



Office of Hon Steve Maharey, M.P. for Palmerston North
Minister for Social Development and Employment
Minister of Housing
Minister of Broadcasting
Associate Minister of Education (Tertiary Education)
Minister responsible for Tertiary Education Commission

2 July 2003

Hon Dr Michael Cullen
Minister of Finance

Dear Michael

Please find attached for your consideration a draft of the Future Directions overview paper for Cabinet, "Future Directions – An Integrated Package for Social Assistance Reform".

I consider that the best approach is to send this overview paper to Cabinet Policy Committee accompanied by supplementary papers that describe aspects of the proposal in more detail. This overview paper would set out the whole package and contain all of the recommendations.


I think it would be beneficial to have this paper jointly signed with you, to reinforce to Cabinet Policy Committee that we have agreed this approach to social assistance reform. Please let me know if you would agree to this.

AGREE / DISAGREE

If possible, I would appreciate if you could look at this paper before the end of this week, and provide any feedback. Could you please indicate if you are happy for me to begin consultation with other Ministers this week?

AGREE / DISAGREE

Yours sincerely

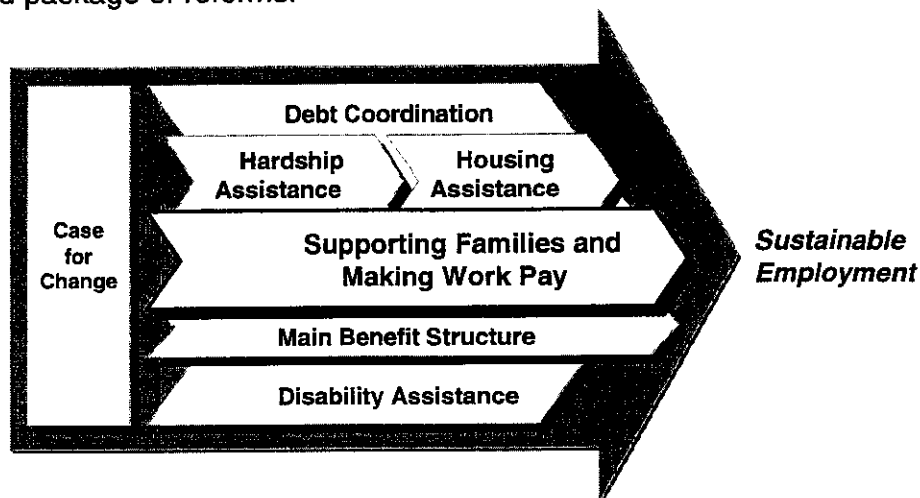

Steve Maharey
Minister for Social Development and Employment

Hon Dr Michael Cullen	
-----------------------	--

Future Directions – An Integrated Package for Social Assistance Reform

Proposal

1. This paper presents an approach to make real progress on the key social issues of supporting sustainable employment and providing better financial assistance to low income people. The emphasis is on supporting people into employment and helping people already in low paid employment because we know that this is the best form of social protection. The proposals in this paper form the basis for an integrated package of social assistance reforms which aim to:
 - support labour market participation by helping people move into sustainable employment;
 - enhance the levels of income support to low and moderate income families with children; and
 - improve the effectiveness of the social assistance system by bringing it up-to-date and by removing unnecessary complexity.
2. The reforms include improving assistance to families, providing more effective assistance to meet high housing costs, making hardship assistance more effective and simplifying the main benefit system. Future work will cover longer-term disability issues, and issues related to co-ordinating policies on debt and other financial liabilities to Government agencies.
3. The following diagram illustrates how the various proposals join together to form an integrated package of reforms.



Executive summary

4. Social assistance to working age people urgently needs to be reformed, to reduce financial disincentives to sustainable employment, improve income adequacy for the most vulnerable, and proactively support low income people in work and as they move between benefit and work.

5. Significant numbers of working age people continue to rely on main benefits, despite strong economic growth. There is evidence of high rates of material hardship among these people relative to other groups, especially families with dependent children, and in particular sole parents¹. This can lead to poor outcomes for children. These may persist throughout life. In addition, aspects of the current social assistance system are inconsistent with human rights legislation.
6. A package of reforms is needed, that will deliver a new, simpler, structure of social assistance payments, to improve work incentives and income adequacy. It is envisaged that we announce the reform package as part of the 2004 Budget. The package will most likely need to be phased in over several years, to allow lead-in time for the necessary delivery changes to be implemented and to spread the fiscal cost of the proposals. Key elements of the package, constituting significant change, could be introduced in 2005, with the remainder of the reforms introduced by 2006. I will report further on this by 31 October 2003.
7. The heart of the package is a fundamental reform of social assistance to working age people and their families, comprising:
 - a new income-related family payment available to families with dependent children irrespective of work status;
 - a new dedicated in-work payment;
 - improved childcare assistance;
 - a new hardship provision, which will replace the existing four third-tier hardship provisions;
 - simplification of main benefit structure, initially resulting in five main benefits and a reduced number of benefit rates, and longer-term, a single benefit for all people aged between 16 to 65 years; and
 - indexation of payments – consideration will be given to adjusting the rates and thresholds of payments, in particular the in-work and family payments, on a regular basis.
8. Family assistance will be enhanced to make work pay. In the approach that the Minister of Finance and I are proposing as a basis for further work, a new in-work payment would be created, to provide a strong financial incentive to participate in sustainable employment. It would also include a new income-related family payment, to improve financial security for families with dependent children. An illustrative diagram of this new approach, showing how main benefits, the in-work payment, accommodation supplement and the family payment could possibly fit together, is set out in the Appendix to this paper.
9. The new approach will mean that once a prescribed minimum amount of work is reached, a recipient would be off benefit completely and instead receive an integrated package of in-work assistance until their income reaches a certain level. The in-work payment would be a key part of this integrated package, along with the family payment, housing and childcare assistance. An integral part of this approach would be seamless delivery of in-work assistance to ensure that families are supported to remain in sustainable employment.

¹ See New Zealand Living Standards 2000, Ministry of Social Development.

Sickness Benefit (SB) obligations and incentives, coupled with enhanced case management support, will also be progressed as part of this work. Changes will also be made to better align the provision of benefits and the Student Allowance. Longer-term, consideration will be given to a single benefit for all people aged between 16 to 65 years.

11. Consideration is being given to replacing the existing third-tier hardship provisions with a new, single provision, which would be easier to administer, thereby freeing up case managers to spend more time on other key activities such as employment services. This would also allow for a transfer of funding from the existing hardship provisions to second-tier assistance, meaning that expenditure on second and third-tier assistance would be re-balanced (a table setting out the tiers of social assistance is presented in paragraph 14). Interim changes will be made to the Accommodation Supplement (AS), to address current pressures in the housing market.
12. A longer-term review of disability social assistance will be carried out, focusing on the Invalids Benefit (IB), Disability Allowance (DA) and long-term changes to SB. Work will be undertaken to develop proposals to overcome problems with current debt and financial liabilities establishment and collection policies across various key State agencies.
13. I have discussed the broad shape of the proposals with the Minister of Finance, and we both agree that they form a suitable basis for progress and ongoing work. Therefore, I am asking Cabinet to approve further work on the broad shape of the package. Further policy development will be undertaken on the details of the proposed reforms for report back to the Cabinet Policy Committee by 31 October 2003. The intention would be to announce the entire reform package in the 2004 Budget and phase implementation over 2005 and 2006. The Minister of Finance and I will be meeting regularly to discuss the development of the package, and to provide guidance to officials.

Background

Context

14. Social assistance for working and non-working low income people is currently provided by the Ministry of Social Development (MSD) and the Inland Revenue (IRD) through the benefit and tax systems. The key elements of the current assistance are set out in the following table (further supplementary information on the key benefits is available if required by Ministers).

Type of assistance		Key benefits ²
First-tier	Main benefits (delivery by MSD)	Unemployment Benefit, Invalids Benefit, Sickness Benefit, Domestic Purposes Benefit, Independent Youth Benefit, Emergency benefit and Widows' Benefit
Second-tier	Supplementary benefits (delivery by MSD)	Accommodation Supplement, Disability Allowance, Childcare Subsidy
	Family Assistance Tax Credits (joint delivery by MSD and IRD)	Family Support, Family Tax Credit, Child Tax Credit, Parental Tax Credit
Third-tier	Hardship assistance (delivery by MSD)	Special Benefit, Special Needs Grants, Benefit Advances, Recoverable Assistance Programme

² The Student Allowance is also delivered by MSD.

		for low income earners
--	--	------------------------

15. In December 2002, Cabinet invited me to report by June 2003 on a proposed broad approach for substantial reform of social assistance [SDC Min (02) 8/2, confirmed by CAB Min (02) 34/6 refers]. The report was to address reform to family income assistance and benefit simplification, including key components, indicative costs and delivery implications.
16. The December discussions highlighted the close interactions between different parts of the social assistance system, and issues with disability social assistance and client debt. I subsequently agreed with the Minister of Finance that work would also be undertaken on third-tier hardship assistance, in light of increasing demand for the Special Benefit (SpB).

Supplementary papers

17. While this paper contains all key decisions, supplementary papers that provide more discussion on the proposed reforms accompany this overview paper if Ministers wish to consider further detail. These are:
 - Supplementary Paper One: Supporting Families and Making Work Pay;
 - Supplementary Paper Two: Main Benefit Structure;
 - Supplementary Paper Three: Redesign of Hardship Assistance Provisions;
 - Supplementary Paper Four: Housing Assistance;
 - Supplementary Paper Five: Background Information on the Accommodation Supplement;
 - Supplementary Paper Six: The Case for Change; and
 - Supplementary Paper Seven: A Proposed Review of Disability Social Assistance.

The case for change

18. The proposed reform package will address the key problems with the current social assistance system (see Supplementary Paper Six: The Case for Change for detailed discussion of the key problems). There are a number of ways in which the current system is failing to deliver the right level of assistance:

Financial disincentives to work

- For many people, work does not pay. Once work-related costs, benefit abatement and tax are taken into account many beneficiaries are little or no better off from moving into work at available low wage rates. Some are worse off, especially if they have childcare costs to pay.
- Many others already in work have little incentive to increase their hours, work overtime or take on higher paid work because the complex interaction of income thresholds, abatement rates, and tax leaves them with little in-the-hand gain.

Income inadequacy

- Many families at the bottom end of the income distribution have insufficient income to provide for an adequate standard of living. A key contributing factor is the declining real value of social assistance.

- Income adequacy is particularly important for families with dependent children, to ensure each child's wellbeing and positive development. There is evidence that the negative effects of poverty on children (particularly younger children) intensify the longer the family is poor.

People do not access all of the assistance to which they are entitled

- Many people do not access all of the social assistance to which they are entitled, particularly in-work assistance. This low take-up contributes to hardship, and real or perceived disincentives to take up employment, particularly jobs that are low paid, short-term or casual. These jobs often act as stepping stones to more sustainable employment, and help people develop and maintain attachment to the labour force.
- Social assistance benefits are complex and difficult for people to understand. Delivery of social assistance through distinct benefit and tax systems exacerbates this complexity – the two systems have different programmes of assistance, separate application procedures, eligibility rules and periods of assessment. Additionally, both systems carry the risk that if people work, they may incur debt to either MSD or IRD, or both.

Complexity crowds out an employment focus

- The complexity of the current social assistance system, coupled with a high case load, means that front-line staff must spend most of their time on application and assessment procedures, rather than helping people towards paid employment.

Growth in sickness and disability benefits, and a need for better responses

- The number of people receiving IB has been increasing steadily as a proportion of the working age population over the past 30 years. We need a system which is more responsive to today's realities and which supports the objectives of the New Zealand Disability Strategy³.

Objectives of reform

19. Key Government objectives are to increase economic growth, improve labour market participation, help reduce labour and skill shortages in the economy, reduce inequality and improve the social and economic wellbeing of New Zealanders. The proposed package of reforms will contribute towards the achievement of these objectives.

Making work pay

20. A key objective of the reforms is to increase labour market participation of beneficiaries by making work pay. Increasing the numbers of beneficiaries with families who are working – both part-time and full-time – will improve the position of families and assist with labour and skill shortages.
21. For sole parent beneficiaries, the proposed reforms aim to promote part-time or full-time sustainable employment, depending on what best suits a family's circumstances. For couples with dependent children, the reforms aim to encourage full-time employment for principal beneficiaries, and part-time or full-time

³ Particularly, objectives 4 and 6, which are to provide opportunities in employment and economic development for disabled people, and to foster an aware and responsive public service.

employment for partners, depending on the age of the youngest child. The table on page 11 details how these objectives relate more particularly to different sub-groups of beneficiaries.

22. There is strong synergy between the reforms and the 'Jobs Jolt' package I have been developing. This package will also help meet employers' needs for skills and labour through immediate, high impact initiatives to match people with employers, and enhanced case management to support and assist more beneficiaries to move into work. Its effectiveness will be enhanced by getting the benefit structures and family payments better aligned.
23. The proposed reforms would also contribute to ensuring that low income working families have adequate incomes and incentives to remain in sustainable employment. The proposed Family Payment will not only provide a secure income bridge for families moving from benefit into work, but will also contribute to the cost of children for low to medium income families in stable employment. In addition, the proposed In-Work Payment and increased childcare assistance will improve the margin between benefit and stable low wage employment.

Focus on families

24. Beneficiary families with dependent children need to be the key focus when considering ways to increase participation in employment. They face strong financial disincentives to work, when compared with single adults or childless couples, due to a combination of low-paid work, rapid abatement of social assistance, and significant in-work costs, especially childcare. These issues are usually exacerbated for families with children with disabilities, and/or where one or both parents have disabilities.
25. The New Zealand Living Standards Survey found that beneficiary families with dependent children are at high risk of low living standards. This mainly affects sole parent families, which are the overwhelming majority of families with children receiving main benefits⁴.
26. The proposed package of reforms is consistent with the Government's wider policy direction for children and young people. The Government's 'Agenda for Children' (June 2002) also identifies 'an end to child poverty' as one of its six action areas.

Human rights

27. The proposed package of reforms will address aspects of the current social assistance system that are inconsistent with the Human Rights Act 1993 and New Zealand Bill of Rights Act 1990. For example, the Widows' Benefit (WB) and the Domestic Purposes Benefit (DPB) for women alone discriminate on the grounds of gender.

Right policy, the best delivery and support through case management

28. The proposed package of reforms will be directed at strengthening financial incentives to be in employment, while providing people with adequate income when not in work. It will be essential that case managers use these tools to support and work with all beneficiaries, to maximise their potential to engage in work and to develop, wherever possible, a progressively improving career path⁵. This enhanced

⁴ Around 52% of working age beneficiaries are single adults, 35% are sole parents, 7% are childless couples and 6% are couples with dependent children.

⁵ This includes working closely with case managers from other Government agencies.

case management focus has already begun with DPB recipients and the 'Jobs Jolt' initiative. The reforms will also promote clarity regarding the responsibilities of both parties – MSD and clients.

Comment

The proposed reforms

29. The proposed reforms will fundamentally reshape the current system of social assistance to working age people and their families. The package currently being worked on envisages a new core design structure, comprising:
- a new income-related family payment available to families with dependent children irrespective of work status;
 - a new dedicated in-work payment;
 - improved childcare assistance;
 - a new hardship provision, which will replace the existing four third-tier hardship provisions – assistance between second and third-tier will be re-balanced;
 - simplification of main benefit structure.
- indexation of payments – consideration will be given to adjusting the rates and thresholds of the in-work and family payments on a regular basis. Indexation of other payments will also be considered.
30. In addition, the package will include the following additional measures:
- improvements to AS, including revising AS Area structure, increasing the maxima in some regions and extending AS eligibility to students with dependent children;
 - changes to SB – short-term changes to SB obligations and incentives, coupled with enhanced case manager support, will be progressed as part of work on the simplification of main benefits;
 - a review of disability social assistance, focusing on IB, DA and long-term changes to SB, with the subsequent development of options for reform; and
 - the development of proposals to overcome problems with current debt and financial liabilities establishment and collection policies across key State agencies.

New core design structure

Reform of family income assistance

31. The current system of family income assistance is not effective at supporting families or making work pay. It fails to deliver on three key themes: it is complex and is not transparent; it does not support a smooth transition from benefit into work; and it does not provide clear incentives for people to enter and remain in work.
32. Further, the real value of family assistance to low and moderate income working families has fallen over recent years. These limitations of the existing arrangements – which are discussed in more detail in *Supplementary Paper One: Supporting Families and Making Work Pay* - argue for a fundamental rethink of the way family income assistance is delivered.

33. The Minister of Finance and I therefore propose that work continue on an approach that could replace the range of existing instruments for delivering support to families with children and making work pay with a new framework that has three distinct payment streams. Each stream would have a clearly identifiable purpose:
- **a simplified benefits system.** Support for adults on the lowest incomes – those who are either not working or are working only to a limited degree – would, as now, be provided through the benefits system. The number of rates within that system would be reduced and simplified.
 - **a new family payment.** Support for children would be delivered through a single income-related payment available irrespective of the work status of the adults in the family; and
 - **a new in-work payment.** A dedicated in-work payment would provide support to low-income working families, to ensure that work pays more than benefit.
34. The new family payment would replace the various existing systems of delivering support to families. Available whether or not the adults in the family are working, it would mean that families no longer had to switch between a benefits-based system and a (quasi) tax-based system when they made the transition into work. Disruption for families moving into work would be minimised. To maximise continuity of support for families, the family payment would, as far as possible, be among the last elements of support to be withdrawn as earned income increases. As such, it would provide a portable and relatively secure income stream as families move into work. It would also represent a contribution to the cost of children for low to medium-income families in stable employment.
35. The new in-work payment would complement the family payment, topping up the earnings of low-income working families. In December, Cabinet directed officials to consider two new approaches to family income assistance – one approach based around a single payment for families with children and an alternative approach including a separate payment for working families in addition to this family payment. Following further analysis by officials, the Minister of Finance and I have agreed that the latter approach is the better one.
36. A dedicated in-work payment in the new system of family income assistance will allow the Government to send a clear message, both to clients and to case managers, that work pays – rewarding those families already in work and encouraging the adults in jobless households to move off benefit. The available evidence supports the view that dedicated in-work payments, properly designed and delivered, are effective at encouraging people to move into work.
37. The new approach would mean that once a prescribed minimum amount of work is reached, the recipient would be off benefit completely and receiving an integrated package of in-work assistance. The in-work payment would be a key part of this integrated package, along with the family payment, housing and childcare assistance. An integral part of this approach would be seamless delivery of in-work assistance to ensure that families are supported to remain in sustainable employment.

38. An illustrative diagram of this new approach, showing how main benefits, the in-work payment, accommodation supplement and the family payment could possibly fit together, is set out in the Appendix to this paper. Further work on a range of fronts will be necessary to progress from this high-level design towards final proposals. Some of the key areas for further work are as follows:
- *the detailed design of the new in-work payment.* Domestic and international experience suggests two obvious models: an “earned payment”, with entitlement being phased in as earnings increase; and a “discrete payment”, with the payment becoming available in full once the basic eligibility requirements are met. An “earned payment” would have the effect of reducing effective marginal tax rates (EMTRs) over an initial range as the credit is phased in, thus improving incentives to increase earnings within that range. A “discrete” payment would deliver a step increase in the amount of support a person received once they were doing a certain level of work. Either an “earned payment” or a “discrete payment” would gradually be withdrawn from higher earners, to allow us to target resources on low-income workers;
 - *the abatement of the new payments, and the interaction with other abatement regimes.* The way support is abated under the new structure as clients’ incomes increase will be important. The rate at which support is abated has a significant impact on EMTRs, which in turn go directly to work incentives. We will also need to think carefully about the interaction of the abatement regimes for payments under the new structure with the abatement of other major instruments of support – such as AS – to ensure that the overall EMTRs faced by clients remain at acceptable levels;
 - *measuring “work”.* Entitlement to the new in-work payment will depend on people doing at least a prescribed minimum amount of work. There will be choices about how we measure “work” for this purpose. Two obvious alternatives would be to measure the amount people do by looking either at their hours or at their earnings. Either approach would have theoretical and practical pros and cons which will need to be balanced carefully;
 - *measuring “income”.* The basis on which income is defined and measured for the purposes of abating entitlement is important for a number of reasons. It can affect both the way the system responds to changes in income during the year and the extent to which the system can tailor support for particular claimants as they move from benefit into work (or vice versa). It also has an effect on the nature and degree of the reporting requirements faced by claimants; and
 - *delivery under the new framework.* Effective delivery to clients will help to maximise the extent to which a reformed system of family income assistance delivers improved outcomes in practice. Further work is needed to develop an appropriate delivery model for the new system and to identify the factors that will influence decisions about the agency or agencies responsible for administering the new payments. *Supplementary Paper One: Supporting Families and Making Work Pay* discusses the principles that will need to inform this work.
39. Further policy development will be undertaken on these details for report back to Cabinet Policy Committee by 31 October 2003. In the interim, the Minister of Finance and I will be meeting regularly to discuss the development of these proposals, and to provide further guidance to officials. Major investment will be required for the in-work and family payments. This will comprise a large proportion

of the cost of the total reform package (more detail on this is provided in the Financial Implications section, paragraphs 74 to 78).

Improved childcare assistance

40. Officials have been examining the issue of childcare costs, and how they can act as a disincentive to engage in sustainable employment. Areas for further consideration include:
 - increasing rates and thresholds for the Childcare Subsidy;
 - integrating related forms of assistance into one childcare payment; and
 - exploring ways to extend the range of recognised childcare costs.
41. Detailed proposals for addressing these issues will be developed and reported back to Cabinet Policy Committee by 31 October 2003. They will have regard to the direction of the Early Childhood Education funding review.

A new hardship assistance programme

42. Recent increased demand, particularly for SpB, indicates that third-tier assistance is becoming a general top-up rather than last-resort assistance. The number of SpB grants has increased by 100% in the ten months to 31 May 2003, and is forecast to grow by a further 47% by June 2005.
43. The lack of an upper limit on hardship assistance is resulting in an increasing number of beneficiaries having higher net incomes than many full-time members of the workforce, thereby reducing work incentives and undermining benefit to work objectives. In addition, third-tier assistance is complex and difficult for frontline staff to administer, as well as for clients to understand. This complexity and the increased demand have led to case managers spending less time on other activities such as employment services.
44. The intention is to replace the existing third-tier hardship provisions (comprising the SpB, Special Needs Grants, Benefit Advances and the Recoverable Assistance Programme for low income earners) with a new, redesigned single provision entitled 'Temporary Additional Support'. This would be paid either in the form of a continuing payment or as a lump-sum, whichever better meets the person's needs.
45. The proposals being developed would materially affect current entitlements and substantially reduce expenditure on SpB (see *Supplementary Paper Three: Redesign of Hardship Assistance Provisions* for more detail). It is, therefore, essential that the changes be introduced at the same time as the proposed changes to family income assistance and AS, and that the savings in expenditure be used to help fund those changes.
46. Transitional arrangements might be necessary to cushion the impact of the changes on existing grants of SpB. In particular, people with disabilities or mental health problems, who are either in residential care that is funded through the benefit system or in their own homes but with support needs, would need to be safeguarded pending completion of the proposed review of disability social assistance.

Indexation of payments

53. Consideration will be given to indexing the rates and thresholds of the in-work and family payments on a regular basis (social security benefits are currently adjusted annually in line with movement in the CPI). This would have a fiscal cost, however, without indexation the real value of these new payments will begin to erode, and programme interfaces become problematic (for example, Family Support now starts to abate before IB). The objectives and benefits of the proposed reforms, and the integrity of the new structure, will also eventually be undermined.
54. Indexation of other payments will also be considered as part of further policy development, as will the question of whether these indexation requirements should be set out in legislation.

Additional measures

Improvements to Accommodation Supplement

55. A significant number of AS recipients have housing affordability problems and require additional forms of support. These problems could be partly alleviated by revising the AS Area structure and increasing the maxima in some regions. The existing AS parameters can also result in work disincentives. Proposals to address these could include removing AS abatement for beneficiaries, and introducing a common entry threshold for beneficiaries and non-beneficiaries.
56. There are also problems with accommodation assistance for students, which can act as a disincentive to the take-up of education and training. I propose, therefore, that officials explore the option of extending AS eligibility to Student Allowance recipients with dependent children. This will align housing assistance with other forms of assistance for families with dependent children, provide additional financial support and complement working age benefit proposals.
57. Regardless of these changes, AS income thresholds will need to be adjusted, so that AS lines up with the proposed in-work payment (Supplementary Papers Four and Five provide more detail about key issues, proposed short-term changes and further background on the AS).

Short-term changes to Sickness Benefit

58. The number of people receiving SB is growing and this trend is forecast to continue. Preliminary research indicates that the main causes of this growth include unemployment among low skilled people who are assessed by medical practitioners' as unable to work full-time (i.e., 30+ hours per week), and some effect of the higher New Zealand Superannuation age. As part of work on the simplification of main benefits, short-term changes to SB to improve work incentives and strengthen obligations will be proposed, along with enhanced case management support for this group of people.

Need for safeguards

68. There will be some people who will be disadvantaged by the reforms. The groups that are likely to be affected by the proposed reforms are:
- Larger families, because, unlike the CTC, the in-work payment would not be calculated on a per child basis.
 - Older women receiving WB and DPB for Women Alone, because of changes to benefit rates.
 - SpB recipients, should AS be excluded from the calculations of SpB entitlement.
69. The extent to which particular groups are materially affected will depend on how the overall package impacts on these groups. For example, large families receiving the new in-work payment may receive more assistance through the family payment, AS or childcare assistance or a combination of all three. Careful modelling of the overall impacts of the package on these and other groups will be undertaken as part of further work.

⁷ Debt relates to the likes of overpayments and recoverable assistance. Other financial liabilities which affect the level of disposable income a client may have include the likes of fines.

70. Options will be developed to safe-guard those who would otherwise be disadvantaged by the changes. This will include, where appropriate, the grand-parenting of existing assistance.

Timeframe

71. At this stage, Cabinet is asked to approve further work on the broad shape of the package. Further policy development will then be undertaken on the details of the proposed reforms, for report back to Cabinet Policy Committee by 31 October 2003, with the intention of announcing the entire reform package in the 2004 Budget. The Minister of Finance and I will meet regularly to discuss development of the package, and to provide guidance to officials.
72. The reform package will most likely need to be phased in over several years, to allow lead-in time for the necessary delivery changes to be implemented and to spread the fiscal cost of the proposals. Key elements of the package, constituting significant change, could be introduced in 2005, with the remainder of the reforms phased in over 2006. I will report further on this by 31 October 2003.

Financial and operational implications

Financial

73. The reform package will involve a major financial investment – officials are aiming to construct a total package in the order of \$500 million per year. This will include the cost of indexation, grand-parenting provisions and some of the operational cost of implementing the reforms. The balance of the operational cost will be absorbed within MSD delivery systems re-development already planned.
74. The cost of the reforms will also include the cost of grand-parenting existing assistance, where appropriate, to safeguard those who otherwise would be disadvantaged by the reforms.
75. Major investment will be required for the in-work and family payments. This will comprise a large proportion of the total cost of the reform package. The financial implications of each of the proposed reforms are discussed in the supplementary papers.
76. The phasing options for the proposed reforms referred to in paragraph 73 above will be in part influenced by the overall costs of the package. Given the possible size of the funding required, I will be working closely with the Minister of Finance to ensure that the package and the phasing fit within the Government's revenue and expenditure plans.
77. Policy proposals flowing from the proposed review may have fiscal implications for agencies other than MSD. For example, the proposed review of disability social assistance may have financial implications for MoH.

Operational

78. The operational implications of the proposed review of disability social assistance will be identified as the work progresses, as will those flowing from the proposed review of client debt and financial liabilities to State agencies. The operational implications arising from the other proposals for reform are discussed, where relevant, in the supplementary papers.

Legislative implications

79. The proposed changes to family income assistance, hardship assistance and the main benefits will require changes to the Social Security Act 1964 and the Income Tax Act 1994. These changes, along with other proposed reforms requiring legislative change, will form the Social Welfare (Future Directions) Amendment Bill. This Bill currently has a priority four on the 2003 Legislative Programme.

Regulatory impact and compliance cost statement

80. A regulatory impact statement will be prepared when decisions are sought in the next stage of the work.

Human rights implications

81. The work foreshadowed in this and the supplementary papers is taking account of the principles embodied in the Human Rights Act 1993 and the New Zealand Bill of Rights Act 1990. The implications arising from the proposals for reform are discussed in the supplementary papers, and will be the subject of particular attention in the next stage of work.

Gender implications

82. The family income assistance reforms will directly benefit more women than men. Women are more commonly custodial parents of dependent children, and currently have a lower average income than men, in terms of both personal and household income, from earnings and other sources. Sole parents with dependent children, who are predominantly women, have the lowest average income of all household types.
83. In 2001, there were 818,493 parents with a dependent child or children, of which 454,103 were women, and 364,390 were men. 678,318 of the women and men were in two-parent families. The remaining 140,175 sole-parent families were headed by 114,944 (82% of) women and 25,231 (18% of) men. There were also 1,356 same-sex couples, of which 960 couples were women and 396 couples were men. Finally, over 4,000 grandparents were full-time parents of their grandchildren.
84. In 2001, there were 105,857 families with dependent children with an annual income of \$20,000 or less. These families represented 6 percent (20,350) of two-parent families but over 61 percent (85,507) of sole-parent families. In 2002, the average weekly income for women was \$403 and for men was \$639. Average weekly household income from all sources was \$1,123. For a couple with one dependent child, average weekly household income was \$1,208, compared to \$511 for a sole-parent with one dependent child. There are currently 388,436 people of working age receiving benefits, of which 235,026 (61%) were women. 99,991 women and 10,174 men receive the Domestic Purposes Benefit.

Implications for Maori

85. The family income assistance reforms will be designed to benefit Maori, and strengthen whanau, family and community. The Maori population has a younger age profile, with higher fertility, lower income, lower employment rates, and a higher incidence of benefit receipt than other ethnic populations in New Zealand. At

present, almost three times more Maori children have no parent in paid employment than children of other ethnicities.

86. In 2001, 526,281 people in New Zealand identified as Maori, including 196,482 (37% of) children. In 1996, 80,754 (41% of) Maori children lived in sole-parent families, including 22,692 (28% of) children living in extended family (inter-generational) households. Almost 81,000 (41% of) of Maori children had no parent in paid employment. Median income for Maori is \$14,800, with \$13,200 for Maori women and \$18,600 for Maori men. Currently, 111,355 Maori people of working age receive a benefit, including 38,008 women and 4,536 men receiving the Domestic Purposes Benefit.

Implications for Pacific Peoples

87. The family income assistance reforms will be designed to benefit Pacific peoples, and strengthen Pacific families, extended families and community relationships. The Pacific population is characterised by its young age profile, large family and household size, and is over-represented among families with low income and low employment rates in New Zealand.
88. In 2001, 231,801 people identified as being of Pacific peoples ethnicity, including 90,147 (39% of) children. 67,222 (29% of) Pacific peoples lived in an extended family household. The average number of people in Pacific peoples' households was 5.4, compared with 3.5 for New Zealand as a whole. Median annual income for Pacific adults was \$14,800, with \$13,000 for Pacific women and \$17,800 for Pacific men. For Pacific men and women in employment in 2001, the median hourly wage was \$11.70, and 69 percent of Pacific employees earned less than the national median wage of \$14.00. 140,789 (61%) of the Pacific population live in households with an annual income of \$20,000 or less. Currently, 27,846 Pacific people of working age receive a benefit, including 8,755 women and 976 men receiving the Domestic Purposes Benefits.

Implications for Youth

89. The Ministry of Youth Affairs has suggested using Future Directions work as an opportunity to address issues of differences in benefit treatment and rates for young people. This has not been a focus of the simplification work. The issues of youth eligibility and rates are complex and there are arguments both for and against making changes. This would need to be the basis of separate work should the Government consider it a priority.

Disability perspective

90. The implications arising from this work are discussed in the supplementary papers. The proposed review of disability social assistance will advance Objective 4 of the New Zealand Disability Strategy, which promotes the provision of opportunities in employment and economic development for disabled people. The Strategy has a vision of a fully inclusive society, where individuals with disabilities can say their lives are highly valued and their full participation continually enhanced. The proposed review, and the associated consultation processes and policy outcomes, will be developed consistent with that vision. The proposed review of client debt and financial liabilities to State agencies will consider the specific implications of debt for disabled people.

Consultation

91. A steering group comprising the Department of Prime Minister and Cabinet, HNZA, IRD, MSD and the Treasury has overseen the preparation of this paper. A number of departments have also been consulted in the development of the package of proposed reforms – ACC, Department of Child Youth and Family, Department of Internal Affairs, DfC, DoL, Ministry of Pacific Island Affairs, Ministry of Women's Affairs, Ministry of Youth Affairs, MoE, MoH, MoJ, ODI, Office for Senior Citizens, State Services Commission and Te Puni Kokiri. In addition, the work has also been reviewed by the Social Assistance Reform Senior Officials Group.
92. It will also be desirable to undertake some consultation with key external stakeholders (for example, Benefit Advocacy Groups) over the proposed changes to family and hardship assistance and the main benefits. I ask Cabinet to note that I would instruct MSD to undertake this work and that, with the approval of the Minister for Disability Issues, it would include specific consultation for the review of disability social assistance.

Publicity

93. The proposals for reform do not raise any implications for publicity at this stage.

Recommendations

94. I recommend that the Committee:

Reform of social assistance system

1. **note** that, in December 2002, Cabinet invited the Minister of Social Services and Employment to report by June 2003 [CAB Min (02) 34/6 refers] on a proposed broad approach for substantial reform of the social assistance system, including changes to family income assistance and benefit simplification;
2. **note** that a proposed social assistance reform package has been developed, that will deliver a new, simpler, structure of social assistance payments, to improve work incentives and income adequacy;
3. **note** that:
 - 3.1 the reform package has the following key objectives with respect to beneficiaries:
 - for single adults and couples without dependent children:
 - strong obligations, incentives and support to be in full-time sustainable employment;
 - adequate income when not working;
 - for couples with dependent children:
 - strong obligations, incentives and support for the primary beneficiary to be in full-time sustainable employment;
 - obligations for the partner to be in part-time or full-time sustainable employment, depending on age of youngest child;
 - adequate income when not working sufficient hours;
 - encourage and support good parenting;
 - for sole parents:

- strong incentives to be in part-time or full-time sustainable employment, depending on family circumstances, or obligations to plan for future employment;
 - adequate income when not in a position to work;
 - encourage and support good parenting;
 - for temporarily incapacitated people:
 - encourage part-time sustainable employment as medical condition allows, with incentives to be in full-time sustainable employment thereafter;
 - support rehabilitation that leads to sustainable employment;
 - obligations for the partner to be in part-time or full-time sustainable employment, depending on age of youngest child;
 - adequate income when not in a position to work;
 - encourage and support good parenting;
 - for independent youth:
 - further work to be undertaken on the objectives for this group of people, with a view to obligations and incentives to be in education, training or full-time sustainable employment as appropriate;
- 3.2 the reform package has the following key objectives with respect to non-beneficiary low income working families:
- adequate income and incentives to remain in sustainable employment;
4. **note** that the components of the proposed reform package are detailed in this and the following supplementary papers:
- Supplementary Paper One: Supporting Families and Making Work Pay;
 - Supplementary Paper Two: Main Benefit Structure;
 - Supplementary Paper Three: Redesign of Hardship Assistance Provisions;
 - Supplementary Paper Four: Housing Assistance;
 - Supplementary Paper Five: Background Information on the Accommodation Supplement;
 - Supplementary Paper Six: The Case for Change; and
 - Supplementary Paper Seven: A Proposed Review of Disability Social Assistance;
5. **note** that at this stage Cabinet is being asked to approve further work on the broad shape of the reform package, and direct officials to undertake further work and report back to the Cabinet Policy Committee on progress, with further recommendations, by 31 October 2003, with a view to announcing the reform package in the 2004 Budget;
6. **note** that it is intended that the reform package be announced as part of the 204 Budget and that it may need to be phased over several years (2005 and 2006) to manage implementation risk and spread the fiscal cost, and this will be further reported on by 31 October 2003;

Supporting families and making work pay

7. **note** that the current system of family income assistance is not effective in its two key objectives of supporting families and making work pay;

8. **note** that a successful system of family income assistance needs to deliver on three key themes:
 - support needs to be provided in a way that is simple, transparent and accessible;the system needs to facilitate a smooth transition into work; and
 - there needs to be clear incentives for people to enter and remain in work;
9. **agree**, as a basis for further work, that the range of existing instruments for delivering support to families with children and making work pay be replaced with a framework which, in addition to core benefits, includes two distinct payments:
 - a new family payment – a single income-related payment available irrespective of the work status of the adults in the family; and
 - a new in-work payment – a dedicated payment for working households to improve work incentives and increase the gain from working;
10. **direct** the Ministry of Social Development, the Treasury and the Inland Revenue Department, in consultation with other Government Departments, to report back to the Cabinet Policy Committee by 31 October 2003 with detailed proposals for:
 - the detailed design of the new family payment and in-work payment;
 - the abatement of the new payments and the interaction with other abatement regimes;
 - the way “work” is to be measured for the purpose of determining eligibility to the new in-work payment;
 - the way income is to be defined and measured for the purposes of abating entitlement to the new family and in-work payments;
 - detail fiscal implications of the new family and in-work payments;
 - an appropriate delivery model for the new system, including advice about which agency or agencies should be responsible for administering the family and in-work payments; and
 - transitional arrangements to protect family income assistance recipients who are adversely affected by the proposed changes;
11. **note** that for many low income families the cost of childcare can significantly reduce or even eliminate the financial returns from working, creating a strong disincentive to participation in sustainable employment, education, or training;
12. **direct** the Ministry of Social Development, in consultation with other Government departments, to report back to the Cabinet Policy Committee by 31 October 2003, with detailed proposals which complement the proposed new structure for family income assistance and have regard to the Early Childhood Education funding review. That work will look at three areas in particular:
 - increasing rates and income thresholds and re-examining the abatement regime;
 - exploring ways to extend the range of childcare and costs recognised; and
 - integrating related systems for delivering childcare assistance into a single childcare payment;

Main benefit structure

13. **note** that simplification of the social assistance system is a key component in the reform of social assistance to families and complements the overall goals for the system, that people have access to adequate income and that the system assists people to achieve sustainable employment;
15. **note** that reform of the Invalids Benefit and longer term issues regarding Sickness Benefit and Domestic Purposes Benefit (care of the sick or infirm), Orphans and Unsupported Child Benefits are being reviewed separately;
16. **note** that the key problems with the structure of the social assistance system include:
- complexity of benefit system leading to administrative inefficiencies;
 - inconsistent treatment regarding criteria, procedures and rates;
 - lack of transparency, access and take-up issues;
 - inconsistency with human rights legislation; and
 - growth in the number of people receiving sickness benefits;

Redesign of hardship assistance provisions

22. **note** that the purpose of the third-tier of the social assistance system is to provide last resort assistance to beneficiaries and low income earners experiencing financial hardship;
23. **note** that there are currently four third-tier provisions - Special Benefit, Special Needs Grants, Advance Payments of Benefit, and the Recoverable Assistance Programme for low income earners;
24. **note** that recent increased demand for third-tier assistance, especially the Special Benefit, has resulted in third-tier assistance becoming a general income top-up rather than last resort hardship assistance;
25. **note** that the present third-tier system has problems of:
 - disincentives to work;
 - escalating costs;

- debt creation;
 - complexity;
 - disproportionate use of staff time; and
 - inconsistent decision making;
26. **note** that the practicality and effectiveness of changes to the third-tier will be largely dependent on the nature and extent of proposed reforms to family income assistance and Accommodation Supplement;
27. **note** that, subject to further development, the intention is to replace the existing four third-tier provisions with a single new provision entitled 'Temporary Additional Support', that has the following features:
- payment would be in the form of a continuing grant or a lump-sum depending on the needs of the applicant;
 - eligibility for a continuing grant would be based on a formula comparing chargeable income with essential commitments;
 - there would be no discretion to refuse a continuing grant if there is a deficiency between chargeable income and essential commitments;
 - the rate of a continuing grant would equal the deficiency providing it does not exceed 30% of the applicant's parent benefit;
 - recipients of continuing grants would be expected to take reasonable steps to improve their financial situation by reducing costs or increasing their income;
 - continuing grants would be subject to review at three and six months, and be cancelled after twelve months necessitating a fresh application in cases of continuing need;
 - the standard costs included in the formula to cover basic living costs would be set at 70% of the applicant's parent benefit;
 - accommodation costs would be excluded from the assessment of a continuing grant, unless the applicant is receiving the maximum regional rate of Accommodation Supplement, in which case the difference between the applicant's actual rent/mortgage and the amount of rent/mortgage that attracts the maximum regional rate of Accommodation Supplement would be included;
 - disability related costs and childcare costs would be included in the formula, but only those costs in excess of the maximum rate of Disability Allowance or Childcare Subsidy respectively;
 - other costs included in the formula, if they are incurred, would be:
 - basic telephone charges, provided the telephone is essential for health, security or employment reasons;
 - hire purchase costs for essential household items (e.g. fridge, washing machine, etc);
 - car repayments of up to \$50 a week (CPI adjusted) providing the car was purchased prior to the applicant coming onto benefit or is needed for employment or training reasons;
 - essential transport costs; and
 - medically approved counselling costs;
 - lump-sum payments would be available to meet immediate and essential needs, providing that no household receives more than four such grants a year, and that no household receives, in aggregate over

- a twelve month period, more than four times the weekly rate of Invalids Benefit;
 - lump-sum payments will only be made where an essential and immediate need for such a grant has been established, and there would be provision to decline payment if the need has not been established;
 - intensive case management support would be provided to potential high users of the lump-sum provisions and at the time a client applies for a third lump-sum payment in a year; and
 - continuing grants and lump sum payments would be subject to income limits equal to the income level where entitlement to an Invalids Benefit ceases, and a cash assets limit of one week's net Invalids Benefit (with the exception of food grants where applicants would be required to have no cash assets);
28. **note** the intention to include the general principles of the new third-tier provision in the Social Security Act 1964, and for detailed features to be the subject of regulations made pursuant to that Act;
29. **note** that the features referred to in recommendation 27 above would not apply to existing specialised provisions in the Special Needs Grant welfare programme relating to:
- re-establishment grants for refugees, victims of family violence, former long-term hospital patients, and released prisoners;
 - special assistance to the rural sector;
 - assistance for vasectomies and termination of pregnancies;
 - assistance for the purchase of wigs and hairpieces;
 - assistance for the costs of removal of birthmarks; and
 - assistance for new immigrants who are victims of domestic violence;
30. **direct** the Ministry of Social Development to further develop the approach detailed in recommendation 27 above and report back to the Cabinet Policy Committee by 31 October 2003 with firm recommendations, including transitional arrangements and arrangements for ongoing monitoring and evaluation of the changes;

Housing assistance

31. **note** the problems with the Accommodation Supplement in relation to the appropriateness of the maxima structure (including grouping of localities and level of maxima), disincentives arising from the Accommodation Supplement abatement regime, and treatment of boarders;
32. **note** the problems with the Accommodation Benefit in relation to inequitable treatment, disincentives to study, lack of adjustment of Accommodation Benefit settings, and access and take-up difficulties;
33. **note** adjusting the Accommodation Supplement maxima will not solve housing affordability problems for those not at the maxima;
34. **direct** the Ministry of Social Development, in consultation with other departments, to undertake further work on the short-term changes to the Accommodation Supplement within current settings, including:
- reviewing the number of Accommodation Supplement Areas and regrouping localities within the new structure;
 - adjusting the maxima;

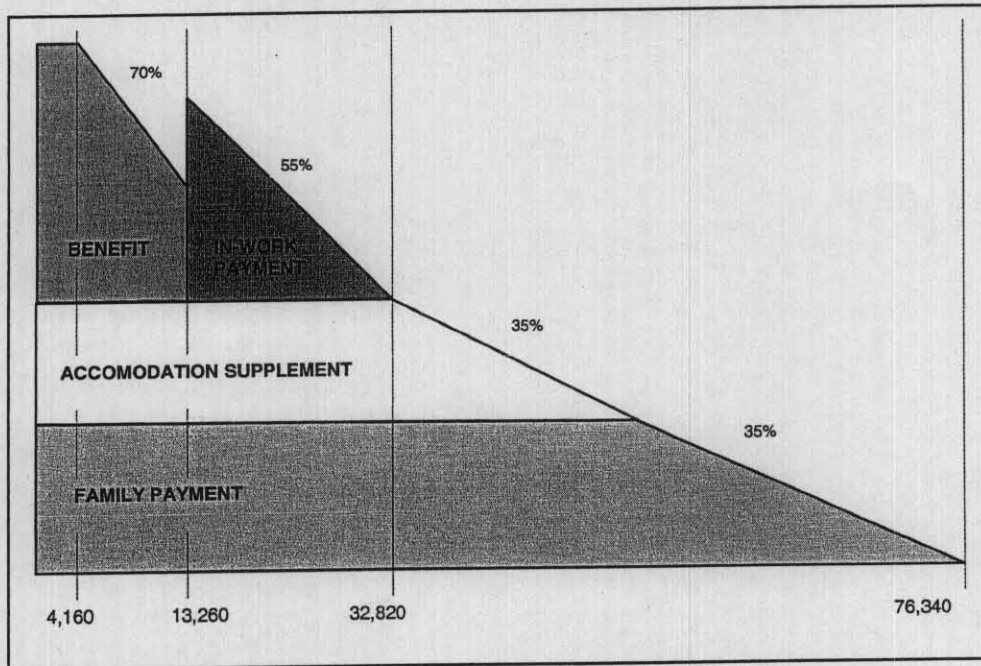
- reviewing whether the rate of subsidy for the Accommodation Supplement should be adjusted;
 - introducing an \$80 abatement free zone for beneficiaries;
 - adjusting Accommodation Supplement income and entry thresholds;
 - extending eligibility for the Accommodation Supplement to Student Allowance recipients with dependent children; and
 - examining the implications of the proposals for Income Related Rents and the Rates Rebate Scheme;
35. **direct** officials to report back to the Cabinet Policy Committee by 31 October 2003 with:
- final proposals for short-term changes to the Accommodation Supplement, including costs and an impact assessment; and
 - a medium-term work programme within Future Directions which reviews the effectiveness of the Accommodation Supplement;
36. **agree** that further work on the treatment of boarders for Accommodation Supplement purposes be undertaken as part of the medium-term Future Directions programme;

Consultation

45. **note** that the Minister of Social Development and Employment will instruct the Ministry of Social Development to undertake consultation with key external stakeholders (for example, Benefit Advocacy Groups) over the proposed changes to family and hardship assistance and the main benefits and, with the approval of the Minister for Disability Issues, this will include specific consultation for the review of disability social assistance.

Steve Maharey
Minister for Social Development and Employment

PROPOSED NEW STRUCTURE OF SUPPORT



NOTES

- 1- Numbers are shown in this diagram for the purposes of illustration. They indicate the sort of abatement rates and cut-out points that could be achieved for a significant level of new investment. Actual figures under the new framework will obviously depend on final decision about rates and thresholds.
- 2- A key feature of the new design is that the abatement of the in-work payment and the family payment does not overlap; as illustrated, the family payment does not begin to abate until after the in-work payment has been fully withdrawn. The design will also need to take account of the abatement of other instruments of support, such as the Accommodation Supplement (AS). There are a range of possible options for dealing with the abatement of AS without compromising the integrity of the new design. One option – abating AS after the in-work payment has been fully withdrawn but before the abatement of family payment begins – is illustrated above.