

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

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The Welfare Working Group acknowledges all the contributions that members of the public, non-Government organisations, and Government organisations have made to this process.



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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

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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 Reference¹

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 reform²

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.

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

² 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.³ 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

³ 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.⁴ It is critical that the welfare system prepares and positions jobseekers for the opportunities when they emerge.

A single work-focused payment - Jobseeker Support⁵

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

⁴ See Chapter 2 of Welfare Working Group Options Paper

⁵ 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 Zealand⁶

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;

⁶ 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 dependency⁷

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:

⁷ 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 Māori⁸

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;

⁸ 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 support⁹

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.

⁹ 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.

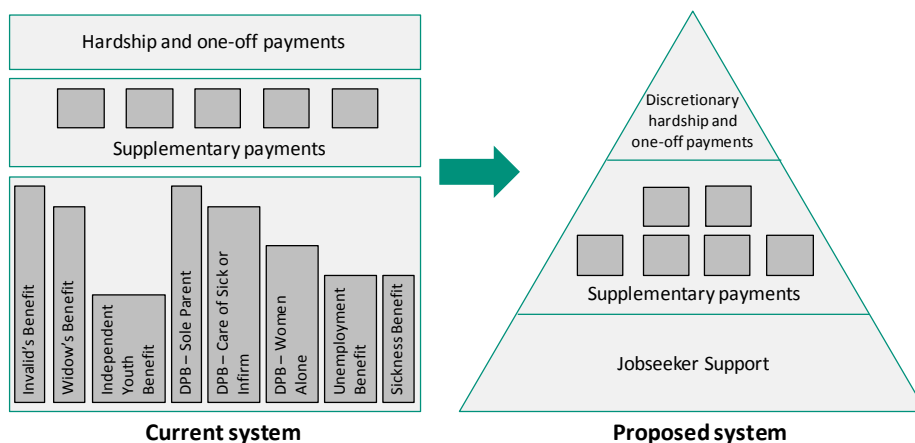
We would expect that many services and initiatives that are currently provided may need to be consolidated to realise a new model of welfare in a cost-effective way.

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 obligations¹⁰

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

¹⁰ 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.¹¹ 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;

¹¹ 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 transition¹²

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:

Preparing for reform

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.

¹² See Chapter 8 for a discussion of implementing the new work-focused welfare system.

Establishment of Employment and Support New Zealand

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.

Introducing Jobseeker Support

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.

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 approach¹³

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;¹⁴
- 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.

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

¹⁴ 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.