (2007), *The 2002 Domestic Purposes and Widow's Benefit reform: Evaluation report*. Wellington: Ministry of Social Development. Retrieved 20 October 2008, from <http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/research/dpb-widows-reform/>.

<sup>198</sup> Gennetian, L. A., & Knox, V. (2003), *Staying single: The effects of welfare reform policies on marriage and cohabitation*. New York.

<sup>199</sup> Perry, B (2010), *'Household Incomes in New Zealand: Trends in Indicators of Inequality and Hardship 1982 to 2009'*. MDRC. Hamilton, G. (2002), *Moving people from welfare to work: Lessons from the National Evaluation of Welfare to Work Strategies*. Washington D.C.

<sup>200</sup> Hyslop and Mare (2003) analyses changes in the distribution of equivalised gross household income and income inequality in New Zealand between 1983 and 1998. They find that changes in household structure and in the socio-demographic characteristics of households are the main factors contributing to the rise in inequality, while the large changes in the employment outcomes had a more modest impact, and there is little evidence of systematic effects of changes in the economic returns. Notably the modest employment effects were in large part driven by a compositional effect due to the rise in two adult households in employment (who were at the top of the income distribution), rather than an insignificant effect of employment per se (i.e. there were big effects of employment on income distributions within household types). Hyslop and Mare (2003), *Understanding New Zealand's Changing Income Distribution 1983-98: A Semiparametric Analysis*; *Economica*, vol 72, number 3.

<sup>201</sup> Working Group Issues Paper. Freeman, R. (1999), *The economics of crime Handbook of Labor Economics Ch 52 Volume 3, Part 3, 1999, Pages 3529-3571.*

### Outcomes for children

Our assessment based on the modelling and based on previous experience is that successful welfare reform would improve employment outcomes and reduce the numbers of people on welfare long term. If New Zealand could lower the share of jobless households to that experienced in the top performing countries, New Zealand's child poverty rate would drop by a quarter.<sup>202</sup> The top performing countries in terms of childhood poverty show that it is possible to have low rates of child poverty when reasonable welfare levels are combined with high employment rates for sole parents.

Unpublished analysis from the Ministry of Social Development shows that when sole parents move to full-time employment (30 hours per week) at the minimum wage, their new incomes almost always take them above 50 per cent and 60 per cent of median poverty lines particularly given the financial support that is provided through Working for Families. Growing up in a family on assistance is associated with a greater risk of welfare dependence.<sup>203</sup>

In the Report we outline a range of early intervention programmes to improve outcomes for at-risk children (as outlined in this Report, in recommendation 26). Early intervention programmes for the most at risk would lead to more positive outcomes for children across a range of dimensions – health, education and well-being. As outlined in Section 3.6 of the Options Paper childcare provision has positive effects on children by enabling higher family employment and hence more income;<sup>204</sup> studies generally show a positive relationship between participation in quality early childhood education and cognitive development; high quality care for children under the age of three provides modest improvements in cognitive functioning;<sup>205</sup> and quality out-of-home care may have positive effects, particularly in early school achievement, on children from disadvantaged backgrounds, or whose parents have poor parenting skills, mental illness or are overly stressed.<sup>206</sup>

OPMSAC (2010) notes that a key finding in the area of adolescent difficulties is that the young people who are most prone to problems frequently come from families marked by multiple disadvantages (including low income and poverty, poor parenting and other related factors). Developing policies that strengthen families and address the needs of young people reared in multiple-problem family environments needs to be a central plank of any policy aimed at adolescence.<sup>207</sup>

### Outcomes for sick people and for disabled people

The initiatives presented in this Report are expected to lead to increased employment of sick people and disabled people and therefore higher incomes. The employment rates of disabled people are below those of non-disabled people (60 per cent compared to 75 per cent according to the 2006 Disability Survey), the probability of having low incomes is higher, and the probability of

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<sup>202</sup> Whiteford, P. and Adema, W. (2007), *What works best in reducing Childhood Poverty: A Benefit or Work Strategy*; OECD Social, Employment and Migration Working Paper 51.

<sup>203</sup> Maloney, T., Maani, S., and Pacheco, G. (2003), 'Intergenerational Welfare Participation in New Zealand'; *Australian Economic Papers*, September 2003.

<sup>204</sup> OECD. (2009), *Doing Better for Children*, OECD, Paris; Gorgger, J. And Karoly, L. (2007), *The Effects of Work-Conditioned Transfers on Marriage and Child Well-being: A review*, NBER Working Paper No. 13485 October.

<sup>205</sup> Belsky, J. (2003), *Childcare and its Impact Young Children (0-2)*: Trembaly, R.E., Barr, R.G., and De V. Peters, R. (eds.), *Encyclopedia on Early Childhood Development*, Online, pp 1.6, Centre for Excellence for Early Childhood Development, Montreal, Quebec.

<sup>206</sup> OECD. (2009), *Doing Better for Children*, OECD, Paris; Bradley, R.H. and Vandell, D.L. (2007), *Child Care and the Well-Being of Children*, *Archives of Pediatrics and Adolescent Medicine*, Vol. 161, No. 7, pp.669-676.

<sup>207</sup> Office of the Prime Minister's Science Advisory Committee (2010); *Improving the transition: reducing social and psychological morbidity during adolescence – interim report*.

higher incomes is lower.<sup>208</sup> Section 4.2 of the Options Paper highlights that the evidence suggests that the key components of a well-designed welfare system to lift the employment for people with sickness or impairment are those included in this reform package.<sup>209</sup>

The initiatives presented in this Report would lead to improved health outcomes, support the management of medium and high level impairment and lead to better other life outcomes, because many health conditions significantly benefit from rehabilitation, activity and employment, rather than a passive approach. In the Issues Paper we showed that:

- the stress generated by joblessness is associated with medical problems that are linked to lifestyles involving poor diet and/or excessive consumption of alcohol;<sup>210</sup>
- the Royal Australasian College of Physicians' position statement which concludes that 'for most individuals, working improves general health and well-being and reduces psychological stress';<sup>211</sup>
- there is a broad consensus that sick and disabled people, especially those with 'common health problems', should be encouraged and supported to remain in, or return to work, as soon as possible because it is therapeutic; helps to promote recovery and rehabilitation; reduces poverty; and promotes participation in society, independence and human rights;<sup>212</sup> and
- this evidence, that work can have health benefits, sits alongside evidence that being out of paid work is itself harmful to health. This is reflected in higher mortality, poorer general health, poorer mental health and higher medical consultation and hospital admission rates.<sup>213</sup>

The new proposals will increase the level of work-related expectations on people who are currently not subject to these expectations. It will be important that during the implementation phase that these expectations can be appropriately tailored for person, family and whānau specific circumstances, while maintaining the intent of the change.

### **Outcomes for Māori and other key groups**

As proposals are developed it will be critical for a detailed assessment of the reforms to be carried out for Māori, Pacific people, children and young people, regional New Zealand and employers. Our assessment is that welfare reform will lead to a large and significant improvement in the outcomes for New Zealand and for these sub-groups particularly. People in poverty (or with very low incomes), who have fewer qualifications, who live in the most disadvantaged regions, who are least likely to find work, and who are refugees are most likely to be dependent on assistance.

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<sup>208</sup> Statistics New Zealand (2008), *Disability and the Labour Market in New Zealand in 2006*, Wellington: Statistics New Zealand.

<sup>209</sup> Also see OECD (2010) for further discussion. OECD (2010), *Sickness, Disability and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries*, OECD Publishing.

<sup>210</sup> Australian Department of Education, Employment and Workplace Relations (2009), *Jobless families in Australia: Their prevalence, personal and societal costs and possible policy responses*; report prepared by Tony Vinson for the Australian Department of Education, Employment and Workplace Relations; Darity, W. (1999), 'Who Loses from Unemployment', *Journal of Economic Issues*, 33(2) 491-96. Sen, A. (1997), 'Inequality, Unemployment and Contemporary Europe'; *International Labour Review* 136(2), 155-171; Junankar, N. and Kapuscinski, C.A. (1992), *The Costs of Unemployment in Australia*. EPAC, Canberra: AGPS.

<sup>211</sup> The Royal Australasian College of Physicians and the Australasian Faculty of Occupational and Environmental Medicine (2010); *Realising the Health Benefits of Work: A Position Statement*.

<sup>212</sup> Waddell, G. and Burton, A. (2006), *Is Work Good for Your Health and Wellbeing*; report commissioned by the Department for Work and Pensions on the scientific evidence on work and health and well-being.

<sup>213</sup> *Ibid.*

Welfare reform that is successful overall would disproportionately lead to better employment and income outcomes.

Māori are over-represented on assistance and have low rates of employment and high rates of poverty. The welfare reform in this Report identifies that if the reform is to work, it needs to work for Māori. Higher employment for Māori would reduce poverty (particularly child poverty), lead to increased autonomy and independence, and greater economic resources.

The new proposals will increase the level of work-related expectations on people who are currently not subject to these expectations. It will be important that during the implementation phase that these expectations can be appropriately tailored for person, family and whānau specific circumstances, while maintaining the intent of the change.

### *Fiscal cost*

A new welfare system would involve a range of start-up and implementation costs, increased investment in job planning and search programmes, and intensive support services. Significant policy and costing work would need to be undertaken to provide a specific cost for reform. The costs of any reform need to be seen against the potential welfare savings from the reform. The scenario outlined above suggests that investment cost may be of the order of \$215 million to \$285 million, but that the welfare savings, including savings from consolidation of existing programmes, could be significantly in excess of these costs.

### *Economic outcomes*

Higher levels of workforce participation lead to better economic outcomes and raises Gross Domestic Product (GDP).<sup>214</sup> In fact one of the drivers of economic growth over the late 1990s and early 2000s was stronger workforce participation.<sup>215</sup> Therefore higher employment and workforce participation will lead to significant flow-on effects to GDP.

There is a very close relationship between the difficulty businesses face in finding skilled labour and the number of people looking for work.<sup>216</sup> In 2008, while one in 10 of the working age population were on a benefit, around one in eight firms were reporting difficulty in filling low skilled and manual vacancies (see Section 4.14 of the Issues Paper). Increased numbers of people looking for work would therefore help to ease skills shortages in firms.

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<sup>214</sup> Treasury (2010), Challenges and Choices: Modelling New Zealand's long-term fiscal position. The other two drivers of GDP growth are population growth and growth in labour productivity.

<sup>215</sup> Treasury (2004), New Zealand Economic Growth: An Analysis of Performance and Policy.

<sup>216</sup> Department of Labour (2009), Skills in the Labour Market, available at <http://www.dol.govt.nz/publications/lmr/archive/slm-jul-09/slm.pdf>.

**Table 10.7: Summary of the assessment of the effect of reform on economic and social outcomes**

<b>Outcome</b>	<b>Impacts</b>
<i>Numbers on welfare</i>	Inaction on welfare reform could lead to numbers being 53,000 to 101,000 higher than in the absence of reform.
<i>Numbers on welfare long term</i>	Most of the decline in numbers from welfare reform would be from people on assistance long term.
<i>Employment</i>	The decline in numbers on welfare would be reflected in increased employment of the groups affected by reform.
<i>Poverty and inequality</i>	Higher levels of employment would reduce poverty and reduce income inequality (all else equal).
<i>Outcomes for children</i>	Increased parental employment would result in lower rates of child poverty. A greater focus on early intervention, a more active family focused welfare system would support better outcomes for children.
<i>Outcomes for sick and disabled people</i>	A more work-focused system would raise employment for sick and disabled people. This would increase income for sick and disabled people. Participation in employment also reduces the risk of some mental health conditions and a range of other conditions.
<i>Outcomes for Māori</i>	Māori are over-represented on assistance and have low rates of employment and high rates of poverty. The welfare reform in this Report identifies that if the reform is to work, it needs to work for Māori. Higher employment for Māori would reduce poverty (particularly child poverty), lead to increased autonomy and independence, and greater economic resources.
<i>Outcomes for other key groups</i>	People in poverty (or with very low incomes), who have fewer qualifications, who live in the most disadvantaged regions, who are least likely to find work, and who are refugees are most likely to be dependent on assistance. Welfare reform that is successful overall would disproportionately lead to better employment and income outcomes.
<i>Fiscal cost</i>	A new welfare system would involve a range of start-up and implementation costs, increased investment in job planning and search programmes, and intensive support services. Significant policy and costing work would need to be undertaken to provide a specific cost for reform. The costs of any reform need to be seen against the potential welfare savings from the reform.
<i>Economic cost</i>	Increased labour force participation would increase the availability of staff in some industries, occupations and regions; and higher employment would drive higher economic output (all else equal).

## List of Figures

Figure E.1: A new system of financial assistance .....	9
Figure 1.1: Employment rates of disabled people, sole mothers and older women, 1996 and 2006.....	41
Figure 1.2: The proportion of the population in receipt of working age benefits, 1960-2010.....	43
Figure 1.3: Rate of unemployment and benefit receipt among men aged 40-44 years, Census 1976-2006.....	44
Figure 1.4: Projected rates of welfare across different scenarios.....	45
Figure 2.1: Actual and forecast numbers of people employed 1998-2015.....	53
Figure 2.2: Specific components of the new work-focused welfare approach .....	57
Figure 3.1: Proportion of mothers employed by partnership status and age of youngest child, year to March 2010 .....	66
Figure 4.1: Overview of the key elements of the new system.....	83
Figure 5.1: A new system of financial assistance.....	102
Figure 5.2: Net weekly income from benefits compared to net income from 40 hours work at the minimum wage, March 2010.....	107
Figure 8.1: Long-term ACC claims 1994 to 2005 .....	133
Figure 8.2: Current model .....	139
Figure 8.3: Organisational responsibility for policy and delivery .....	139
Figure 8.4: Crown entity model for the Employment and Support agency .....	140
Figure 10.1: Programme costs of an indicative scenario of reform.....	169
Figure 10.2: Numbers on welfare, with reform and without reform .....	171
Figure 10.3: Projected future liability, with and without reform .....	172
Figure 10.4: Net annual fiscal savings of an indicative scenario of reform.....	173

## List of Tables

Table 1.1: Eligibility criteria and number of people receiving a main benefit, June 2010 .....	38
Table 1.2: Government spending on the benefit system, 2009/2010.....	39
Table 1.3: Numbers of 28 to 64 year olds on benefit as at 30 June 2010 who had spent more than five years out of the previous 10 years on a benefit.....	42
Table 1.4: Unemployed Māori by highest qualification, 2006 .....	46
Table 3.1: Existing and proposed changes to overall work expectations .....	64
Table 5.1: What will happen to the additional cost components in main benefits.....	102
Table 6.1: Comparison of new and old models of service delivery .....	116
Table 8.1: Types of public agencies.....	138
Table 10.1: Estimates of the impact of the welfare system on numbers of sole parents on welfare.....	164
Table 10.2: Estimates of the impact of reform on numbers of sick and disabled people on welfare.....	166
Table 10.3: Other estimates of the impact of a welfare system on numbers of recipients .....	167
Table 10.4: Service delivery design and numbers on welfare.....	167
Table 10.5: Costs of service provision in Australian Employment Services .....	168
Table 10.6: Adjusting the numbers for partners.....	174
Table 10.7: Summary of the assessment of the effect of reform on economic and social outcomes .....	179