Regulatory Impact Statement: Changes to welfare settings to support people into employment and off benefit

Coversheet

Purpose of Document	
Decision sought:	Analysis produced for the purpose of informing final Cabinet decisions on changes to welfare settings to support people into employment and off benefit in response to commitments made by the Government in their pre-election manifesto and through the coalition agreements. There are two parts to this Regulatory Impact Statement. • Part One: Summary and overall change attributed to the package. • Part Two: Detail on the individual policy interventions of the package and options analysis.
Advising agencies:	Ministry of Social Development
Proposing Minister:	Minister for Social Development and Employment
Date finalised:	31 July 2024

Contents

Problem Definition

The number of working-age people on main benefits, particularly Jobseeker Support (JS), has risen steadily since the beginning of 2023. For those who can work, unemployment is associated with a range of negative outcomes. As the duration of unemployment increases so does the risk that clients' work skills deteriorate, unemployment becomes entrenched, poverty deepens, social dislocation occurs, and overall health deteriorates.

Higher numbers of JS recipients who are ready and able to work negatively impact the economy through lost productivity and government finances through higher costs associated with supporting more people on a main benefit.

There are several levers in the benefit system that could be better utilised to support people into work and off benefit.

Executive Summary

The package of proposals covered in this Regulatory Impact Statement (RIS) to support people into employment and off benefit responds to the commitments made by the Government in their pre-election manifesto and through the coalition agreements.

Since the start of 2023, there has been an increase in the number of people on working age main benefits. At the end of June 2024, there were 380,889 working-age people in New Zealand receiving a main benefit.[1] This was up 29,130 or 8.3 percent compared to June 2023.

With respect to Jobseeker Support (JS), at the end of June 2024, 196,434 people were on this benefit, which was up 23,397 or 13.5 percent rise in the past year. In response to the increase in people receiving JS, the Government has set a target to have 50,000 fewer people on JS by December 2029 [CAB-24-MIN-0098 refers].

There is a cost to government of benefit receipt. The cost of paying benefits to working-aged people is forecast to be $9.341 billion in the 2024/25 financial year.

Evidence indicates being in suitable work generally leads to improved income and is associated with better health and wellbeing for individuals and their families, while unemployment is associated with a range of negative outcomes.

1 Main benefits are Jobseeker Support, Sole Parent Support, Supported Living Payment, Emergency Benefit, Youth Payment and Young Parent Payment.

As the duration of unemployment increases so does the risk that client's work skills deteriorate, unemployment becomes entrenched, poverty deepens, social dislocation occurs, and overall health deteriorates.

Māori and Pacific peoples experience unemployment at rates disproportionate to their representation in the working age population and are therefore likely to be disproportionately impacted by the associated negative outcomes.

Productivity is supported by quickly matching job seekers with available jobs. Having high numbers of people on benefit who can work undermines productivity. A range of factors influence how efficiently jobseekers and firms seeking workers are matched, but labour market policies also have a role.[2]

The proposals covered in this RIS have been developed to address these concerns and to meet the JS reduction target.

- Proposal 1: Introduce a Traffic Light System (TLS) with green, orange, and red levels to sit alongside the existing obligations and sanctions regime.
    - Proposal 1(a): Extend the period over which obligation failures are counted against a client from 12 months to 104 weeks.[3]
- Proposal 2: Introduce new non-financial sanctions at the red level of the TLS.
    - Proposal 2(a): Introduce Money Management as a non-financial sanction for specific cohorts.
    - Proposal 2(b): Introduce Community Work Experience as a non-financial sanction for specific cohorts.
- Proposal 3: Require recipients of JS and their partners (if they have a partner included in their JS benefit) to reapply for their benefit every 26-weeks (instead of the current 52-week reapplication).
- Proposal 4: Require certain cohorts of applicants for benefit to complete a Jobseeker Profile as a pre-benefit activity.

Changes to the Social Security Act 2018 (the Act) and the Social Security Regulations 2018 (the Regulations) are required to give effect to the above proposals (Proposals 1–4).

The Government has also directed the Ministry of Social Development (MSD) to better utilise existing welfare settings in the Act and the Regulations to further support their objectives. This involves improvements to operational practice, strengthened communication with clients and minor system changes. For example, work obligated clients will be asked to provide proof of their job search as part of satisfying MSD that they are taking reasonable steps to obtain employment.

The proposals will be implemented in two phases

Phase One involves the following:

- communicating with clients what the TLS is, and where they sit within it, what is expected of them in return for benefit receipt and how to meet those expectations

2 For example, by influencing factors affecting the flexibility of firms and the mobility of workers. See OECD. (2018). *Good Jobs for All in a Changing World of Work: the OECD Jobs Strategy*..

3 The Social Security Act 2018 currently refers to a 12 month period. At the time of writing this Statement, officials are seeking Cabinet agreement to extend this period to 104 weeks, which is approximately 2 years.

– This will be based on their current compliance with their work-test or work-preparation and social obligations, and system and practice changes by 12 August 2024.

Phase Two involves enacting legislation and more extensive system changes to give effect to the proposals above. The key dates for implementation are:

- TLS including non-financial sanctions – 26 May 2025
- 26-week reapplication – 1 July 2025.

What can be done to achieve the JS reduction target

One of MSD's most important levers for achieving the JS reduction target is supporting clients through dedicated employment case management.

MSD has 500 Full-Time Equivalents (FTEs) providing employment case management, and 1305 FTEs providing general case management and other specialised services (integrated case management, supporting offenders into employment etc). This fixed pool of case managers limits the amount of time MSD can spend engaging with clients on employment. Increased demands for income support/hardship payments means employment-focused case managers are increasingly being pulled into supporting general case management services. This could be exacerbated by any increase in benefit numbers. MSD will work to minimise the impact of increased demand for income support on employment outcomes by refocusing the levers to support people into employment and off benefit (see below).

As there is a limited pool of employment case managers, not everyone who would benefit from such case management can receive it.

MSD is undertaking a caseload reallocation to better support the JS reduction target and achieve greater balance across the cohorts of those on benefit. From 1 July 2024, the make-up of the 53,000 spaces in MSD's employment case management service is as follows:

Cohort	**Percentage**
Jobseeker Support–Work Ready 0-12 months	40 percent
Youth Jobseeker Support–Work Ready	30 percent[4]
Jobseeker Support Work–Ready with children	20 percent
Jobseeker Support Work–Ready on benefit over one year	10 percent

In addition, MSD started delivering virtual phone-based youth Jobseeker Support case management for 4,000 youth clients in July 2024.

The focus of this package is about better utilising the current levers in the benefit system to support people into employment and off benefit. Those levers are described below.

- Gateways – which impact flows onto benefit and other financial assistance (changes proposed via requirements to complete pre-benefit activities for certain groups **Proposal 4**).

4 18 to 24-year-olds receiving JS-Work Ready.

- Obligations and sanctions (regulatory and non-regulatory changes proposed via TLS (**Proposal 1** and **Proposal 1(a)**), introduction of new non-financial sanctions (**Proposal 2, Proposal 2(a),** and **Proposal (2(b)**) and requiring JS clients (and their partners) to reapply for Jobseeker Support every 26-weeks (**Proposal 3**).
- Financial incentives (no changes proposed).
- Case management (there is a fixed pool of case management resource which is instrumental to the delivery of the proposals, but capacity is stretched).
- Employment services (by engaging with more clients, more often, this enables MSD to better understand a client's skills, experience, and barriers to employment to require activities and provide employment supports (as appropriate) to move clients into, or closer to employment (**all proposals**).

Costs of the package

The overall costs for the package relate to:

- IT changes
- resource implications (FTEs)
- communication costs.

In respect of **Proposals 1 and 2**, introducing a Traffic Light System the costs involve:

- one-off costs in 2025/26 which includes capital investment of $6.55 million (for IT changes)
- ongoing operating impacts which will be absorbed into service levels and/or baseline funding.

In respect of **Proposal 3**, introducing a reapplication for JS clients every 26-weeks, the costs involve:

- one-off costs in 2025/26 which includes capital investment of $4.76 million (for IT changes)
- ongoing operational impacts which will be absorbed into service levels and/or baseline funding.

The costs of this package will add further cost pressures to MSD and service levels may be impacted.

Savings are likely to be generated from the package

The change in expiry is expected to result in a drop-off of clients on Jobseeker Support following a 26-week reapplication (e.g. clients not reapplying as their circumstances have changed and they know they are no longer eligible) and will affect expenditure on Benefits of Related Expenses (BoRE). This will reduce net BoRE costs by $37.885 million over five years (2024/25 to 2028/29).

However, MSD also note that benefit expiry and regrant leads to clients losing entitlement to benefit due to the process, rather than because they are no longer eligible for benefit, resulting in clients churning back on the benefit in quick succession. This has resourcing implications for MSD because of increased demands on frontline staff. There is also an opportunity cost, in that those case managers could be delivering employment assistance.

Limitations and Constraints on Analysis

- **Narrow scope**: The proposals developed in this package were largely informed by, and limited to, the series of commitments made by the Government in its pre-election materials and the two coalition agreements. This has limited the scope of the policy advice to the initiatives the Government directed officials to focus on. This commissioning and the proposed timeframes have further limited the options that are able to be considered that would achieve this.
- **Lack of broader public consultation:** The timeframes in which the policy proposals have been prepared did not allow for public consultation. As the proposed changes require legislative amendment, the Select Committee process will provide an opportunity for broader scrutiny and input. However, the proposals were signalled publicly before the general election through manifesto documents.
- **Existing legislative framework:** Some proposals have been modified to fit within the constraints of the existing legislative framework and phased (Phase One) to make progress of the Government's commitments ahead of legislative change.
- **Government Target for JS number reduction:** The target set by the Government to reduce the number of people getting JS by 50,000 by 2029 potentially shifts the focus of some potential interventions to cohorts of clients that are closer to the labour market and away from clients with more complex needs.
- **Funding and operational capacity:** MSD have received strong indications that options will need to be funded within existing baselines, and therefore existing frontline resources.
- **Implementation timeframes**: The Minister for Social Development and Employment signalled an expectation of implementation by 1 July 2025 at latest.

The existing knowledge base of government reports, academic research, and international experience provides a solid foundation for assessing the likely impacts of the options. These are summarised in the overview and overall options, referenced where appropriate, as well as select additional references in the relevant sections. Despite the constraints on the analysis, they provide reason to be confident of the likely outcomes and risks for the proposed options.

Responsible Manager(s) (completed by relevant manager)

Leah Asmus

Policy Manager

Welfare System and Income Support Policy

Ministry of Social Development

31/07/2024

Quality Assurance (completed by QA panel)	
Reviewing Agency:	Ministry of Social Development
Panel Assessment & Comment:	The RIS was reviewed by a panel of representatives from the Ministry of Social Development. It received a ‘partially meets’ rating against the quality assurance criteria for the purpose of informing Cabinet decisions. This assessment recognises that there were constraints on the range of options able to be considered by the authors and that the timeframes required for implementation also limited the analysis of the proposals. The RIS notes that due to time constraints there has been no public consultation on the proposals. While the proposals were contained in pre-election and coalition agreements there was no ability for consultation on the specific proposals. The lack of consultation specifically impacts the ability to understand the extent of some of the problems identified and implementation of the Community Work Experience proposal.

Part I: Summary and overall change attributed to the package

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

The Government is committed to reducing the number of people of Jobseeker Support by supporting them into employment

1. The Minister for Social Development and Employment (the Minister) has indicated that her top priority is shifting people in receipt of JS into work. The Government's view is that people who can work, should work, even if part-time [CAB-24-MIN-0041 refers].

2. The Government has set a target of 50,000 fewer people receiving JS by the end of 2029 than in March 2024 [CAB-24-MIN-0098 refers].

3. Further, the Government considers that:

    - the number of jobseekers and duration spent on JS must reduce to improve outcomes for New Zealanders and the strength of the economy
    - jobseekers should take steps to improve work-readiness and find paid employment, in return for receiving financial support from the taxpayer
    - too many jobseekers have little to no interaction with MSD which may limit their motivation or ability to improve work-readiness
    - the obligations and sanctions regime has not been optimised to ensure clients are work ready and to emphasise the expectations of jobseekers to actively seek employment
    - as a consequence of not fully applying the existing obligations and sanctions regime, remaining on benefit has become the rational choice for too many people.

4. The proposals assessed in this RIS have been identified by the Government to address the above concerns.

The Government can use a number of levers to influence behaviours in the welfare system, but each has limitations

5. Generally, the Government has five main levers (see Figure 1 below) that can be used to improve social and economic outcomes for those within the benefit system (e.g. by encouraging people to enter and/or remain in work).

Figure 1: Five levers in the benefit system

Levers in the benefit system	
Gateways	Affects **flows** onto benefit and receipt of supplementary or hardship assistance.
Obligations and sanctions	Affects **actions** while in the system, as conditions of benefit receipt.
Financial incentives	Affects the **behaviours** of benefit recipients and other agents in the system (e.g. entitlement levels, abatement regimes, in-work support, wage subsidies).
Case management	Affects the **level and nature of interaction** with the client to achieve the desired outcomes. Case managers assist clients with a wide range of needs, including income, housing, and employment.
Employment Services	Affects the **additional products and services** available to address clients' barriers and move clients off benefit.

6. **Gateways as a lever**. Current core eligibility settings for main benefits (and most supplementary and hardship assistance) primarily target people who have very low, or no, income. Criteria that determine whether someone is eligible for a main benefit include age, income, family type, health status, and residency. Main benefits vary in terms of who they apply to and what is expected of recipients.[5] Widening or tightening any of these criteria can have an almost immediate impact on take-up of main benefits.

7. There are also eligibility settings that impact a person's pathway to benefit. This can include requiring people to undertake pre-benefit activities before receiving financial assistance, stand-down periods before receiving financial assistance, and work capacity assessments.

8. **Obligations and sanctions as a lever.** The obligations and sanctions regime applies conditions on benefit receipt that result in consequences (usually financial) if not met. The regime reflects the idea that financial support through welfare is conditional on a person taking steps to return to employment when possible. A client's obligations differ depending on their capacity to work (see **Proposal 1** for further explanation).

9. Sanctions can affect benefit recipients in several ways, depending on their circumstances and the number of times they have had a sanction over the last 12 months. The sanction regime is graduated and there are three grades of sanctions in sequence.[6]

10. The application of sanctions has varied over time. As indicated in Figure 2, the yearly number of sanctions has not returned to pre-COVID levels. However, it is important to

5 For example, some categories of main benefit place greater work expectations on clients than others. JS-WR recipients have full-time work obligations whereas Supported Living Payment recipients are not required to seek work.

6 50 percent reduction (Grade 1), 100 percent suspension (Grade 2), or benefit is cancelled (Grade 3) and a non-entitlement period of 13 weeks applies. Clients with dependent children have 50 percent protection across all grades.

note that work-related sanctions were temporarily paused due to COVID-19, and the subsequent child policy (which sanctioned people for having a second child while on benefit) was removed in 2021. Both events will have impacted the number of sanctions issued – for instance, in June 2020, there were a total of 162 sanctions imposed. This is compared to 11,400 sanctions imposed in June 2019.

Figure 2: sanctions imposed, per year (time series data)

Year	Total sanctions imposed
2019	43,917
2020	18,390
2021	23,496
2022	21,060
2023	25,329

11. For the March and June 2024 quarters, there have been a total of 17,898 sanctions imposed. The greatest number were imposed for failing to attend an appointment with MSD (10,425), followed by failure to prepare for work (5,937) and failure to participate in work (1,332).

12. **Financial incentives as a lever.** Main benefit settings are designed to incentivise people to enter/remain in paid work and to disincentivise to entering/staying on benefit. Financial incentives can include in-work payments or graduating abatement regimes. Financial incentives have an impact on whether or not people work and how much work they do or whether people stay on benefit.

13. **Case management services as a lever.** MSD has several case management services, many of which respond to a wider range of client needs than just employment (e.g. General Service case managers, Integrated Service,[7] tailored case management services for people with particular needs, including those in emergency housing and people due to exit prison).[8] MSD also has online services and call centres that can process some assistance for clients. These are generally not considered to be case management as they tend to be one-off interactions for a limited set of assistance (e.g. food hardship grants).

14. Only one case management service provides dedicated employment case management. Employment case management is a one-to-one case management service for people that need support to manage their needs and access other services

7 Integrated Services Case Management. This form of case management has a focus on individuals and families who have high and complex needs (such as family violence, drug and alcohol abuse, debt, health problems, criminal activity, unemployment, housing, and education). Caseloads are limited and the case manager serves as the single point of contact with MSD for the client.

8 MSD has 1305 FTE providing general case management, and other specialised services (integrated case management, supporting offenders into employment etc). In addition, MSD is incrementally delivering virtual phone-based youth JS case management for 4,000 clients from July 2024.These numbers exclude He Poutama Taitamariki case managers.

to move towards employment. Caseloads are limited and the case manager serves as the single point of contact with MSD.

15. Not everyone who would benefit from employment case management can receive it. At the end of June 2024, 196,434 people were receiving JS (113,931 of this cohort were receiving JS-WR). However currently, MSD has the capacity to support only 57,000 people through dedicated employment case management at any one time (including 4,000 on over-the-phone case management, discussed below at paragraph 17). The capacity is limited by the number of available case managers on the frontline. Who receives dedicated employment case management depends on a range of factors including government priorities. MSD has 500 FTE for employment case managers.

16. The Minister agreed to rearrange the allocation of dedicated employment case managers from 1 July 2024. This reallocation of capacity stated below aims to better support people into work and help achieve the JS reduction target:

- 40 percent for JS (Work Ready) of all ages who have been receiving benefit for 0 to 12 months
- 30 percent for Youth (18–24-year-olds) receiving JS (work ready): 30 percent of the dedicated employment case management capacity.
- 20 percent for JS (Work Ready) of all ages with children.
- 10 percent for JS (Work Ready) of all ages with more than one year on benefit.

17. MSD has started to implement an over-the-phone employment case management service that has the capacity to reach 4,000 youth JS clients (18–24-year-olds).

18. Resource constraints mean that trade-offs are required in the allocation of case management resource. By focusing on those closer to the labour market (e.g. youth in receipt of JS), longer-term beneficiaries or people with higher needs may not receive adequate case management and employment support to move off benefit and into work. Additionally, the time spent by frontline staff on administering income support can undermine time available to deliver employment case management.

19. **Employment services as a lever.** MSD provides and funds a range of employment products and services that aim to help people prepare for work, find a job, and remain in work. These products and services are delivered by dedicated staff (e.g. work brokers) and through community and business partnerships. They include job search support and matching, education and training including work-readiness, and financial products such as wage subsidies and transition grants). Most people access employment services via a case manager. Benefit receipt may be conditional on participating in assigned employment services and activities, or voluntary.

External factors influence numbers of people in the benefit system

20. External factors influence numbers of people in the benefit system, like:

- labour market supply and demand (e.g. number and type of work opportunities available alongside the number of people with the skills required to fill those opportunities)
- changes in population numbers and characteristics
- cost of living, including housing

- immigration.

21. Economic activity has been weak recently, with real Gross Domestic Product (GDP) declining in four of the six quarters to the March 2024 quarter. The Reserve Bank has kept interest rates high to reduce inflation back to the target band of one to three percent. Annual inflation has been slowing and was 3.3 percent in the June 2024 quarter.

22. When demand for workers is high, more benefit recipients (particularly those closer to the labour market) tend to move into employment. Conversely, major economic shifts or downturns can lead to significant increases in the number of people receiving JS, and to a lesser extent other benefits. Previously New Zealand has seen sharp increases in benefit numbers following the COVID-19 pandemic, the 2008 Global Financial Crisis, the 1990 Asian Financial Crisis, and the restructuring events of the 1980s and early 1990s.[9] Following these events, there is often uneven recovery across sectors and regions. Employment growth has generally been strongest for highly skilled occupations, and weakest for lower-skilled occupations and this trend is likely to continue.[10]

23. Other factors that may contribute to an increase in benefit numbers include increased levels of hardship and housing costs. For example, the sharp increases in accommodation costs along with a rise in the cost of living in recent years mean that people may be more reliant on the benefit system while in between jobs, where previously they may not have accessed this support.[11]

24. The labour market, immigration settings and individual barriers impact people's ability to quickly enter work.

25. While the unemployment and JS rates tend to move in line with economic conditions, they are different measures.[12] JS recipients can face multiple labour market barriers when compared to others who are considered unemployed.[13] JS recipients (and other benefit recipients) tend to have less employment history, lower qualifications, and more experience of broader life challenges, such as disadvantage during childhood (Figure 3 below).

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9 Ministry of Social Development. (2020). *Evidence brief: The impact of COVID-19 on benefit receipt rates in historic perspective.*.

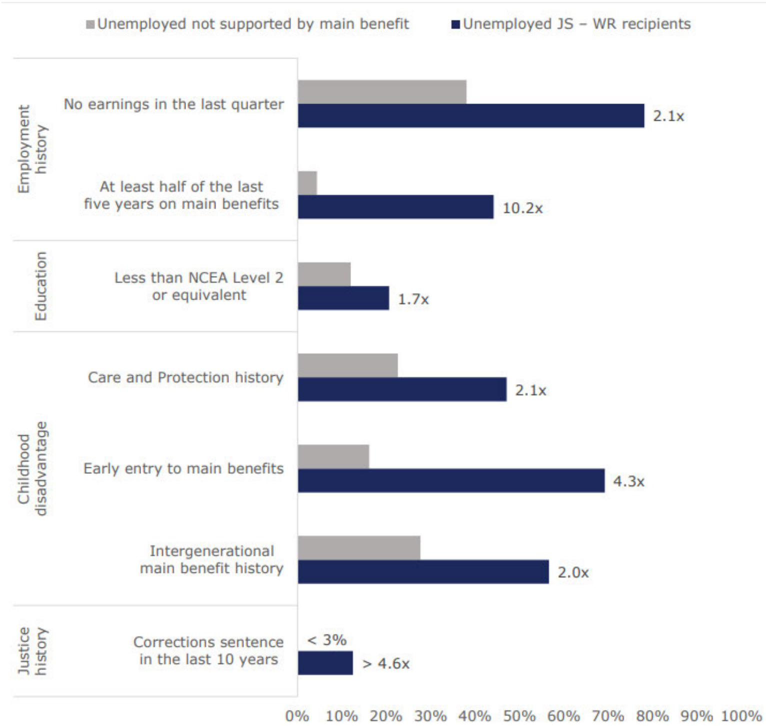
10 Ministry of Business Innovation and Employment(2018). Medium to Long-term Employment Outlook: Looking Ahead to 2026.

11 Ministry of Social Development. (2021). *Why are benefit numbers still high, relative to the low unemployment rate?*.

12 To be defined as unemployed in the Household Labour Force Survey (HLFS), someone must be 'actively seeking work' in the four weeks prior to being surveyed (e.g. applying for jobs or contacting employers) and have been available to work in the last week. A person who is unemployed may be ineligible or decide not to receive JS. A person receiving JS may not be unemployed but may be working part-time, or may be defined as Not in the Labour Force (NILF) as they may not meet the 'availability' or 'actively seeking' criteria to be classified as unemployed.

13 OECD. (2018). *Good Jobs for All in a Changing World of Work: the OECD Jobs Strategy*.

Figure 3: Indicators of barriers to employment among unemployed JS-WR recipients and those who are unemployed but not supported by a main benefit, as at September 2021



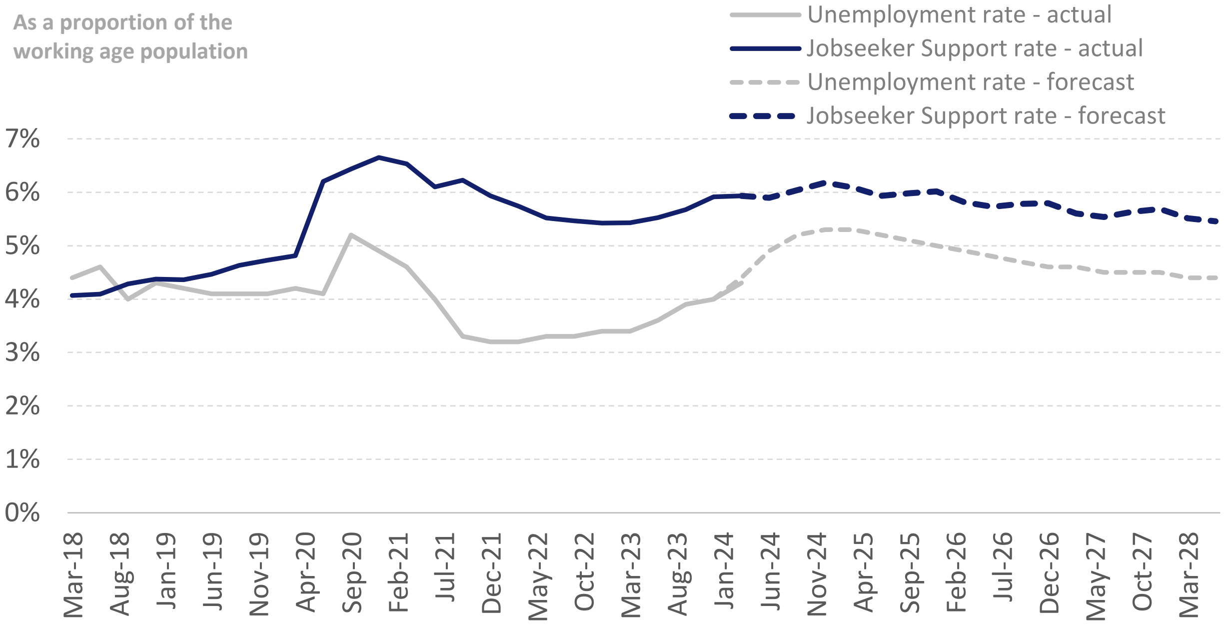
26. Since New Zealand's borders fully re-opened in July 2022, immigration flows have increased, with an estimated record high 137,700 person net migration gain in the year ended October 2023. At the same time, benefit numbers have been increasing. Post-COVID approval rates for visas for low-skilled workers have led to increased competition for MSD clients to find work. The Government is aware of these risks and MSD is currently working with relevant parties to ensure MSD clients have access to jobs that appropriately match their skills.

What is the policy problem or opportunity?

JS numbers have increased and are expected to continue growing with consequences for individuals, employers, and the Government

27. A weaker economy is expected to flow through to softer labour market conditions. The Treasury expects the unemployment rate to peak at 5.3 percent in the December 2024 quarter with benefit numbers forecast to peak in January 2025 (Figure 4). Though they are different measures, unemployment and Jobseeker Support numbers tend to move in line with the state of economic conditions. As economic conditions weaken, both the measures will likely rise.

Figure 4: Current and forecast JS numbers, as a proportion of the working age population, Budget Economic and Fiscal Update 2024



28. The average number of JS recipients for March 2024 was 189,310. This is an increase on recent previous years, but not higher than the peak COVID-19 numbers.

Figure 5: Monthly average JS recipients, March 2019– March 2024

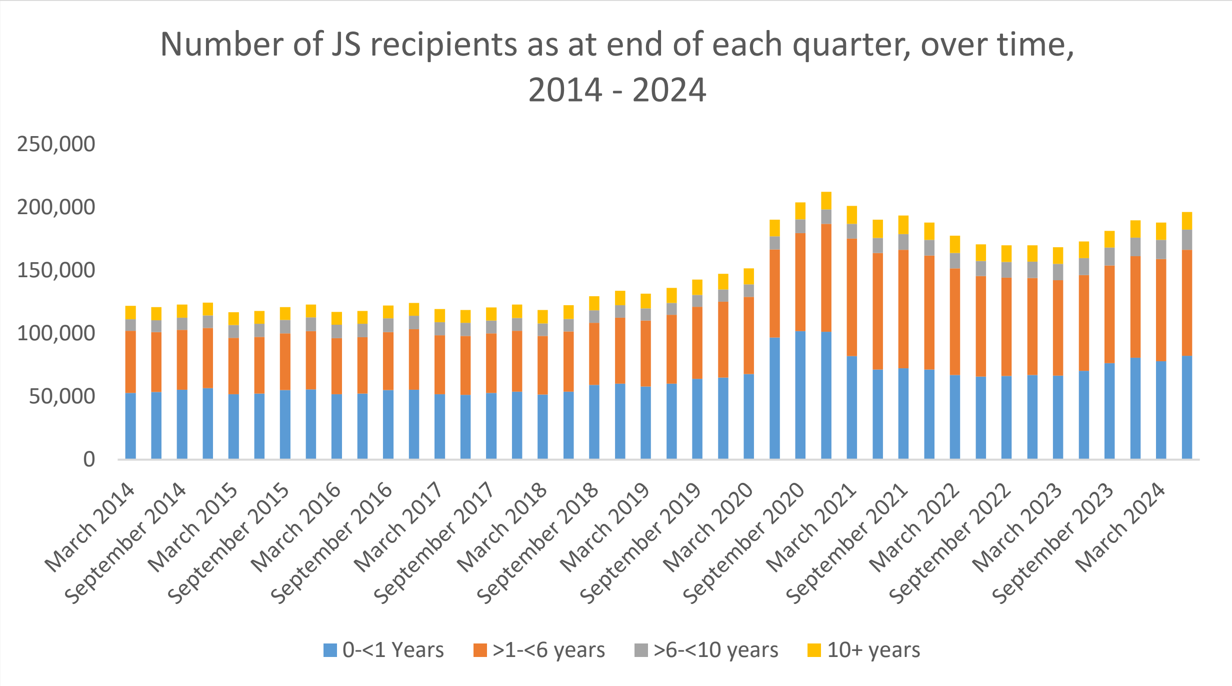
March 2024	189,310
March 2023	169,553
March 2022	180,032
March 2021	205,267
March 2020[14]	147,957
March 2019	132,270

Continuous duration on JS is stable, but the risk of long-term benefit dependency remains

29. Data representing continuous duration on JS (based on historical JS data) moves relatively proportionately to the total JS population over time. For instance, JS clients who had been on benefit for between one to six years represented 40 percent of the total JS population in June 2014, and 43 percent of the total JS population in June 2024. For Jobseekers with continuous duration between six and 10 years, this was 8 percent of the population in June 2014, and 8 percent of the population in June 2024. Figure 6 shows this proportion as raw numbers.

14 Jobseeker Support numbers were high after March 2020 – 190,857 for June 2020, 202,222 for September 2020, and 209,058 for December 2020.

Figure 6: Number of working age JS clients, by quarter end duration, as at the end of each month, January 2014 – June 2024



30. Stable proportional duration demonstrates that while duration is not getting significantly worse, it is not reducing either. There is an opportunity to make improvements to this picture, with a shift to a greater number of people of JS in the zero to one year category, and fewer people of JS in the longer duration categories. Without policy intervention, forecast JS numbers are expected to cost on average $4.451 billion over the next four financial years.

31. The missed opportunity for shorter benefit duration will be exacerbated for certain population groups. As at March 2024, 40.2 percent of the JS population were Māori and 13.1 percent were Pacific peoples. At the 2018 Census, 15.3 percent of the working age population were Māori and 7.5 percent were Pacific peoples.[15]

32. Long-term benefit receipt can be more damaging to a person's ability to find suitable work compared to short-term benefit receipt, but the risk varies across individuals and labour market conditions.[16] Further, the cost of supporting a person back into work is expected to be higher when they have been receiving a benefit for a year or more. This is not only due to the cost of their benefit, but also due to the more tailored interventions necessary to improve their skills and match them to appropriate work. Barriers such as long gaps on a CV and lack of core work skills due to time spent out of the labour force add to the level of engagement and intervention necessary to get them back into work.

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15 Ethnicity is reported using a total response methodology. MELAA refers to Middle Eastern, Latin American, and African.

16 Abraham, K., Haltiwanger, J., Sandusky, L., & Spletzer, J. (2016). The Consequences of Long Term Unemployment: Evidence from Matched Employer-Employee Data. IZA Discussion Paper No. 10223

Damaske, S., Frech, A., & Wething, H. (2024). The Life Course of Unemployment: The Timing and Relative Degree of Risk. *Work and Occupations*, *51*(2), 139-180.

Mueller, A., & Spinnewijn, J. (2023). The Nature of Long-Term Unemployment: Predictability, Heterogeneity and Selection . IZA Discussion Paper No. 15955, Bonn

Nolan, M. (2013). Understanding the Unemployment Problem. New Zealand: Infometrics.

33. Job loss and unemployment is a regular feature of a well-functioning labour market. The economy creates, and removes, a large number of jobs each year. People also enter the labour market for the first time or re-enter after a long period out of work (e.g. young people with their first job, and those with caring responsibilities). Quickly matching jobseekers with employers looking for workers can reduce the time and negative impacts of unemployment for individuals. An efficient and effective matching process also benefits employers by reducing the amount of time they spend looking for suitable employees, boosting productivity.[17]

Unemployment is generally detrimental to wellbeing, and engagement in suitable work is usually beneficial

34. Employment is the most likely reason for a person to exit benefit.[18] However, some may face an extended period of unemployment, particularly where they have barriers to work. These barriers may relate to individual circumstances (e.g. lack of qualifications, health or disability issues, care responsibilities), poor financial incentives to work (e.g. high marginal tax rates, entitlement settings that can create "benefit cliffs"[19]), or discouraging employer and labour market structures (e.g. discrimination, lack of suitable childcare, low availability of accommodation). These barriers may prolong spells of unemployment.

35. The balance of evidence is that work can make working-age benefit recipients better off, but outcomes for any individual will depend on a range of factors including whether the work accommodates their individual work capacity or caring responsibilities, the quality of the job, and the financial gains from working. People who exit benefit and enter or re-enter work usually experience improvements in income (especially where they take up in-work support if on low incomes). Employment and socio-economic status are the main drivers of disparities in physical and mental health and mortality.[20]

There is an opportunity for MSD to improve its role in supporting JS clients to enter and remain in employment

36. MSD considers that fewer people on JS and more people in employment will be beneficial for individuals, families, and society. This view is based on research that indicates meaningful employment is better for people than benefit receipt, particularly if that benefit receipt extends over years.

37. However, MSD acknowledges that the opportunity to reduce JS numbers will remain limited by external forces. Though the Government (delivered by MSD) have tools that can be optimised to influence the JS population, external forces, particularly economic conditions, have a significant impact on JS inflows and outflows. The levers available to the Government can influence JS recipients' decisions to enter and remain in work, but they will not be the main driver of change.

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17 OECD, *Good Jobs for All in a Changing World of Work: the OECD Jobs Strategy*, 2018.

18 Ministry of Social Development. (2021).*What happened to people who left the benefit system*.

19 For example, when a person earns above the income threshold for a particular payment, they may lose entitlement to it entirely. This can mean that when someone's earned income increases, they are worse off overall.

20 Government Inquiry into Mental Health and Addiction. (2018). *He Ara Oranga: Report of the Government Inquiry into Mental Health and Addiction*; New Zealand.

New Zealand Health and Disability System Review. (2020). *Health and Disability System Review—Final Report Pūrongo Whakamutunga*; Health and Disability System Review: Wellington, New Zealand.

38. There are also opportunities to improve clients' understanding of their obligations to look for and obtain work while receiving a benefit. Evidence suggests that clients often have poor information or lack an understanding about what is expected of them and the consequences of failing to comply with obligations associated with their assistance,[21] and was a strong theme among responses to the Welfare Expert Advisory Group's consultation report.[22] MSD considers these changes also present an opportunity to strengthen practice around having obligations conversations with clients.

What objectives are sought in relation to the policy problem?

39. The proposals assessed in this RIS seek to:

- support the Government's JS reduction target to have 50,000 fewer people on JS by December 2029
- reduce benefit dependency (i.e. duration and frequency of spells)
- support people to avoid benefit receipt altogether or exit benefit quickly
- ensure people understand their obligations and are enabled to comply.

40. There are four main objectives sought in relation to the policy problem:

- support reductions in the number of people receiving JS and increased exits into employment with a target of 50,000 fewer people on the JS benefit by December 2029
- lifting economic outcomes for people and their families through work and supporting efficient labour market matching
- reducing costs to the government by reducing benefit numbers
- welfare system settings that reinforce expectations to work where appropriate.

41. To achieve the objectives sought it will be necessary to:

- use the full range of levers as described in Figure 1 and paragraphs 6 to 19
- employ a more active welfare system[23] including more interactions with clients, early intervention, activity setting, monitoring, and tracking compliance
- make every engagement count and ensuring each engagement builds on the previous one so we are always building on the last engagement rather than 'starting from scratch'
- have an efficient system that reduces administrative tasks and duplication to free up personnel resource for high value engagement (employment engagement).

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21 Ministry of Social Development. (2018). *Obligations and sanctions rapid evidence review paper 1: An overview*.

22 Welfare Expert Advisory Group. (2018) *Views on New Zealand's welfare system*.

23 An academic definition of 'activation' refers to the "broad range of policies and measures targeted at people receiving state-funded income support or in danger of becoming permanently excluded from the labour market." Such policies and measures cover "various forms of education, vocational training or retraining, group process, coaching and practice programmes and even through the channelling of financial resources." Social services – as providers of services to benefit recipients or as conduits of state support – are the key public agency to 'activate' their clients [Drøpping et al. (1999). "Activation policies in the Nordic countries", chapter 6, in: Kautto et al. (1999). "Nordic Social Policy: Changing Welfare States", Routledge: London and New York].

Section 2: Deciding upon an option to address the policy problem

What criteria will be used to compare options to the status quo?

42. The following criteria have been used to analyse options for each proposal.

Criteria	Considerations
Ease of implementation	• Timeliness of delivery (1 July 2025 or earlier implementation as required by the Government). • Feasibility – the ease of implementing the initiative and to continue to deliver it long-term – resourcing, complexity for staff, staff capability, training needs etc. • Client experience (know what they need to do, enabled to do the right thing, get the assistance they need).
Fiscal cost to Government	Operational and BoRE costs and savings, upfront and ongoing. Noting the current fiscal environment and constraints in prioritisation.
Effectiveness at achieving the outcomes sought under objectives	Expected behavioural impacts of each individually and collectively: • exits (employment and other), sustainability of exits • part-time employment, training • duration on benefit • transfers to other benefits • benefit grants • increase in the financial position of families through work.
Distributional impacts	Impacts of the interventions on different groups of interest or demographics (with a focus on what good for each group looks like): • young jobseekers – 18–24 years • ethnicity (Māori and Pacific Peoples) • gender • regional • JS-WR, JS-HCID break down, transfers.
Fairness between beneficiaries	Different dimensions for different proposals in the package for example trade-offs for those that have been deprioritised: • young versus older jobseekers • newer entrants versus longer duration. • full-time work obligated versus part-time or deferred.

43. For certain proposals (Proposals 1, 1(a) and 2(a), additional specific criteria have been included.

Criteria	Considerations
Increased risk of harm [24]	• Financial hardship. • Physical, emotional, and mental health impacts. • Disengagement with services.

What scope will options be considered within?

44. This package is part of the Government's manifesto commitments. The scope of options has been limited by:

- the parameters required by the Government as part of its pre-election materials and the two coalition agreements
- the timeframe to complete advice and implement change
- lack of broader public consultation
- in some cases, the requirement for proposals to fit within the existing legislative framework
- the context of the Government's target for JS
- resources available - including baseline funding and case management.

45. Officials considered options within those constraints.

46. MSD have not engaged widely with stakeholders on the changes, and there has not been an opportunity for wider consultation. However, these initiatives were clearly signalled by the National Party, ACT Party and New Zealand First during the election campaign. While there has been comment in the media about the proposals, there has been limited specific stakeholder feedback about the proposals.

47. For each of the proposals, officials considered:

- the status-quo
- the proposals referred to in the Government's pre-election materials and coalition agreements
- variations on the proposed commitments, reflecting modifications recommended by MSD.

24 Sanctions may increase mental and physical health problems including, anxiety and stress, drug and alcohol abuse, and poverty (Dwyer & Bright, 2016; Dwyer, 2018; Griggs & Evans, 2010). There is also evidence from the United Kingdom that sanctions are associated with a rise in food bank usage (Loopstra, Lambie-Mumford & Fledderjohann, 2019). While further research needs to be undertaken to confirm this link in New Zealand, a comparison of MSD sanction data with food bank data from the Salvation Army suggests an association between the number of sanctions issued and the demand for food parcels (Gray, 2019).

Key policy recommendations

48. The recommended options presented are set out in the table below:

Traffic Light System (TLS) [Proposal 1, refer to pages 27 to 37]

1. To introduce a TLS for benefit recipients (supporting the existing graduated sanctions regime) to communicate that clients must fulfil their work-related or social obligations and youth activity obligations or risk being sanctioned, where:
    - Green – client is complying with obligations
    - Orange – client has failed an obligation and has five working days to dispute this failure and may also arrange to recomply with their failed obligation at this time
    - Red – client has a sanction imposed (if the obligation failure has not been disputed or has been disputed and the original decision stands) and not yet re-complied.
2. The components of the TLS include:
    - messaging and communications about the settings/TLS colours (new)
    - additional activity setting (under current obligations framework)
    - financial sanctions (current settings)
    - non-financial sanctions (new – see below)
    - extending the period over which obligation failures are counted against a client from 12 months to 104 weeks [Proposal 1(a) refer to pages 32 to 35]
    - the same graduated sanctions regime (current settings).

Non-financial Sanctions [Proposal 2, refer to pages 38 to 39]

3. Legislative amendment to allow MSD to impose a non-financial sanction instead of a financial sanction when a client has failed to meet an obligation (without good and sufficient reason) in respect of a Grade 1 sanction (targeted to specific cohorts as below).
4. Targeting non-financial sanctions (whilst also recognising the suitability of the non-financial sanction) to specific cohorts.
5. The decision to apply a non-financial sanction will be made by a case manager, supported by operational guidance.

Money Management as a non-financial sanction [Proposal 2(a), refer to pages 40 to 48]

6. The settings for Money Management will include:
    - the provision of electronic payment cards as the mechanism for delivering Money Management
    - that Money Management will only apply to a client's main benefit (i.e. it will not include supplementary assistance), for consistency with financial sanctions
    - that 50 percent of a client's main benefit will go onto the electronic payment card
    - the ability for a client to exit Money Management (and return to Green) by completing a recompliance activity

• that clients on Money Management will not be able to access hardship assistance (consistent with the settings for financial sanctions). 7. Enabling legislation for MSD to work alongside providers to deliver Money Management in the future.
Community Work Experience as a non-financial sanction [Proposal 2(b), refer to pages 49 to 55]
8. The settings for Community Work Experience will include: • that clients will find work experience with a community or voluntary sector organisation with the support of MSD • that clients will need to complete work experience for a specified duration and number of hours per week.
26-week reapplication for JS [Proposal 3, refer to pages 56 to 72]
9. To remove and replace the current 52-week expiry and reapplication process with a new 26-week expiry and reapplication requirement for JS. The components of the reapplication are: • an eligibility check • an appropriate employment engagement • a review of and/or setting of appropriate activities in line with work (which can occur at either the eligibility check or the employment engagement). 10. The redesign of the reapplication process: • to allow for the use of proxies (relevant engagements with the client in the 12 weeks prior to expiry) that are deemed to fulfil one or more of the components of the reapplication process at 26-weeks (as outlined above) • flexibility in the type of employment engagement held with the client, including the use of group-based activities. 11. Transitional arrangements for moving people onto the new 26-week expiry/reapplication cycle as early as possible. 12. Removal of annual income charging for sole parent and grand-parented clients receiving JS and associated changes to: • manage those clients who are part-way through an annual income charging cycle and potentially disadvantaged by the change so the due-paid assessment can be completed before transferring • manage the ongoing transition when the client's youngest dependent child turns 14 years old • remove the ability to undertake temporary full-time employment for this group.

Note: Paragraph 10 contains an error. The "12 weeks" in the first bullet point should be read as "13 weeks" as explained correctly in paragraph 248.

Jobseeker Profiles [Proposal 4, refer to pages 73 to 78]
13. Require Jobseeker Profiles to be completed by all clients applying for Jobseeker Support, Sole Parent Support and Emergency Benefit (where MSD has determined they will have work obligations as a condition of benefit receipt) before benefit is granted.
Efficient administration of the proposals
14. Automated decision-making[25] can support MSD to deliver efficient and modern services at scale. Allowing automated decision-making to be used for the proposals in this paper will require changes to the Social Security Act 2018.

Impact analysis of the package

49. The package of proposals in this Regulatory Impact Statement seeks to make changes to welfare settings to support people into employment and off benefit. This is expected to contribute to reducing the number of people receiving a main benefit, particularly JS. However, policies to prevent people coming on the benefit in the first place are likely to be the most impactful in terms of reducing JS numbers.

Overall impact

50. Taken together, these changes will deliver on the Government's commitments and support a greater focus on employment related interactions. Delivering the right support at the right time for clients, combined with changes to other obligation and sanctions settings, will provide the best opportunity for this package of changes to welfare settings to be successful for those in the target groups.

51. While it is not possible to assess the likely impact on JS numbers from each of these initiatives, MSD considers this combination of changes should support the objective to reduce JS numbers and support pathways off benefit and into work.

52. Working within the constraint of a narrow set of proposals, the package of interventions and allocation of resources presented here is MSD's best advice for supporting progress towards the JS reduction target, within the constraints outlined earlier. The changes support a system with higher levels of engagement and activation by providing additional tools for frontline staff to target cohorts where efficient outcomes can be realised. They also support clear communication of obligations for continued receipt of benefit and the potential of sanctions.

53. Targeting employment case management at those closer to the labour market will likely increase their exits into employment. However, in a weaker labour market, employment case management time may reduce in response to higher demand for income support, potentially contributing to fewer clients leaving benefit. The demand for income support will reduce as the labour market improves and cost of living pressures reduce. Over time, MSD expects the recommended approach to deliver positive outcomes and enable capacity to be rebalanced towards cohorts with more significant barriers to work.

54. Reducing the time between reapplications for those clients on JS and their partners (if any) to a 26-week cycle will create an additional requirement for clients to engage with

25 A decision within an automated process where there is no substantial human involvement in making the decision (including statutory decisions).

MSD for an employment focused engagement and to confirm that clients remain eligible for benefit.

55. The employment focused engagement is an opportunity for MSD to check what a client has been doing to look for and prepare for work (condition of benefit receipt), to understand a client's employment history and goals, identify job opportunities as appropriate and provide support to increase the likelihood of finding employment and addressing barriers.

56. There is a risk that shifting focus to Jobseeker Support Work Ready clients may result in some other long-term beneficiaries not receiving dedicated employment case management and other employment support, and potentially remaining on benefit longer as a result. Increasing compliance focused activity could also result in more case management resources being directed to those kinds of activities, rather than employment focused interactions.

Impacts for Māori

57. Māori are disproportionately represented in the welfare system and are more likely to be affected by the proposals recommended in this suite of changes.

58. Proposals, such as the reapplication process and non-financial sanctions, may disproportionately negatively impact Māori and do not align with Te Tiriti o Waitangi/Treaty of Waitangi principles of active protection and equity. For example, Māori are more likely to have their benefit cancelled through the reapplication process (3.5 percent of Māori compared to 2.7 percent New Zealand European), meaning this additional reapplication may see more benefit cancellations. Māori are also currently sanctioned at greater rates than non-Māori, so, it is likely that Māori will also be overrepresented in the cohort available for non-financial sanctions and will be disproportionately impacted by the negative consequences associated with those interventions if they are not targeted appropriately. The settings for both Money Management and Community Work Experience will be reviewed 12 months after implementation, at which point there will be a greater understanding of the effects of non-financial sanctions for Māori.

59. Māori have not been engaged on the specific proposals that are recommended in this paper, and therefore reasonable steps have not been taken to make informed decisions from an understanding of the impacts on Māori, or the opportunities to address disparities.

60. Through previous engagement with Māori on the welfare system, MSD heard that the Crown should give resources and power to the people that serve and are part of the community they serve. Resourcing whānau, hapū, and iwi to do what they already do best demonstrates a commitment to Te Tiriti o Waitangi. Māori have previously expressed a strong desire that any changes lead to independence from, rather than dependency on, the state.

Population Impacts

Population group	How the proposal may affect this group
Māori	*Traffic Light System changes* Māori are more likely to be affected by the Traffic Light System proposals as they are disproportionately represented in the welfare system, and ongoing monitoring will be important to understand any changes over time. Māori are also currently sanctioned at greater rates than non-Māori, and it is possible that they may also be overrepresented in the cohort available for non-financial sanctions. It is also possible that they would also be disproportionately affected by the new non-financial sanctions and therefore at a greater risk of harm from them. Non-financial sanctions will be targeted to ensure they are directed to people where it is an appropriate alternative to a financial sanction, mitigating some of this risk. The settings for both Money Management and Community Work Experience will be reviewed 12 months after implementation, at which point there will be a greater understanding of the effects of non-financial sanctions for Māori. *26-week reapplication* At present Māori are more likely to have their benefit cancelled through the reapplication process (3.5 percent of Māori compared to 2.7 percent NZ European) and the additional reapplication may see more benefit cancellations. However, this may be mitigated by recognition of prior engagements between the client and MSD, because it is possible that these clients are having additional engagements with MSD that may suffice as specified activities (for example, it is intended that an application for social housing may satisfy the eligibility check component, and we know more Māori apply for social housing). *General comments* Māori have previously expressed a strong desire that any amendment leads to independence from, rather than dependency on, the state. Māori have not been engaged on the specific proposals outlined in the accompanying Cabinet papers, and therefore decisions have not been shaped from an understanding of Māori interests in these issues. Targeted consultation with Māori has not been undertaken. The proposals will apply equally to all clients affected by the changes, the Tiriti o Waitangi principles of active protection and equity (as opposed to equality) have not been satisfied. Māori are more likely to be affected by the proposals recommended in this paper as they are disproportionately represented in the welfare system, and ongoing monitoring will be important to understand any changes over time.
Pacific people	Benefit recipients who identify as Pacific peoples skew younger than other ethnicities and are more likely to have work obligations than all ethnicities other than Māori. Pacific peoples who fail their obligations are also more likely than all ethnicities other than Māori for that to progress to a sanction, meaning that they may be overrepresented in the cohort receiving a non-financial sanction. Approximately 10 percent of Jobseekers identify as Pacific peoples. Pacific peoples are more likely to have their benefit suspended or cancelled through the 26-week reapplication (4.07 percent of Pacific peoples compared to 2.7 percent NZ European) and the additional reapplication may see more benefit cancellations.

	Pacific communities were not engaged with on the specific proposals that are recommended in the accompanying Cabinet papers, and therefore decisions have not been shaped from an understanding of Pacific peoples' interests in these issues
Women	Across both Jobseeker Support and Sole Parent Support, women are typically sanctioned at lower rates to men and as a result may be less likely to progress through the Traffic Light System. Targeting to clients with dependent children may also result in women being more likely to receive a non-financial sanction, particularly due to the significant proportion of Sole Parent Support recipients who are women (approximately 90 percent). However, those sanctioned are still faced with the negative impact of sanctions, including impacts on mental health and the difficulty of meeting essential costs. Women are more likely to be sole parents. The shift to weekly income charging from annual income charging linked to 26-week reapplications may affect their rate of benefit, and their incentives to undertake full-time work.
Disabled people	Disabled people tend to have fewer work obligations than the rest of the benefit population when their disability is severe enough to limit their capacity to work, which may include the client being on Supported Living Payment or Jobseeker Support – Health Condition, Injury or Disability rather than Jobseeker Support – Work Ready. As a result, the changes outlined in the accompanying Cabinet papers may have less of an impact on disabled people in comparison to people with greater work obligations. Those with obligations may face additional barriers to meeting these when compared to other people with equivalent obligations. Care will also be taken during implementation to ensure that the Traffic Light System is designed in an accessible manner, such as the inclusion of colourblind and low-vision appropriate visual elements, or through processes that can better reflect neurodiversity. Approximately 42 percent of clients on Jobseeker Support due to a health condition, injury or disability are limited in their capacity to undertake full-time employment. Requiring an additional reapplication will see clients engaging more often, so that they are well-prepared to return to work when they transfer to Jobseeker Support – work ready as their condition allows.
Children and Young people	Approximately 13 percent of clients on Jobseeker Support, and all clients on Sole Parent Support, have a dependent child. This group are a specified target cohort for the use of non-financial sanctions, and as such children and young people of those being sanctioned will likely be more affected by the introduction of these to the welfare system. Evidence suggests that children of sanctioned beneficiaries can face negative consequences in their own right, due to increased family stress and impacts of financial hardship. Young people receiving a benefit in their own right through the Youth Payment or Young Parent Payment will also be subject to aspects of the Traffic Light System. Increasing points of engagement with clients may move more clients off benefit into work, Additionally, sole parents may have a change to their rate of benefit, with the move from annual to weekly income charging.
Older people	The proposals in this paper will have mixed impacts on older people. While people aged 50-64 are overrepresented among people who are unemployed long-term, they are also more likely to be on benefits with fewer work obligations (e.g. Supported Living Payment) and as such may be less affected by these changes. Older people may also be more likely to face barriers to employment than other cohorts with equivalent work obligations (e.g. discrimination, and caring responsibilities).

	People aged 50-64 are overrepresented among people who are long-term unemployed. Adding an additional point of engagement for these clients offers a passive opt-out for clients who may be close to receiving New Zealand Superannuation. It also offers the opportunity for more tailored employment support.

Monitoring progress towards the JS target

61. MSD will continue to monitor progress towards the target, including external factors such as labour market and economic impacts alongside the impacts of these new interventions and operational changes. Through headline forecasts, and measures that can indicate trends for different cohorts, MSD will be able to provide advice on the likelihood of meeting the targets in 2029 and beyond. Operational changes can be adjusted as required.

Costs (Funded within baseline)

62. The costs of Proposals 1 and 2, introducing a Traffic Light System include:

    - one-off costs in 2025/26 which includes capital investment of $6.55 million (for IT changes)
    - ongoing operating costs per annum which will be absorbed into service levels and/or baseline funding.

63. The costs of Proposal 3, introducing a reapplication for JS clients every 26-weeks, include:

    - one-off costs in 2025/26 which includes capital investment of $4.76 million (for IT changes)
    - ongoing operating costs per annum which will be absorbed into service levels and/or baseline funding.

64. The cost of this package will add further cost pressures to MSD and service levels may be impacted.

Savings

65. Implementation of the 26-week reapplication changes is expected to result in a drop-off of clients on Jobseeker Support following their reapplication (e.g. due to clients not reapplying as their circumstances have changed and they know they are no longer eligible) and will affect expenditure on BoRE. This is expected to reduce net BoRE costs by $37.885 million over five years.

66. While the TLS changes could contribute to achieving the Government’s target to reduce Jobseeker numbers and result in corresponding savings, it is difficult to quantify these impacts. This is because outcomes are likely to depend significantly on a range of factors, including client behaviour, staff decision-making and opportunities in the local economy. While no attempt to forecast savings has been made, MSD will closely monitor progress against the target following implementation (see Part 2, Section 2: Delivering an option).

Part 2: Individual proposals and detailed options analysis

Section 1: What options are being considered?

Proposal 1: Introduce a Traffic light System in respect of the obligations and sanctions regime

Status quo and problem definition

67. Obligations and sanctions are an important lever in the welfare system to improve employment outcomes. Income support provides people with protection against life shocks such as job loss. However, to ensure that jobseekers return quickly to work where possible, they have obligations to take steps to prepare for and search for work. These obligations are reinforced with use of sanctions for non-compliance. Sanctions are a temporary reduction or interruption of benefit payments (that in some cases can be permanent) in response to a person not meeting the conditions of their benefit.

68. While work obligations and sanctions contribute to movement into work and reduction in benefit receipt through a “carrot and stick” approach, they are (depending on their design) also associated with a range of negative labour market and other impacts. Appendix 1 provides background on how work test and work preparation obligations operate and their impacts more broadly.

Options

69. To address concerns that some clients may not understand their obligations and to create a stronger signal to clients as to what expectations are placed on them, the National Party’s “Reducing Benefit Dependency” manifesto document proposed the introduction of a Traffic Light System. This would support the use of obligations and sanctions within the welfare system by introducing three distinct colour levels that would reflect a clients current standing with respect to their obligations.

Figure 7: Traffic Light System as proposed in the Reducing Benefit Dependency document

Status	Consequences
Green (compliant) Jobseeker fulfilling all obligations to prepare for or find work.	**No change to obligations and no sanctions applied.**
Orange (some risk) Jobseeker has received one or two warnings for breaching their obligations to prepare for or find work.	**No sanctions applied – targeted support and additional obligations applied:** • mandatory training • more frequent check-ins with MSD • more intensive case management.
Red (high risk) Jobseeker has received three or more warnings for breaching their obligations to prepare for or find work.	**Sanctions applied:** • financial sanctions (benefit reduction) • benefit suspension • Money Management • Community Work Experience.

Note: the above reflects the Traffic Light System as written in the Reducing Benefit Dependency document and does not reflect MSD's terminology or final policy proposals.

70. Specific components of the above have been developed individually and are covered below. This section on the TLS primarily relates to the development of the specific levels of the TLS system itself, including potential for a warning system as part of the orange level.

71. MSD considered three high-level options:

- Option One – No TLS (Status quo)
- Option Two – Non-legislative modification to current state (Recommended to Cabinet)
- Option Three – Legislative change with warning system (MSD recommendation).

72. Under both change options (Options Two and Three), a client's colour would be clearly visible to them through the MyMSD online platform and would form part of other communications to them around obligations and sanctions.

Option One – No TLS (Status quo)

73. This option would maintain the obligations and sanctions system as it currently stands, without any introduction of colours. The three-grade sanctions regime would continue as it currently stands, with the mandated notice period ahead of a sanction being imposed in all cases.

Summary of the current obligations and sanctions regime under the Act

74. MSD places a range of obligations on clients, depending on their circumstances. They are typically grouped into three broad categories.

- Administrative: which are related to the provision of support (e.g. providing a bank account, or notifying of changes in circumstances that impact support).
- Work obligations: which are intended to move people towards the labour market (e.g. attending interviews or seminars, or taking a drug test if a job requires it).
- Social obligations: which are intended to achieve developmental outcomes for children of people receiving a benefit (e.g. enrolling dependent children in healthcare or education).

75. Some further obligations also exist, which may relate to one of these three areas but have their own consequences. For instance, clients have an obligation to accept any suitable offer of employment, and failing to do so results in immediately having a Grade 3 sanction (cancellation of their benefit).

76. As a client moves through the welfare system and their circumstances change, their specific obligations may change to reflect their circumstances. For example, a single client with full-time work obligations who then has a child would shift to having work preparation obligations until that child is three years old. In some cases, these shifts and the range of potential obligations imposed on clients can lead to a client being unclear on what their specific obligations are.

77. Currently, when a client does not meet their obligations, they are notified of the failure and that they are required to recomply if they wish to remain entitled to their benefit. The failure will result in a sanction after a five-day notice period, which remains in place until the client completes a recompliance activity. The failure can be overturned if the client has a good and sufficient reason for their failure (e.g. they could not attend an interview because they were in hospital).

78. MSD imposes sanctions in accordance with the welfare system's graduated sanctions regime, shown in Figure 8.

Figure 8: Current graduated sanctions regime

		Single person without dependent child	**Sole parent with dependent child**
Grade 1	Main benefit	50 percent reduction	50 percent reduction
	Supplementary	Not affected	Not affected
Grade 2	Main benefit	100 percent suspension	50 percent reduction
	Supplementary	100 percent suspension	Not affected
Grade 3	Main benefit	100 percent cancellation	50 percent cancellation
	Supplementary	100 percent cancellation	Not affected

Operational changes could be made

79. While this option would not see any specific changes, there remains the ability to make changes to operational practice to address some of the intent of the TLS. For instance, guidance has been issued to staff to help ensure they make clients aware of their obligations. Communications could be further altered or strengthened to better clarify

what future consequences for a client could be. This would not resolve the issue of some clients not understanding their obligations currently, and where they sit in the sanctions regime in terms of compliance.

Option Two – Non-legislative modification to current state

80. A lighter-touch implementation of the TLS could see the introduction of a colour grade on top of the current processes around obligations and sanctions. This would provide clients with a clear indicator of their compliance with their obligations through the use of a colour level but would not involve any changes to the system itself. With this option, the colours would broadly correlate to whether a client is complying, failing, or has been sanctioned:

- Green – for clients who are complying with obligations meaning no intervention is required
- Orange – for clients where an obligations failure has been identified and they are within the five-day notice period prior to a sanction being applied, in which time they can dispute the failure by identifying a good and sufficient reason or otherwise recomply before a sanction is imposed
- Red – for clients who have been sanctioned due to failing their obligations, did not dispute the decision (or had the decision upheld), and have not yet recomplied.

81. This option provides limited opportunity to warn clients they are at risk of failing obligations or have limited time in the “orange” level to recomply. Clients could not stay at the orange level beyond the time-limited notice period meaning this level would have a smaller role than green or red.

82. The implementation of this option would be relatively simple and would not require any form of legislative change to add a colour-based communications tool. Subsets of the TLS (such as non-financial sanctions) would still require amendments to legislation, but this option could be achieved in a timely manner.

83. Given the relatively minor scope of change in this option, distributional impacts would not substantially change compared to the status quo. As the implementation of the colour system would be primarily through MyMSD, clients who do not use MyMSD may be less likely to see substantial change from the status quo.

Option Three – Legislative change with a distinctive warning system level

84. Expanding the graded system for obligations failures from three to five steps, with the introduction of two warnings and an expanded orange level. In this option, each colour level would be more distinct and would be intended to better reflect a client’s ongoing compliance as opposed to solely their current situation.

- Green – for clients who are complying with obligations and do not require any intervention.
- Orange – for clients who are struggling to meet or understand their obligations, or the consequences of failing them, and have failed once or twice. Additional activities and supports would be provided but no sanctions would be applied.
- Red – for clients who have persistently failed their obligations (defined as three or more times in a twelve-month period) and have reached the point of having sanctions applied.

85. Under this expanded model, a client would not be sanctioned the first two times they failed their obligations without a good and sufficient reason. Instead, they would be given a warning and greater support to return to complying with their obligations, while it would be made clear that continued non-compliance will result in a sanction. This includes situations where a client does not recomply after a warning, meaning that in some instances a person may have a financial sanction applied even if they have not failed their obligations on three separate occasions.

86. International evidence suggests that warnings and the threat of eventual sanctions can in some cases be as effective as a sanction itself (see Appendix 1), while avoiding some of the negative consequences associated with a reduction in benefit. As such, the introduction of a warning system may allow people a greater ability to focus on meeting their obligations and returning to employment due to not having to focus on the immediate difficulty of a financial penalty.

87. Beyond this evidence, the exact behavioural impacts of a longer failure pathway are unclear. There is a chance that obligations failures (i.e. multiple obligation failures) may increase due to perceived lighter penalties, or conversely the lack of a financial penalty may give clients more ability to focus on their return to work rather than their immediate financial difficulty. Option Three is considered to have preferable outcomes for clients. By having a more transparent orange "warning system", MSD would have another way of determining when people need extra support and where to target case management resources.

88. Reducing the immediate consequences of early obligations failures may also have a positive impact on groups who are disproportionately subject to sanctions at present – particularly Māori, Pacific Peoples, and younger age groups.

89. This option would have significant financial and operational implications, as it would increase the number of check-ins a client would have before cancellation of benefit, while reducing the number of financial sanctions. This would increase the cost to government.

Assessment of options against the criteria: Introducing a Traffic Light System over the existing obligations and sanctions regime

	Option One – Status quo (no TLS)	Option Two – Non-legislative modification to current state	Option Three – Legislative change with warning system
Ease of implementation	0	- Requires minor IT changes that can sit on top of current state.	- Requires substantive change in practice from current state. Requires new IT systems and operational changes.
Fiscal costs to Government	0	- Minor costs associated with IT changes.	- - Increases costs due to increased client engagement and fewer reductions in benefit from financial sanctions.
Alignment with employment outcomes	0	+ Helps to clarify what a client's obligations are and their compliance with them.	++ As with option two, assists with clarity in understanding obligations. Also provides additional space for compliance before sanction (in warning space).
Distributional impacts	0	0 No significant changes to distributional impacts compared to status quo.	++ Positive impact on groups currently more likely to face negative consequences of a sanction.
Fairness between beneficiaries	0	+ Minor improvement thorough clients being aware of their standing regardless of level of engagement.	+ Ensures that sanctions are targeted specifically at those who repeatedly fail obligations rather than penalising those who were unclear or made a mistake.
Increased risk of harm	0	0 No significant changes over status quo.	+ Prevents undue harm being caused by the early imposition of financial sanctions.
Overall assessment	0	+	++

Key for qualitative judgements:

++	strongly aligns with criteria
+	aligns with criteria
0	neither aligns nor hinders criteria
-	hinders criteria
- -	severely hinders criteria

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

90. Both change options represent an improvement over the status quo through providing increased clarity to clients regarding their obligations and their current standing in relation to them. However, the improvement under Option Two is significantly smaller than Option Three, due to Option Two only representing a slight modification to the current state. Option Three provides the best outcomes for clients and the greatest ability for clients to focus on meeting their work obligations rather than their immediate financial hardship. While this option does come with increased cost and implementation difficulties, MSD considers that this is outweighed by the potential benefits for clients.

Recommended option

91. The Cabinet paper recommends Option Two. This will be implemented in August 2024, ahead of legislative change.

Proposal 1(a): Extending the period over which obligation failures are counted against a client from 12 months to 104 weeks

Status quo and problem definition

92. An obligation failure that results in a sanction occurs where there is no good and sufficient reason determined for the failure to comply with a required activity that has been set. Obligation failures are counted against the client for 12 months from the date of the failure, and are counted individually. In effect, this creates a rolling period over which a client's obligation failures are counted against them. The grade of sanction imposed depends on the client's count at the time of the latest obligation failure.

93. Generally, if a client transfers between benefits, any current obligations failures are carried over.

94. The obligations failure count is reset is when a client:

- changes from a youth benefit (Youth Payment or Young Parent Payment) to a working-age main benefit e.g. JS
- recomplies after a 13-week non-entitlement period following a Grade 3 sanction, and recomplies by completing a six-week recompliance activity following a Grade 3 sanction
- has had a sufficient break in benefit receipt to be considered a 'new applicant' – this is usually when a benefit has been cancelled outright (e.g. when a client has moved into employment), or has been suspended for eight weeks and then cancelled.

Note: Paragraph 94 contains an error. The "and" in the second bullet point should be read as "or".

95. To illustrate: A client with a zero obligations failure count fails an obligation on 1 July 2024. This failure is counted until 30 June 2025. The client fails a second time on 1 November 2024. From 1 November 2024 to 30 June 2025, this client has a count of two failures and will move to three failures (and be subject to 13-week non-entitlement period) if they fail again before 1 July 2025. Between 1 July 2025 and 31 October 2025, the client has a count of 1 failure. From 1 November 2025, the client has a count of zero failures.

96. The length of time before an obligation failure drops off a client's record can be increased or decreased to adjust the likelihood a client will reach a Grade 3 sanction while they are in receipt of a benefit. The Government is concerned that the likelihood of reaching a Grade 3 sanction, which occurs when a client is consistently failing to meet their obligations, is not strong enough to incentivise clients not to fail their obligations.

97. Currently, the 12 month period applies to all obligations specified in the Act.

Options

Option One – Status quo

98. This option would retain the current period of 12 months for all obligations. If a client reaches a failure count of three, their payments will be cancelled or reduced by 50 percent (if they have dependent children). As this period is mandated in the Act, no other changes are possible within current settings.

Option Two – Lengthen the period

99. Extend the period over which obligation failures are counted for work-related and social obligations, excluding youth activity obligations. A longer period could mean more chance of greater financial sanctions being imposed if a client is not meeting obligations, due to increased frequency of contact with MSD.

100. Youth activity obligations have been excluded from this option, as clients subject to these obligations are required to engage in education and training related activities and are a uniquely vulnerable population within the welfare system.

101. This option requires legislative amendment.

Recommended option

102. The Cabinet paper seeks agreement to extend the period to 104 weeks (Option Two).

Assessment of options against the criteria: Timeframe for resetting the obligations failure count

	Option One – Status quo– Count for 12 months	Option Two – Count for 104 weeks
Ease of implementation	0	- Legislative change needed. Small adjustment in IT systems to reflect longer period. Minimal disruption to practice, is not likely materially change practice for staffs' day to day.
Fiscal costs to Government	0	+ More likely to reach a Grade 3 sanction and lose benefit receipt.
Alignment with employment outcomes	0	0 Potentially more incentive to comply with obligations but unclear if this will support employment directly.
Distributional impacts	0	+ This change will not apply to clients with youth activity obligations, thereby mitigating negative outcomes for a vulnerable cohort.
Fairness between beneficiaries	0	0 Clients with work-related and social obligations will be more likely to reach a Grade 3 sanction if they are on benefit for more than one year.
Increased risk of harm	0	- More likely to be financially impacted, although this can be avoided by complying with obligations.
Overall assessment	0	-

Key for qualitative judgements:

++	strongly aligns with criteria
+	aligns with criteria
0	neither aligns nor hinders criteria
-	hinders criteria
- -	severely hinders criteria

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

103. A longer count period strengthens the message about the importance of compliance, as clients who do not meet their obligations or recomply would be more likely to have their benefit cancelled.

104. Clients on benefit for 12 months or longer will have a greater chance of reaching benefit cancellation (reaching a count of three failures) than if the period remained at 12 months. This change would likely have minimal effect on clients who spend less than a year of benefit, as it would not increase the likelihood of them reaching a count of three failures any more so than in a 12-month period. However, it does create a risk that more clients who would otherwise be eligible for benefit will have their benefit cancelled as they have a longer period over which they could reach an obligation failure count of three.

105. A longer count period potentially weakens the message that benefit receipt is temporary as a client's activity for 104 weeks would now be considered. However, this is likely to be less significant than the other signals around activation and obligations.

Recommended option

106. The Cabinet paper seeks agreement to Option Two.

Proposal 2: Introducing non-financial sanctions

Status quo and problem definition

107. The Government is concerned that MSD is not using all levers available to encourage and support people off benefit and into work.

108. At present, MSD is only able to impose a financial sanction in response to a client failing their obligations (see Proposal 1). The sanctions regime is set out at Figure 8.

109. The introduction of non-financial sanctions is intended to provide an alternative to imposing a financial sanction, while maintaining a consequence for non-compliance with work obligations. The “Reducing Benefit Dependency” manifesto document proposes two non-financial sanctions:

- Money Management, where a client loses a degree of autonomy over their finances
- Community Work Experience, where a client must engage in community work after failing their obligations.

110. The use of non-financial sanctions in a welfare system is a novel concept globally, and as such there is little evidence as to their potential impacts. There is a chance that the use of non-financial alternatives may mitigate some of the negative consequences associated with financial sanctions, particularly where people are not left with enough money to manage their expenses after the application of financial sanctions (see Appendix 1 for a discussion on the impacts of financial sanctions). However, there is also a chance that these programmes introduce negative consequences of their own.

111. The “Reducing Benefit Dependency” document describes the intent of non-financial sanctions as expanding the toolkit for facilitating the transition from welfare to work. These non-financial sanctions would be used for those who moved to the “red” under the TLS in lieu of a Grade 1 financial sanction.

112. It is unclear what the impacts will be in the New Zealand context. MSD supports the intent of non-financial sanctions as an alternative to a financial sanction to reduce impact on clients. However, it will introduce more complexity into the system due to the associated administration and interface with recompliance activities. Financial sanctions are generally easier to turn on and off.

How will non-financial sanctions work?

113. Under the proposed changes, non-financial sanctions would be used in response to a first obligations failure for some groups, taking the place of a Grade 1 sanction (50 percent reduction of benefit). This is because non-financial sanctions are intended to be roughly equivalent to a Grade 1 sanction. Higher grades of financial sanction would be difficult to align with a non-financial alternative due to the full loss of benefit for clients who do not have a 50 percent protection.

Use of targeting for non-financial sanctions

114. Initially, the use of non-financial sanctions will be targeted to two cohorts: clients with dependent children, and those clients receiving dedicated employment case management. These groups were chosen to reflect ministerial priorities and reflect groups who may be more likely to benefit from having a non-financial sanction over a financial one. Targeting non-financial sanctions to those in dedicated employment case management also allows MSD to make a more informed decision about which sanction would be suitable for a client, as there is more regular engagement with this cohort.

115. Targeting the use of non-financial sanctions is considered necessary to:

- ensure they are used in appropriate circumstances
- manage the administrative impacts of establishing and managing non-financial sanctions, which generally take more effort
- ensure MSD has a strong and robust system to incentivise compliance with obligations.

116. Once MSD determines which non-financial sanction would be suitable for a client, a case manager would engage with the client to set a recompliance activity (if applicable) and confirm which non-financial sanction is being applied. The case manager would be supported with operational guidance outlining the circumstances to be considered when deciding if, and which, non-financial sanction may be appropriate to impose. The case manager will also consider if any additional activities will be assigned to the client to complete once they have re-complied. Further steps beyond this point are dependent on the specific non-financial sanction and are discussed in more detail in their respective sections.

Proposal 2(a): Money Management as a non-financial sanction

Status quo and problem definition

117. The term Money Management refers to a series of policies used in Australia and New Zealand whereby a client loses control over some or all of their benefit, generally through one of two means:

- redirections, where a client's regular expenses are paid on their behalf from the total assistance a client receives
- a payment card, where a portion of the client's benefit is paid onto, and which can only be used to purchase essential items from approved locations.

118. In New Zealand's welfare system, Money Management is currently only used as part of the Youth Service, where it is a condition of benefit receipt. Under the Youth Service Money Management model, redirections are established for a client's regular expenses, with the remainder of their financial assistance split between their payment card and an in-hand allowance. Only a maximum of $50 per week is allowed to be paid as an in-hand allowance, with anything above this going solely to the payment card.

119. Outside the Youth Service, redirections are available for clients. Except in a limited number of cases[26] such redirections of a portion of person's benefit are voluntary.

120. The use of Money Management as a non-financial sanction is intended to deter clients from failing their obligations and is roughly equivalent to a Grade 1 financial sanction. Money Management is also intended to be used when it may be a better alternative to a financial sanction for the client.

121. Money Management has been linked to a range of negative consequences, typically due to the financial stress it can cause. Placing almost all a client's benefit on a payment card or using redirections on most of a client's benefit can cause issues such as preventing a client from being able to meet other expenses.

Options

122. Options development on Money Management has been limited by the National Party's manifesto document and ministerial decisions. As such, options development has largely been focused on the specifics of how Money Management could work, such as what levers it would involve, and how negative consequences of its use could be mitigated.

123. MSD has explored four primary options.

- Option One – no implementation of money management for JS recipients (status quo).
- Option Two – redirections and a payment card.
- Option Three – redirections only.
- Option Four – payment card only.

124. A sub-option involving the use of providers to administer parts of the money management process was also explored. This approach could sit alongside any of the change options,

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26 In limited situations where there is good cause to do so (as set out in a Ministerial Direction), MSD can impose redirections without client consent. This is equivalent with some other more intensive supports, which can be imposed without client consent where there is good cause (e.g. provisions around impaired decision-making in cases of disability or addiction).

but the specific involvement of providers would vary depending on which primary option is chosen.

125. All the options would involve a degree of targeting over and above that of non-financial sanctions, with more intensive options having greater targeting. This would be established through operational guidance and suggest situations where Money Management could be imposed as a non-financial sanction. This targeting would be discretionary, meaning that while it would suggest when Money Management would be suitable, its use would not be limited to these circumstances. This targeting will be developed as part of detailed design work during implementation.

126. Once a case manager determines that Money Management is suitable for a client, they would meet with the client to establish the client's redirections and their payment card (if applicable). For redirections to be established, a client would need to provide details of all regular expenses and the consent of their payees (e.g. their landlord).

127. Under Options Two and Three, a client would be placed on Money Management for a default period of 12 weeks, but this could be shortened to a minimum of three weeks if clients completed employment-related activities. This minimum period is to ensure that the redirections span the relevant bill payment cycles. From a technical standpoint, redirections can be applied or lifted quickly, provided that any changes are made in time for the client's next benefit payment. Clients could recomply and have the sanction lifted by completing employment-related activities assigned by a case manager. Failing to complete these activities, would result in the client remaining on money management for the full 12 weeks.

128. In contrast, Option Four would operate similarly to how existing financial sanctions operate and could be applied or lifted with no minimum time period. Clients on Money Management would be subject to a non-compliance pathway equivalent to that used for financial sanctions, which would see them be subject to financial sanctions if they do not recomply within a given time period. They would also be subject to the same restrictions on hardship assistance as people on a financial sanction.

129. Under all the change options, a client would be given sufficient notice prior to the end of their Money Management. Communications around this process would be designed to minimise the chance that a client exiting Money Management causes their bills to become overdue because of the exit process.

Option One - Status quo – no Money Management

130. This option would not make use of Money Management as a non-financial sanction. Money Management would continue to only be used by the Youth Service, where it is a condition of benefit receipt for most young clients. Clients who are in the Youth Service are typically under Money Management for a lengthy period of time, and do not rapidly shift between different forms of benefit receipt.

131. This use of Money Management is very different from the use of financial sanctions, which are intended to be short and sharp to prompt quick recompliance. Money Management, by contrast, is typically used for longer periods of time, particularly where redirections are involved.

132. To operate effectively as a sanction, the use of redirections would need to be linked with complex support and recompliance arrangements to ensure clients' active engagement with MSD on their work obligations. Such arrangements would cost more to design, implement, and operate, and their likely effectiveness as a sanction is unclear. Client

involvement is required when redirections are used, preventing them from focusing on recompliance at this time.

133. This option would result in clients continuing to be financially sanctioned in response to an obligations failure, which also comes with a wide range of negative consequences. Given that Money Management also has some negative consequences, the comparison with the negative consequences of a financial sanction is unclear. Some forms of Money Management may be a preferable overall approach to being financially sanctioned.

Option Two – Redirections and Payment Card

134. The Reducing Benefit Dependency document describes Money Management as meaning that a client’s rent, bills, and any debts are paid directly by MSD, with any remaining money split 50-50 between a personal payment card and the client’s bank account.

135. This form of Money Management is similar to that currently used by the Youth Service, making use of both redirections and a payment card. Under this option, once a case manager has decided to apply Money Management as a non-financial sanction for a Grade 1 sanction and the client has provided all relevant information, redirections would be established for the client’s essential and regular expenses (e.g. rent and utilities), lawful debts and liabilities. The remainder of their financial assistance would be split evenly between a payment card and the client’s bank account.

136. A client would also be assigned employment activities that they could choose to complete while on Money Management. These would be related to their initial failure and their wider work obligations. They would also function as a recompliance pathway to reduce the time which the is on Money Management. If a case manager determines that a client has sufficiently completed these employment activities, they would be allowed to exit Money Management and would be deemed to have recomplied with their work obligations.

137. Evidence in New Zealand and Australia shows that payment cards are often a source of a wide range of issues.[27] These include use of the cards causing negative mental health outcomes and a feeling of stigma, while the restrictive nature of a payment card can mean that some items – although essential – cannot be easily purchased and a client must go through lengthy processes to buy them. Evidence suggests that payment cards can also be easily circumvented, either by selling the card itself or by buying items which are then on-sold for cash.[28]

138. Use of a payment card may also have more significant distributional impacts as compared to Option Three. While provincial and major centres are likely to have a range of businesses which are approved suppliers for the purpose of a payment card, smaller rural towns may have less availability. Similarly, higher use of a payment card limits access to the cash economy, which could disproportionately impact rural communities and groups such as Māori, where the provision of koha is an important aspect of tikanga.

139. Some of the evidence on the use of payment cards is less relevant as it has been mitigated through the design of this option. For example, in Australia the higher use of payment cards without the use of redirections resulted in instances of people being unable to pay their expenses. This would not be an issue under this option, as redirections are established before any apportionment onto a payment card.

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27 Humpage et. al. (2020). *Helping or Harming? Compulsory Income Management in Australia and New Zealand – Summary Report.*

28 Arthur, D., and Haughton, J. (2017). *Bills Digest 58, 2017-18 – Social Services Legislation Amendment (Cashless Debit Card) Bill 2017*, pp. 23-4.

140. Similarly, some forms of Money Management are a more passive activity than would be typical for the obligations and sanctions system, and placing a client on Money Management for 12 weeks without recourse may not meet the intent of supporting them into work. This has been addressed through the ability to assign employment activities which a client can complete to leave Money Management early, thus incentivising re-engagement with employment supports.

141. Due to the processes involved in the use of redirections, this option would come with significant operational and financial implications. Clients would be required to meet with MSD several times to establish their redirections, and then regularly engage while on Money Management to ensure progress against their employment activities and check for any changes in redirected expenses. This option could have implications for MSD's capacity for other case management programmes, such as employment support.

Option Three – Redirections only

142. In this option, Money Management could be maintained as a Grade 1 sanction but through use of redirections only, without the addition of a payment card. This option would maintain many of the broad settings of Option Two (such as the 12-week default period with the ability to leave through engagement in employment support and targeted application at the discretion of a case manager) but would not have the same negative impacts of a payment card.

143. As with Option Two, this option has a high administrative requirement for both clients and MSD staff. Once a case manager has decided to impose Money Management in response to an obligations failure, they would still need to meet with a client to establish any redirections and obtain the consent of relevant payees. This process of setting up the redirections could take several weeks and relies on people outside of the welfare system to progress.

144. A client would still notice a reduction in their benefit income as redirections would be applied before the remainder is paid to their bank account. However, assessments of Money Management have suggested that redirections are seen as a more supportive compared to payment cards, and their use could allow a client to focus more strongly on completing employment activities that could support movement into work.

145. Redirections are also likely to have fewer distributional impacts compared to Option Two. By giving a client full agency over their non-redirected benefit, they can make use of any local providers of goods and engage in tikanga as required. Payees for redirections are less restrictive than approved suppliers for a payment card, meaning that it would still be possible for redirections to be used in rural communities with local providers.

Option Four – Payment Card only

146. A further option involves the use of a payment card only, without the use of redirections, similar to how Money Management is implemented in Australia. This would operate very differently to Options Two and Three, and instead would be similar to how existing financial sanctions operate. Instead of a client losing half of their main benefit through a Grade 1 sanction, half of their benefit would be placed on a payment card that could only be used at certain approved suppliers.

147. This option could be imposed quickly but would have no minimum duration, and could be lifted as soon as a client recompiles, although the impact of this may be delayed due to limitations around MSD's weekly payment cycle. This allows for a much stronger link

between the client's initial failure and their sanction, and between their recompliance and return to a full benefit.

148. However, under this option it is proposed that where a client has not recompiled after 28 days, they would be deemed non-compliant and face further penalties consistent with the existing non-compliance pathway for financial sanctions.

149. Clients under this option would also be subject to the same restrictions on access to hardship assistance as clients being financially sanctioned – meaning that they would not be able to receive a Special Needs Grant[29] but may be eligible for an advance payment of benefit. This exacerbates the risk of a client facing hardship, however the design of Money Management allows them to recomply quickly at any point, after which they would again be able to apply for hardship assistance.

150. Australian experience indicates there is a risk that the use of payment cards without redirections could result in clients being unable to meet their regular expenses. However, this risk is lower than it would be on an equivalent Grade 1 sanction, as a client would be able to purchase some essential goods with the portion of their benefit which is on the payment card. This means that, for example, the client would not be faced with choosing between food or power (as they might under a financial sanction).

151. As discussed above, payment cards themselves do introduce a risk of distributional impacts, particularly in rural communities. Payment cards are also easy for a client to circumvent, with no clear way to prevent this from occurring. The short-term nature of Money Management under this option may mitigate some of this impact, but the exact implications of this option are unclear.

Use of providers as a potential means to implement any of Options Two to Four

152. This sub-option would modify any of the options that propose change. MSD would work alongside contracted service providers to deliver aspects of Money Management or provide wraparound support alongside it. To facilitate this, legislative change to introduce Money Management would include a specific enabling provision allowing for the use of contracted providers to undertake Money Management.

153. s9(2)(h) [redacted] MSD would also be required to establish any specific redirections and payment card (if applicable for the chosen option).

154. It would however be possible for other aspects of Money Management to be delivered through the use of contracted service providers, particularly those with experience with Building Financial Capability (BFC). For example, under Options Two and Three (which have a much longer process for Money Management) providers could help clients determine which payments needed to be redirected, meet with clients while they are on Money Management or support them upon exiting.

155. The role of providers in Option Four would be more limited, due to the simplified nature of Money Management under this option. Instead, providers could be used to deliver targeted wraparound support for clients who have indicated that money management may cause them financial difficulties.

29 Special Needs Grants provide non-taxable, one-off recoverable or non-recoverable financial assistance to clients to meet immediate needs. This includes grants for food and emergency housing, among other grounds. A client may be able to still receive an advance payment of benefit to cover immediate need in some cases.

156. This would potentially save frontline MSD staff significant resourcing impact, allowing case managers to maintain focus on initiatives which have a stronger link to employment outcomes. It would also strengthen money management's ability to function as a support for those experiencing financial difficulty.

157. Using BFC providers in relation to a non-financial sanction is not without risk. Providers generally have limited capacity for MSD clients, and using these places for people who are being forced to attend due to failing obligations may mean that fewer places are able to be offered to people who would attend voluntarily.

158. There is also a risk of confusion with other services offered by some BFC providers, particularly Total Money Management (TMM) – an intensive form of Money Management in which the provider takes full control of a person's bank account and administers it on their behalf. MSD does not fund this service and considers the use of TMM to present a large number of risks. This could be mitigated through clear communications to clients and providers which distinguishes Money Management as a non-financial sanction from other offerings which providers might have.

159. Due to regional limitations and differences in BFC providers, this option may introduce further distributional impacts, particularly on clients who live outside of main centres. Some parts of New Zealand currently have limited availability of providers, which could be exacerbated by the potential high workload of Money Management.

Assessment of options against the criteria: Money Management as a non-financial sanction

	Option One – Status quo	Option Two – Payment Card and Redirections	Option Three – Redirections only	Option Four – Payment Card only
Ease of implementation	0	- - Lengthy process to establish a client on Money Management, payment card adds extra considerations.	- - Lengthy process to establish a client on Money Management.	- Simple and familiar process, but still slightly more complex than status quo.
Fiscal costs to Government	0	- - Payment card adds cost, Money Management check-ins would have resourcing implications for MSD. Provider involvement would be needed.	- - Redirections are relatively cheap, but wider Money Management processes would still have impact	- Cheaper and less burdensome process which does not require involvement. Small cost from payment cards.
Effectiveness as a sanction	0	- - Increases sanction options and payment card increases hassle factor, but no evidence of effectiveness as a sanction.	- - Increases sanction options but no evidence of effectiveness as a sanction.	- Payment card increases hassle factor, quicker application and lifting allows for stronger effectiveness as a sanction.
Effectiveness at achieving the outcomes sought	0	- - Employment activities provide tangential link but no evidence to suggest Money Management as a concept supports employment.	- - Employment activities provide tangential link but no evidence to suggest Money Management as a concept supports employment.	- Allows clients to focus on recompliance, and provides stronger link to obligations, but no evidence to support link to employment overall.
Effectiveness as a support	0	- - Positioning as a sanction may reduce ability to support, payment card introduces more issues.	- Positioning as a sanction may reduce ability to support but redirections are a more supportive form of Money Management.	- - May limit negative impacts of financial sanction but introduces other potential issues.

	Option One – Status quo	Option Two – Payment Card and Redirections	Option Three – Redirections only	Option Four – Payment Card only
Distributional impacts	0	- - Depending on targeting, may be more likely to affect some cohorts. Use of payment card may have greater negative impact in more rural areas, and limits ability to engage in tikanga.	- Depending on targeting, may be more likely to affect some cohorts. Distributional impacts of payment card do not apply.	- - Depending on targeting, may be more likely to affect some cohorts. Use of payment card may have greater negative impact in more rural areas, and limits ability to engage in tikanga.
Fairness between beneficiaries	0	- Risks disparities between clients who receive different penalties for the same failure.	- Risks disparities between clients who receive different penalties for the same failure.	- Risks disparities between clients who receive different penalties for the same failure.
Reduces risk of circumvention	0	- - Payment card is easy to circumvent with no mitigations.	+ + Redirections apply automatically prior to a client receiving a benefit.	- Payment card is easy to circumvent with no mitigations. Short-term nature of punishment may limit circumvention.
Overall assessment	0	- -	-	-

Key for qualitative judgements:

++	strongly aligns with criteria
+	aligns with criteria
0	neither aligns nor hinders criteria
-	hinders criteria
- -	severely hinders criteria

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

160. Based on MSD's assessment, none of the options effectively achieve the stated intents. Several fundamental aspects of Money Management (such as it needed to operate over an extended period of time) make it difficult to operationalise as a sanction. Further, while the sanction options have been designed to try and incorporate employment aspects, there is little connection between Money Management as a concept and the overall intent of supporting employment outcomes.

161. Option Four (money management with a payment card) would best achieve the Government's intent while minimising potential harms. This option would be less burdensome for both clients and staff, allowing clients to focus on recompliance with their obligations and providing a stronger link between recompliance and return to their full benefit.

162. Option Four aligns the most with the outcomes being sought. While redirections provide more support than a payment card, the additional complexity associated with operationalising them as a sanction severely limits the extent to which Options Two and Three are able to operate effectively, and may hinder MSD's ability to provide other support which is more directly related to employment outcomes.

163. Option Four is simpler and allows for stronger functionality as a sanction, balancing the competing objectives of using Money Management as a non-financial sanction. It lessens the risk of negative consequences from a financial penalty while still likely providing a noticeable effect in response to an obligations failure.

Recommended option

164. Options Four is recommended in the Cabinet paper. Enabling legislative reform to support the ability to work with providers in future is also recommended in the Cabinet paper.

165. Because this is a new approach to using Money Management, MSD recommend that the use of Money Management be reviewed after one year and reports to the Minister for Social Development and Employment on opportunities for improvements.

Proposal 2(b): Community Work Experience as a non-financial sanction

Status quo and problem definition

166. To enhance the levers available to encourage and support people off benefit and into work, the Government is seeking to introduce Community Work Experience (CWE) as a non-financial sanction, where a client must engage in community work with approved providers after failing their obligations.

167. The New Zealand welfare system has historically used work experience in several ways. Work experience programmes have previously been compulsory, for example the Community Taskforce and Community Work in the late 1990s. Currently MSD offers a range of non-compulsory work experience employments supports, including Activity in the Community, Flexi-wage Project in the Community, and Enhanced Taskforce Green.

168. Community Work Experience (CWE) as a non-financial sanction is intended to deter clients from failing obligations, and as an opportunity for clients to build up their skills and confidence, and to make valuable connections into the community.

169. There is limited evidence on the effectiveness of compulsory work experience programmes, with most evidence showing that they do not increase the probability of participants moving off benefit and into employment and can lead to longer durations.[30] The policy intent of CWE as a non-financial sanction includes bolstering community connections as a pathway into employment as compared to CWE directly supporting employment outcomes.

170. Furthermore, the application of Community Work Experience (CWE) as a sanction is untested. While there is some evidence[31] work-for-the-dole and other compulsory programmes can encourage people to exit benefit through the compliance effect, there is limited evidence for community work's effectiveness at gaining employment outcomes due to the high risk of lock-in effects.[32] [33] Flows off benefit due to the compliance effect are also less likely during times of economic recession.[34]

Options for Proposal 2(b)

171. MSD considered two options.

- Option One – Status quo – do not introduce a non-financial sanction to require CWE.

30 Ministry of Social Development. (2010). Can 'Work-for-the-Dole' programmes increase employment outcomes? Rapid Evidence Review. MSD.

31 Beale, I., Bloss, C., & Thomas, A. (2008). The longer-term impact of the New Deal for Young People. London: Department for Work and Pensions. https://dera.ioe.ac.uk/id/eprint/7485/1/WP23.pdf.

32 The lock-in effect is when a person treats community work like they would a paid job and can lead to longer spells on benefit.

33 Ministry of Social Development. (2010). Can 'Work-for-the-Dole' programmes increase employment outcomes? Rapid Evidence Review.

34 Borland, J., & Tseng, Y. (2004). Does 'Work for the Dole' work? (Working Paper No. 14/04). Melbourne: The University of Melbourne.

- Option Two – Establish CWE as a non-financial sanction with clients being responsible for identifying opportunities (supported by MSD staff) to complete CWE with a community organisation.

172. MSD considered but discarded two additional options.

- Adapt an existing employment product for CWE – this option was discarded as the existing product was not fit for purpose e.g. existing products are small and would be difficult to scale up. There was also limited evidence that it would have been effective for the purpose proposed through CWE.
- Establish a new intervention to provide skills development and community work experience using a contracting model through providers. While this option would have looked to embed design features where there is more evidence on their impact to employment outcomes, this option was discarded as it did not meet the timeframes required for implementation and would be difficult to implement in a fiscally constrained environment.

173. CWE as a sanction would be a new intervention and therefore MSD has limited evidence of effectiveness. options. Figure 9 identifies a number of possible risks that may come with using CWE this way, along with proposed mitigations.

Figure 9: Risks of CWE and proposed mitigations

Risk	Mitigation
Effectiveness: most evidence shows that compulsory work experience programmes do not increase the probability of participants moving off benefit and into employment. Instead, participants can remain on benefit for longer (known as the lock-in-effect). The lock-in-effect could lead to longer durations on benefit for participants.[35] Evidence also suggests participants who are disadvantaged in the labour market are more prone to the lock-in-effects of such interventions.	The risks of poor outcomes can be mitigated to an extent by restricting the duration and hours spent per week on CWE and requiring evidence of job search while on CWE. However, effectiveness can be considered more widely through outcomes that bolster community connections and bring people closer to employment as compared to directly supporting employment outcomes.
Distributional impacts: it is likely that CWE will not be available in areas where there are not suitable community organisations available to take on clients. Clients in rural locations, for example, are less likely to have CWE available as an alternative to a financial sanction.	Having a broad definition of the types of work experience and organisations eligible to offer it, as well as offering flexibility in hours may help to increase availability in more rural areas.

35 Ministry of Social Development. (2010). Can 'Work-for-the-Dole' programmes increase employment outcomes? Rapid Evidence Review.

Lack of community work available: As MSD has not had the opportunity to consult with community organisations to better understand willingness and availability to take on MSD clients sanctioned in this way, there is a risk that these will be limited, and clients may not be able to find appropriate community work even if they are highly motivated in their search.	MSD will speak to community organisations during the implementation phase to mitigate this risk. MSD also proposes that a relatively broad definition for community organisation is used to maximise the options for fulfilling the community work experience sanction and mitigate the risk of not being able to find compliant community work.
Impacts for Māori: Māori are overrepresented in the benefit system and as a result are more likely to be overrepresented in the cohort available for a non-financial sanction. MSD has not had sufficient time to explore existing partnerships with iwi, hapū or Māori-led community organisations where participants might find work experience.	Further targeting, supported by operational guidance could work to ensure that those who are given CWE are best suited to it. Knowledge of Māori-led community organisations may exist regionally. During the design phase, MSD can further explore how these organisations might play a role in CWE.

Option One – *Status quo*

174. The TLS would be implemented but CWE would not be included in this, and Money Management would be the only non-financial sanction available. CWE would still be available for some clients in an opt-in capacity, as is currently the case through MSD's employment services.

175. This option does not meet the Minister's intention of using CWE as a non-financial sanction to increase friction in the sanction system.

Option Two – Establish CWE as a non-financial sanction with clients being responsible for identifying opportunities to complete CWE with a community organisation with the support of MSD

176. CWE would be available as a non-financial sanction through an approach where MSD staff support clients to match with a community or voluntary sector organisation to carry out their work experience.

177. Clients will be required to find appropriate CWE opportunities with the support and oversight of MSD within a defined search period. Support may include providing a client with a list of possible organisations or types of organisations to contact. Operational guidance would outline what is an appropriate organisation or opportunity for CWE as well as how MSD can be satisfied with a client's compliance. Clients will need to complete their CWE to re-comply and return to Green. They will not need to remedy their original failure.

178. Where a client fails to meet CWE requirements or do not take reasonable steps to find an opportunity within the search period, they would be deemed non-compliant and face further penalties consistent with the existing non-compliance pathway for financial

sanctions or Money Management. Where a client cannot find appropriate CWE, they may be given Money Management or a grade 1 financial sanction if suitable.

179. MSD considers that having a set timeframe or number of hours will be necessary to ensure this proposal:

- meets the Government's intention of increased friction in the welfare system and improving community connections and skills development
- ensures the community work does not interfere with the client's ability to look for and be available for work to reduce risk of the lock-in effect.

180. Some flexibility in number of hours will be required to ensure that clients have options for different types of CWE while still allowing time for them to actively search for and be available for paid work. Both duration and hours required to work will be determined through the next phase with targeted engagement with the community sector informing any advice.

181. As CWE requires an assessment of suitability before it is assigned to a client, MSD proposes that it is initially targeted to clients in active case management and clients with dependent children.

182. This option presents a light touch approach that means MSD would not provide CWE opportunities to clients, and community organisations will not be financially compensated. Organisations may be willing to take on clients where their work experience provides value to the organisation, or, where taking on a client aligns with their purpose. Consultation with organisations to understand levels of interest in supporting CWE opportunities has not yet occurred. However, MSD will engage with community organisations before commencement in May 2025.

183. MSD assessed that this option could be feasible to implement within the Government's desired timeframes as procurement processes or additional FTE would not be required. However, as CWE is a new sanction and functions quite differently from existing sanctions, legislative change and further design work is still required before implementation.

184. Though this option could be fulfilled through existing funding, some costs may need to be met through reprioritisation. This option could also place more pressure on frontline staff, as they would need to adopt another new process. If the burden is significant, there is a risk that this will impact the use of this proposals as a non-financial sanction. Financial sanctions may be used instead of CWE.

185. Option Two does not include investment in, or the design of additional supports to increase the chances of effectiveness, for example, specific focus on skills development or reimbursement for action and for reasonable costs. Consequently, there is a risk of low value activities where clients do not have the opportunity to build connections or skills, meaning that the effectiveness at moving the client closer to or into work is limited. However, clients may find opportunities that are a better fit due to being able to choose a community or voluntary sector organisation to complete CWE with, with the assumption that individuals understand their own needs best.

186. This option uses frontline MSD staff to support clients to find their own CWE and defines CWE and the organisations eligible to provide the work experience broadly.

This allows more CWE opportunities to be identified and would make it easier for rural populations compared with other options if there was not a provider/sponsor in their area.

187. However, because this is not a provider or sponsor model[36], there is less flexibility in designing and including supports that address needs of particular jobseekers, e.g. Māori jobseekers who could benefit from a tikanga approach. There is opportunity for clients to find a community or voluntary sector organisation to complete CWE that addresses their needs, but this approach may be less effective for jobseekers with higher needs.

188. Clients who require more support or are less motivated to be successful in their CWE may struggle under this option as there is only some support provided by MSD to identify opportunities at the start rather than continued wrap around support being provided. However, this can be mitigated by careful targeting that allows MSD to assign CWE on a discretionary basis. Where CWE is not suitable for someone, MSD can assign Money Management instead (where this is also suitable).

189. Targeting of CWE to clients in active case management and clients with dependent children will mean clients not in these target cohorts who could have benefitted from CWE as a sanction will miss out.

190. MSD will review the progress of CWE after 12 months. This review can include advice on ways to increase effectiveness and targeting.

36 A sponsorship approach in this instance involves a community organisation (sponsor) hosting a client for community work experience. Sponsors work directly with MSD but are not paid. This is different from a provider who would be paid by MSD for their services and link with other community organisations to place clients in work experience.

Assessment of options against the criteria: Community Work Experience as a non-financial sanction

	Option One – Status quo	Option Two – Establish CWE as a non-financial sanction with clients being responsible for identifying opportunities to complete CWE with a community organisation with the support of MSD
Ease of implementation		+ Possible to be implemented within timeframes.
Fiscal costs to Government	0	+ Can be done within current funding.
Effectiveness at achieving the outcomes sought	0	0 Limited effectiveness, could be increased over time.
Distributional impacts	0	0
Fairness between beneficiaries		-
Overall assessment	0	+ MSD can implement an interim solution within funding and timing constraints, somewhat meets Government manifesto commitments, opportunities to increase effectiveness over time.

Key for qualitative judgements:

- ++ strongly aligns with criteria
- + aligns with criteria
- 0 neither aligns nor hinders criteria
- - hinders criteria
- - - severely hinders criteria

What CWE option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

191. While noting this option comes with significant risks, MSD has sought to embed mitigations into the implementation and design to increase the likelihood of effectiveness and meeting the Government's priorities. Mitigations include using discretion and targeting for client eligibility, considering the impact of duration and hours, and setting a report-back at 12 months to allow opportunity to adjust as required based on further evidence. The success of CWE greatly relies on community organisations' willingness to take on clients who have been sanctioned. As MSD was unable to carry out community engagement earlier due to time pressures, MSD propose mitigating the risk this poses by conducting targeted engagement before CWE goes live.

192. Option Two has some additional risks to those identified in the earlier risk table.

- The burden/responsibility of placing someone in CWE is placed on individual clients and could mean clients are less likely or able to engage. This is intended to be mitigated through targeting and discretionary use of CWE to ensure it is only used for clients who are able and motivated to do a self-directed search.
- There are limited accountability mechanisms, including over client and community health and safety. This risk will be mitigated through targeting and discretionary application of CWE. MSD is still developing advice around what types of organisations clients will be able to do their CWE at. This risk will inform our advice. Monitoring mechanisms will be developed to mitigate accountability risks.

Recommended option

193. Option Two, to establish CWE as a non-financial sanction by guiding clients on a case-by-case basis through minimal change to existing systems. This will also include monitoring and reporting on CWE as a non-financial sanction, with an interim report back in early 2026 and more fulsome advice in mid-2026 which may include changes to the intervention.

Proposal 3: Introduce a requirement for Jobseeker Support recipients to reapply for benefit every 26 weeks

Background

194. Under the Act and associated Regulations, JS expires after a given length of time (which is generally set at the 12-month anniversary of the date on which the benefit first commenced). To continue receiving JS, a person must reapply by completing any specific requirements as determined in the Regulations.[37] This process is referred to as the 52-week reapplication.

195. In October 2010, changes were made as part of the Future Focus welfare reforms to time-limit Unemployment Benefit (UB) grants to 12 months and require an annual reapplication and Comprehensive Work Assessment (CWA) for continued access to UB. At this time, people receiving a Sickness Benefit were not included.

196. The CWA interview was intended to assess the client's commitment to finding work and determine what help they need in their job search. If the client did not complete the reapplication process, the benefit would be stopped on their expiry date.

197. In July 2013, the UB and the Sickness Benefit were collapsed, and the eligibility criteria merged to become JS, and as such the 52-week reapplication requirement was extended to everyone on JS. This was despite the fact that some people on JS are required to periodically renew their medical coverage to receive the benefit[38] and most have little or no capacity for work because of a health condition, injury, or disability.[39] The annual check-in for those receiving JS on the ground of a health condition, injury, or disability (JS-HCID) reflects that they are expected to prepare for work (or in some cases work part-time) and so there is value in checking-in with this group. Timely access to the right supports can improve work capacity and reduce barriers to work.

198. The requirement to reapply for benefit every 52-weeks was further extended to Sole Parent Support (SPS) recipients in 2016. The advice at the time noted that this process would be a means of ensuring eligibility for assistance and maintaining the integrity of the benefit system.

199. The reapplication process is a form of obligation on clients and non-compliance with the reapplication process effectively acts like a Grade 3 sanction (the benefit expires or stops). There is no recompliance available in this process. The reapplication process also draws on the levers of case management by requiring clients to interact with a case manager at a specified interval. Currently all clients subject to the 52-week reapplication process must have an appointment with a case manager as part of the process. For those with work obligations, this appointment will generally be face to face.

200. This mandatory engagement via the reapplication process has a legislative requirement to discuss work and barriers to work (via the CWA) which may be

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37 The same reapplication requirements apply to Sole Parent Support (SPS).

38 Initial and ongoing eligibility for JS-HCID is underpinned by a Work Capacity Medical Certificate (WCMC) completed by a registered medical practitioner or nurse practitioner or where appropriate, a dentist or a midwife. The date for renewal of the WCMC is based on the health practitioner's recommendation.

39 Most JS-HCID clients have deferred work obligations. Few have part-time work obligations.

mitigated through employment services to help people prepare for work, find a job, and remain in work.

Evidence concerning the effectiveness of benefit reapplication

An evaluation of the 52-week reapplication process was undertaken in 2013, looking at the impacts following initial implementation for the Unemployment Benefit in 2010

201. A summary of evidence relating to the impacts of benefit expiry and regrants is attached as Appendix 2.

202. An evaluation that looked at the impact of the 52-week reapplication process when it was introduced for UB estimated that it reduced the time that affected clients spent on benefit by 41 days over a 21-month follow-up period, after taking into account a higher rate of returning to benefit among those affected by benefit cancellations at the time of the reapplication.[40] These results are consistent with international evidence which shows low-cost compliance activities, such as compulsory case manager interviews, increase benefit exits.

203. The impact was primarily through the automatic cancellation of benefits for non-engagement in the reapplication process or not completing the reapplication process in time. At the anniversary of benefit commencement, there was a 21 percent fall in the number of clients on UB. However, 16 percent of these automatically cancelled clients returned to benefit within 60 days, compared with 7 percent without the reapplication process. For this reason, the impact of the reapplication process on the overall time on benefit took account of the impact on exits from benefit as well as on returning to a benefit after exit.

204. The introduction of the reapplication was estimated to have reduced income support costs by $9.84 for every dollar spent on the intervention, after considering increased returns to benefit and increased benefit administration costs.[41] The evaluation did not examine effects on employment, income, or other outcomes.

Problem Definition

205. The existing 52-week reapplication process is highly administrative and burdensome for staff and clients due to:

- large volumes of clients and no targeting (all JS clients with limited exemptions) which places a significant drain on MSD's case management resource
- blanket requirements that do not adequately consider a client's circumstances and work test or work preparation obligations (same CWA process for everyone)
- no recognition of past engagement with MSD, leading to duplication of effort for clients who are already actively engaging with MSD's employment services.

206. The current process has limited value in supporting employment outcomes as it:

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40 Ministry of Social Development. (2013). Impact of the 52-week Unemployment benefit reapplication process - Update 2: Technical Report, Internal working paper, Centre for Social Research and Evaluation, MSD, Wellington.

41 Ibid.

- has evolved into a compliance exercise of rapid checks on eligibility and work obligations due to resource pressure
- is a standalone exercise with the information not flowing into other meaningful activities like setting work obligations or referral to additional support
- diverts capacity away from more high value work such as providing targeted employment support.

207. Benefit payments support people while they look for work. However, the current reapplication process can lead to unnecessary disruptions in these payments due to procedural denials and high churn rate.

  - Procedural denials[42] of clients who are otherwise eligible (i.e. failing to reapply before expiry), rather than being assessed as ineligible for continued benefit receipt. If not moving off benefit and into employment, this can result in significant hardship for clients and their families while they complete a new benefit application process.
  - High churn rate – data suggests that a significant proportion of clients who have their benefit cancelled because of the reapplication process return to benefit within 12months. Nearly half of all cancellations due to procedural denials result in a regrant of the benefit within three months.

Scope

208. Changes to reapplications are only being considered for JS clients. The reapplication requirements for SPS are out of scope due to the volume of additional clients MSD would have to engage with, which would not be possible at this time without significant additional frontline resourcing. Furthermore, it may be more appropriate to design a reapplication requirement specifically for SPS. That level of tailoring was not possible in the proposed design for 1 July 2025.

Opportunity

209. Requiring a beneficiary to reapply for their assistance periodically creates a mandatory point of engagement with MSD for clients. For some clients, this may be their only direct engagement with MSD after their initial application or previous reapplication. This reflects the fact that as of July 2024, 72 percent of JS clients are not in dedicated employment case management. Increasing engagement with MSD to twice a year at a minimum, provides increased opportunities to:

  - support welfare system integrity (confirming that a person remains eligible for benefit and is receiving the right rate)
  - focus on employment opportunities, barriers and appropriate employment supports to move more people into employment or closer to employment and reduce long-term benefit receipt

42 Gianella., E. et al (2023). Administrative Burden and Procedural Denials: Experimental Evidence from SNAP. NBER Working Paper 31239.

- review and confirm work test or work preparation obligations (as appropriate) more regularly with a view to increasing expectations on clients
- set activities expected to move more people into employment or closer to employment, with sanctions for non-compliance.

Options

210. The options considered for introducing a requirement for jobseekers to reapply for benefit every 26 weeks are set out below.
    - Option One – Status quo – Require JS clients to reapply for benefit every 52 weeks.
    - Option Two – Require JS clients to reapply for benefit every 26 weeks (based on current settings, following the current process “lift and shift”).
    - Option Three – Require JS clients to reapply for benefit every 26 weeks with a redesigned process (the option being presented to Cabinet).
    - Option Four – Require JS clients to undertake a mandatory review every 26 weeks (MSD’s recommendation).
211. Across all options, where the JS client has a partner included in their benefit, the partner will also be required to complete the reapplication in line with current settings.
212. The chosen option will build on the proactive six-monthly employment seminars that were launched in June 2024 (Kōrero Mahi – Work Check-in). These seminars are targeted towards JS clients with full-time work obligations and require them to engage with MSD every 26 weeks. This product was rolled out as an intermediary action to start engaging with clients at least once every six months.
213. These seminars/check-ins focus on:
    - ensuring JS clients are taking sufficient steps to find work, including the effort they have made to date to find work
    - determining what additional support is needed, including referral to programmes
    - reinforcement of obligations while on benefit.
214. Where required, these seminars are compulsory. If clients miss one of these seminars, without a good and sufficient reason, MSD must initiate an obligation failure which in turn may stop or reduce their payments.
215. MSD expects 20,000 JS clients who have been on benefit for 26 weeks to attend a Work Check-in seminar over the next 12-month period. This sits alongside the current requirement to reapply for benefit at 52-weeks.
216. Utilising a one-to-many approach for seeing clients ensures that all clients receive consistent messaging. It is also an efficient way for MSD to connect clients to their next step/s at the same time.

Option One: Status quo – Require clients to reapply for benefit every 52 weeks

217. Currently, people getting JS (and SPS) are required to complete a reapplication for benefit every 52 weeks. Partners of JS clients are also required to complete the 52-week reapplication (the reapplication form, providing any supporting evidence required and the appointment with MSD) prior to the benefit expiry to continue to receive the benefit.

218. In addition, partners with full- or part-time work obligations must participate and complete a CWA (employment engagement), or they will be issued an obligations failure. Partners with no work obligations do not need to complete the CWA.

219. There are two components to the reapplication process (as set out in Regulation 190 – Requirements for regrant of specified benefits):

- a reapplication form which covers all information relevant to assessing continued eligibility for JS including income, relationship status, dependent children, and reiterates the obligations that must be complied with; and
- an employment engagement (an in-person or phone appointment) which also functions to check a client's work obligations (via the CWA).

220. At present, these requirements are satisfied together (i.e. are coupled) and must be completed on or before the expiry date for the client to remain entitled.

221. If this process is not completed by the expiry date, the benefit is stopped or suspended. The reapplication may be completed after the expiry date where:

- a client makes contact to reapply on or before their expiry date, but the reapplication process cannot be completed before the expiry date through no fault of the client; or
- a client has an exceptional circumstance that has affected their ability to reapply or contact MSD on or before their expiry date.

222. If a client applies after the expiry date and does not have an exceptional circumstance, the benefit is cancelled. Similarly, after eight weeks any suspended benefit is also automatically cancelled. To receive JS after their benefit has been cancelled, the person is required to complete the full application process, which may include a stand-down period of one or two weeks if appropriate.[43]

223. MSD is currently meeting the demand of approximately 160,000 52-week reapplication appointments in total per year.

224. In the past six months, an average of 13,600 52-week reapplications were managed each month.

225. MSD has limited case management capacity. There are times when MSD experiences spikes in demand that see capacity for appointments exceeded. In particular, when capacity is stretched the reapplication appointment becomes a compliance exercise that reduces the value of both the requirement and the interaction with MSD. The

43 Based on the person's income over the previous 26- or 52-week period to determine the length of the stand-down.

current reapplication appointment is scheduled for 45 minutes and with the volumes involved, takes up a large amount of case management time.

226. The information obtained from the current 52-week reapplication process is used for the purposes of regranting or expiring the benefit, rather than being consistently used to drive future actions and setting activities to move the person closer to employment. Outside of clients who are engaged in active case management (which only applies to 60,000 clients), it would be commonplace for the reapplication appointment to be the only engagement a client has with MSD until their next 52-week reapplication.

227. If in the interim (between the 52-week reapplication process) the client applies for additional financial assistance or declares a change in circumstance, frontline staff focus on addressing the immediate needs of clients. These are missed opportunities to have an employment conversation (when appropriate).

228. The 52-week reapplication process currently requires the equivalent of 109 FTE.

229. Retaining the status quo would not meet the Government's intent to engage with jobseekers more regularly, and would not support the JS reduction target beyond the existing scope.

Option Two: Require JS clients to reapply for benefit every 26-weeks (under current settings, following the current process/"lift and shift")

230. Requiring JS clients to reapply for benefit every 26 weeks mirroring the existing 52-week reapplication requirements ("lift and shift") would see the number of appointments effectively doubling. The increased demand for the current administratively burdensome reapplication process means that other higher-value engagements would likely be compromised.

231. Increasing the administrative burden places additional pressure on case managers and may reduce the time and quality of the reapplication appointment (i.e. time spent on the CWA), weakening the employment component of the reapplication further. Without additional funding, the additional pressure on capacity will drive the reapplication process to a largely tick-box exercise and diminish the value of both the reapplication requirements and the interaction with MSD.

232. Case managers are also critical in the delivery of MSD's employment service. Effectively doubling the workload related to reapplications will mean less time for employment engagements and may reduce the number of people MSD is able to support off benefit and into employment.

233. Based on additional demand for appointments, the timeliness of income support and housing assistance could be affected. There could be a flow-on effect of reducing trust and confidence in the system. It also increases the risk that clients cannot meet their obligations to advise MSD of changes to their circumstances in a timely way.

234. Increasing the frequency of the reapplication process to every 26 weeks (under current settings) is estimated to require an increase in the resourcing requirement to 221 FTE to manage approximately 158,000 additional reapplication appointments. This is an increase of 112 FTE from Option One (Status quo). If this is implemented within current funding levels, this additional capacity would come at the expense of MSD's

other work, leading to less focus on proactive appointments and conversations, and would reduce timeliness and accuracy for clients.

235. In addition, Option Two does not allow for any efficiencies to be gained by being able to recognise other relevant engagements, such as those clients engaged in active/dedicated case management (Options Three and Four). This duplication of effort would further erode the value of the reapplication process and would be more likely to lead to a tick-box exercise.

236. There would be an IT cost of approximately $3 million for Option Two.

237. Any option that brings forward the expiry of benefit to 26 weeks after the commencement date (or previous reapplication) (i.e. Options Two and Three) creates a flow-on issue to the sub-cohort of JS that have annual income charging. This issue, and options associated with this, are addressed in a separate section below.

238. In contrast, an expiry including a final step to reapplication is important from a benefit integrity perspective. Sometimes, people who are receiving benefits they are not entitled to (because they have provided false information or they have failed to advise of a change in circumstance), can feel that they must maintain the false information they have provided because they are afraid of the consequences of their past offending being discovered.

239. The reapplication process with an expiry (Options Two and Three) provides an opportunity for people to passively opt out of offending by simply not completing the re-application process and having their benefits stop because of this. The blanket one-size-fits-all process and the administrative burden could reduce the value of the employment engagement via the reapplication process. This could in turn lead to a compliance focused exercise that would be unlikely to result in more people exiting benefit into employment. On balance, this option is not recommended because it is unlikely to succeed in reducing benefit numbers and the volume of reapplication appointments are likely to overwhelm MSD’s case management resource, leading to decreased service in other areas such as processing income support and addressing housing needs.

Option Three: Require JS clients to reapply for benefit every 26-weeks with a redesigned process (Option recommended to Cabinet)

240. This option would remove the current 52-week expiry date for JS clients and replace it with a 26-week expiry date. To continue to receive JS, the client would need to reapply for JS every 26 weeks.

241. This option further reinforces the message that JS is a temporary benefit, and that the focus is on finding work (as appropriate). This option differs from Option Two in that the requirements for completing the reapplication are streamlined to be simpler and more efficient. Those key features are:

- enabling the components of the reapplication to be completed at the same time or separately (decoupled)
- maximising existing engagements to satisfy components of the reapplication, so when a client goes to reapply for their benefit, their reapplication is tailored to their specific circumstances, and focusing on obtaining additional information rather

than duplicating the information that MSD already has (referred to as the use of specified activities throughout this document)

- utilising a range of employment engagements (e.g. group seminars, bulk obligation setting) that could fulfil the employment component of the reapplication (as opposed to the one-size-fits-all CWA).

Managing volumes through recognising previous engagements with MSD

242. In this option, existing points of suitable and recent engagement with MSD can be used to satisfy the components of the reapplication. This will reduce the volume of clients required to attend reapplication appointments to a manageable level, supporting maintenance of case management staff capacity to have higher quality employment engagements.

243. The current 52-week reapplication process requires all clients to have an appointment with MSD. This is generally in person for those people with work-test obligations and on the phone for all other JS clients. This includes people that MSD is already regularly engaging with, for example those engaged in active case management. Those clients who are in active case management are already regularly engaging with and are accountable to MSD. Requiring them to undertake a full reapplication process (such as in Option One and Option Two) does not add additional value to this group and would not be an efficient use of MSD case management resource.

244. The proposed new reapplication process at 26-weeks balances the objectives to:

- engage with more clients overall, allowing MSD to focus on those who have not had other forms of engagement
- engage more regularly with clients – every 26 weeks at a minimum
- deliver more targeted and meaningful engagements, building on relevant interactions with MSD.

245. In this design, a system-driven review would track and recognise existing and up-to-date engagements that would account for the components of the reapplication. This will determine what form the reapplication takes. There are three types of reapplications that fall out of this.

- Clients who have satisfied none of the components of the 26-week reapplication will be required to reapply and both test their eligibility and have a conversation about employment, including their job search.
- Clients who have partially satisfied the components for the 26-week reapplication (employment or eligibility component met) will be required to confirm their reapplication and satisfy their remaining component.
- Clients who have satisfied all the components for the 26-week reapplication (all proxies met) will be required to confirm their intention to reapply for benefit through a designated channel (through MyMSD, over the phone, or in person). This final step is important to ensuring both the client and their partner (if any) take deliberate action to reapply for benefit despite application of specified activities.

246. By focusing on those who have not had a recent engagement with MSD regarding eligibility or employment, this design helps to spread limited case management resource and allow more frequent engagement (minimum twice a year) across the JS group. Removing duplication is expected to provide for a better client experience and improve compliance, and therefore fewer procedural denials. For example, if a client has recently engaged with us and the current 52-week reapplication is due a few weeks after, it can be confusing for clients about what this additional step is when they have just been engaging with MSD.

247. MSD has assessed what existing forms of client engagement would provide reliable information that can be deemed to have met the requirements of the new reapplication process. Each specified activity has been tested against defined criteria for each component and the relevant legislation. Some examples of how these specified activities could work in practice are set out in Appendix 3.

248. To be a suitable engagement in respect of the 26-week reapplication process, the design is that the specified activity would need to have been undertaken within the eight weeks prior to being sent the notification letter to reapply. Eight weeks is generally accepted as a reasonable window to consider information is up-to-date across a range of MSD products and services.[44] The intent is also to be able to manually recognise any valid specified activities that have occurred since the notification period and prior to the benefit expiring (which is a further five weeks), as this meets the objective to reduce duplication and create efficiencies.

249. The use of specified activities is expected to reduce the number of clients requiring a specific reapplication engagement at 26-weeks and 52-weeks respectively (i.e. every 26-weeks) by approximately 134,000 (or 43 percent of estimated total future reapplications per annum). Even where the client has satisfied both components of the reapplication through specified activities, they will still need to confirm their intention to reapply for benefit, but in a lighter touch way (potentially an online form confirming they wish to reapply for benefit and confirming they understand and agree to their obligations for receipt of their benefit). This option is estimated to require 134 FTE to implement, which is an additional 28 FTE compared to the status quo (Option One).[45]

250. This option is expected to contribute to the JS reduction target. The introduction of a 26-week reapplication will contribute to this target by:

- introducing an additional exit point (e.g. clients not reapplying as their circumstances have changed and they know they are no longer eligible)
- increasing opportunities to engage clients in employment activities and supports that will lead to exits into employment.

44 For example, for social housing, for the purposes of Income Related Rent a change that is likely to last or has lasted less than eight-weeks is temporary, while eight-weeks or more is considered a permanent change.

45 This FTE count is based on a full-year if demand in year 2026/27. The FTE increase is estimated to be 17 FTE in the first year as this is not a full year.

Savings from off-benefit outcomes

251. In respect of Option 3 the modelling of the drop-off and return to benefit has accounted for the inclusion of specified activities dictating the range of reapplication types a client may have (e.g. not limited to one-on-one appointments).[46]

252. Specifically, some clients may undergo a more rigorous reapplication process (those who have not completed any of the components of the reapplication by 26-weeks), while some clients (who have completed all components) will have a lighter touch reapplication, confirming their intention to reapply (and ensuring their understanding of, and agreement to their obligations).

253. The modelling is based on the Budget Economic and Fiscal Update (BEFU) which forecasts to June 2028. From this modelling, MSD expects this option to lead to a reduction in net BoRE costs of $37.885 million over five years (2024/25 to 2028/29).

254. The reapplication process can have an impact on movement to other benefits (for example JS-HCID to JS-WR or Supported Living Payment). MSD will monitor the outcomes of the 26-week reapplication process for off-benefit outcomes, return to benefit and transfers to other benefits.

255. Moving to a 26-week benefit expiry for JS creates an additional issue for those clients with annual income charging and is addressed in a separate section below (from paragraph 263).

Option Four – Require JS clients to undertake a mandatory review every 26-weeks (option MSD recommends)

256. Under this option, the intention of the Government to engage more regularly with jobseekers would be fulfilled by introducing a new mandatory review process for all clients in receipt of JS. The 52-week reapplication (which could be redesigned for further efficiencies), and benefit expiry would remain.

257. A 26-week mandatory review would be similar to Option Three and include the components of the current 52-week reapplication (confirming eligibility and an employment conversation) but would provide more flexible options for satisfying them.

258. This option and Option Three allow a client (supported by system rules and design) to satisfy some or all of the requirements for the 26-week mandatory review through previous engagement with MSD, where those specified activities satisfy the legislative requirements of the 26-week review. There is a concern that under this option, a person could satisfy the components of the mandatory review without being “seen” by MSD as part of the review. This can enhance the risk of fraud as there is no action on behalf of the client.

259. Clients who do not fulfil all the components of their review by their 26-week review point would be mandated to complete any remaining parts of the requirement. This

46 MSD previously modelled the drop-off and return to benefit of the current 52-week reapplication process (in 2019). A known impact from the reapplication process is rework for MSD when a client has had their benefit stopped and cancelled because of the reapplication process applies to come back on benefit again as a new applicant (which can often be soon after). This requires extra work/re-work for MSD. With the benefit expiring more frequently (every 26-weeks) this rework can be expected to increase.

retains the policy intent of ensuring that clients are engaging with MSD often, while reducing duplication of effort and freeing up case management resources for high-value employment engagements.

260. A new power would need to be included in the Act allowing MSD to undertake a mandatory review of benefit at or by 26 weeks from their benefit commencement date (or previous reapplication). The consequences of not engaging in the review or not meeting the requirements of the review in time (such as booking into an employment seminar with MSD) would lead to benefit suspension, and subsequent cancellation.

261. This option preserves annual income charging as clients may still have 52 weeks on benefit before the benefit expires and the reapplication is required. Their benefit only stops if they do not engage in the mandatory review process or if they have another change in circumstances that mean they are no longer eligible for JS.

262. This option is expected to contribute to the JS reduction target, but may not be as effective as Option Two or Option Three without the use of an earlier expiry.

Moving to 26-weeks benefit expiry for JS clients creates issues for clients with annual income charging (Options Two and Three)

263. Moving benefit expiry for JS to 26-weeks (as proposed in Options Two and Three) has impacts for two distinct cohorts:

- those clients currently receiving JS at a sole parent or a grand-parented rate of benefit
- clients who transfer from SPS to JS when their youngest dependent child turns 14.

264. For these clients, their weekly income is assessed over a 52-week period rather than weekly (known as annual income charging). All other clients receiving JS have weekly income charging.

265. Reviews of Annual Income (known as due-paid assessments) are required for clients on benefits with annual income charging where the benefit has been abated at any point in the last 52 weeks, to ensure they have received the correct rate of payment for those past 52 weeks.

266. Clients in this situation estimate their income for the coming 52-week period. At the end of the period, their income is reviewed to make sure they received the correct rate of payment based on their actual income.[47]

267. As part of making a 26-week expiry/reapplication process workable,[48] it is proposed to remove annual income charging for clients receiving JS. This is consistent with the purpose of JS as a temporary, work-focused benefit. The temporary full-time employment period for sole parents and grand-parented JS clients would also be removed, as with the removal of annual income charging this is no longer workable.

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47 Clients do not have a Review of Annual Income if their benefit has not been abated at any point during the period that income is assessed (the 52-week review period), or they have not received any income during the review period.

48 By changing to a 26-week reapplication process with an expiry date at 26 weeks, a person’s benefit cannot be paid for more than 26 weeks at a time. This means they would not get to 52 weeks from their commencement date (or last 52-week reapplication) and their income can’t be charged annually.

268. Sole parents on JS have full-time work obligations (unless they have a health condition, injury or disability or any other exemption), and would benefit from engaging more regularly with MSD to support moving off benefit and into employment. Moving clients to weekly income charging encourages this and would also improve consistency across the cohort, as the whole JS cohort would be subject to the same weekly income charging regime.

Impacts for JS clients on a sole parent or grand-parented rate of benefit

269. At the end of April 2024, there were 13,221 sole parents on JS, and 57 grand-parented clients (13,278 total) with a sole parent rate of benefit on JS.

270. In the 2023 calendar year 2,600 JS clients and 57 grand-parented clients had income that abated their benefit and as a result, had a due-paid assessment completed. Of this group, at the end of the due-paid assessment:

- 310 (12 percent) had net debt established (i.e. money they owed MSD due to underestimating their annual income)
- no impact for approximately 750 clients (~29 percent) (estimated income for the period was correct)
- 1,520 (57 percent) had net arrears owing (i.e. money owed to them from MSD as a result of overestimating their annual income at the start of the income charging period).

271. The change to weekly income charging may disadvantage clients who have periods of higher income throughout the year, but not regular income. This is because, under annual income charging, the client's total income gets smoothed across 52 weeks, with abatement only occurring once their gross income reaches $8,320 (as at 1 April 2024).

272. When charged on a weekly basis (i.e. over the period the income was earned/represents) this can result in periods where the client could have reduced entitlement to benefit in certain weeks (as abatement would start as soon as income is over $160 gross in the week it was earned).

273. To mitigate the potential for disadvantage for clients that have already entered an annual income charging period at the point of the law change (1 July 20205), clients will be able to complete a final due-paid assessment before moving to weekly income charging. Completing the Review of Annual Income for the current period ensures that clients receive their correct entitlement to JS for the previous 52-weeks (but acknowledging that for some clients this could result in a debt).

274. After the end of the 52-week annual income period (and the completion of any due-paid assessment), the client would move to a 26-week expiry date thereafter. Weekly income charging then becomes a condition of being in receipt of JS.

Impacts for clients transferring from SPS to JS when their youngest dependent child turns 14

275. In the 2023 calendar year, 2,796 clients transferred from SPS to JS. In addition to clients transferring when their youngest dependent child turned 14 years of age, clients also transferred due to a change in circumstances (e.g. a change in relationship status). Of this, group at the end of the due paid assessment:

- 49 clients (16 percent) had net debt established
- no impact for 72 clients (24 percent)
- 179 clients (60 percent) had net arrears owing.

276. These clients may shift to JS from SPS part-way through their annual income charging period. Rather than the proposal in paragraph 273, these clients will be moved to weekly income charging from the date of their transfer to JS. This aligns with other situations when a change of circumstances leads to a change in benefit with different settings e.g. SPS clients and JS sole parent clients whose last or only child leaves their care, and the client moves to a single rate of JS with weekly income charging, or when a client exits the benefit.

277. Managing client expectations about their annual income abatement will ensure clients are well-informed before their SPS expires. MSD intends to inform SPS clients about the upcoming change to their income charging prior to their transfer to JS. The proactive communications will explain the changes to the conditions of the client's benefit, including changes to how their income is charged.

Discounted option to move these JS clients on a sole parent rate to SPS

278. An alternative option to move clients with a sole parent rate of benefit to SPS (including retaining those due to transfer to JS when their youngest child turns 14) was discounted.

279. Under this option, the cohort receiving a sole parent rate of benefit on JS would retain existing policy settings for JS sole parents and make it a sub-benefit type within SPS. This means they would only be subject to the current 52-week reapplication and not a reapplication at 26 weeks.

Removal of the temporary full-time employment period (Options Two and Three)

280. Sole parents and grand-parented clients getting JS are currently able to work full-time for a temporary period (26 weeks) provided their income, when assessed over a 52-week period, does not fully reduce their benefit. This applies most often to clients working in home-based childcare, some sales work, and some self-employment people whose business is struggling or making a loss.

281. The decision to remove annual income charging for JS sole parents and grand-parented clients and move them to the 26-week reapplication process necessitates the removal of this temporary full-time employment period.

282. The provision was introduced during the 2013 Welfare Reform and was intended to ease the transition when the client's youngest child is 14 years or over and is automatically moved from SPS (with no limitation on working hours) to JS. The setting enables clients who are working full-time but whose income doesn't fully abate the

benefit to continue working full-time for a temporary period of 26 weeks to allow the client to increase their income and become independent.[49]

283. It is not possible to retain a 26-week full-time temporary employment period for JS with a 26-week duration, as clients who are working full-time are ineligible to receive JS, and working for 26 weeks would cover the full benefit period under the new rules (and therefore not be considered a temporary period). Additionally, the full-time employment provision is only applicable to benefits with annual income charging, where income can be ‘smoothed’ over a 52-week period. Removing the provision is a change to section 21 of the Act.

284. Data on this cohort is difficult to obtain, but MSD understands the size of the cohort undertaking a temporary full-time employment period to be a small subset of the clients with annual income charging.

49 The temporary employment period was often taken by home-based early childhood educators. It recognised that clients working as educators in home-based care often received low income, sometimes at levels below the adult minimum wage. Conditions for home-based educators have since improved, and the recent introduction of the home-based educator top-up payment for 20 Hours Early Childhood Education funding means these educators no longer need to forgo income to provide this service.

Assessment of options against the criteria: Introducing a 26-week reapplication for JS

	Option One – Status Quo / Counterfactual	Option Two – Require JS clients to reapply for benefit every 26-weeks (under same requirements as currently/lift and shift)	Option Three - Require JS clients to reapply for benefit every 26-weeks with a redesigned process (Cabinet paper)	Option Four: Require JS clients to undertake a mandatory review every 26-weeks (MSD preferred
Ease of implementation	0	- - Resource-wise unsustainable for MSD. Delivery easier as it is the system already in use. Issue for JS clients with annual income charging.	- - Resource-wise, achievable with specified activities. 13-month system build. Issue for JS clients with annual income charging.	- Resource-wise, achievable with specified activities. 13-month system build. No issue with annual income charging.
Fiscal costs to Government	0	- Increase in resourcing (FTE) for MSD is high. Savings from cancellation of benefit.	+ Increase in resourcing (FTE) for MSD is medium. Savings from cancellation of benefit.	+ Increase in resourcing (FTE) for MSD is medium. Savings from cancellation of benefit.
Effectiveness at achieving the outcomes sought	0	+ Compliance exercise but more frequent engagement. Has some off benefit outcomes but not necessarily sustainable.	+ + More frequent engagement and focus on higher value employment conversations.	+ + More frequent engagement and focus on higher value employment conversations.
Distributional impacts	0	- Sole parents impacted depending on mitigation for annual income charging issue. No targeting based on client circumstances.	+ + Higher risk clients (who are not engaged with as frequently) subject to more rigorous reapplication.	+ + Higher risk clients (who are not engaged with as frequently) subject to more rigorous reapplication.

Fairness between beneficiaries	0	- SPS clients potentially disadvantaged by less engagement and employment support.	- SPS clients potentially disadvantaged by less engagement and employment support.	- SPS clients potentially disadvantaged by less engagement and employment support.
Overall assessment	0	- -	+	+

Key for qualitative judgements:

++ strongly aligns with criteria

\+ aligns with criteria

0 neither aligns nor hinders criteria

\- hinders criteria

\- - severely hinders criteria

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

285. MSD agrees that more frequent engagement with clients about the work search or work-preparation efforts (as appropriate), alongside the setting of activities to move clients closer to employment and additional support to address barriers, is a positive step.

286. The current design of the 52-week reapplication process is one-size-fits-all and administratively burdensome for staff and clients. MSD would not have sufficient resource to administer "lift and shift" replicating the current reapplication process more twice a year for clients on JS under the current parameters (Option Two).

287. MSD favours a mandatory review (Option Four) rather than benefit expiry at 26-weeks for two main reasons:
    - benefit expiry and regrant leads to clients losing entitlement to benefit due to the process, rather than because they are no longer eligible for benefit, resulting in clients churning back on the benefit in quick succession
    - changing the benefit expiry from 52 to 26-weeks results in additional complexity for sole parent and grand-parented clients receiving JS who have annual income charging.

288. The recommended option includes redesign of the current process to recognise existing, relevant engagement/specified activity that covers the same components of the reapplication process (eligibility and employment engagement with work obligations across either component). This allows for a more efficient process focusing engagements on people who MSD has not already engaged with (Options Three and Four). This provides a workable level of FTE resource without the need for additional funding for FTEs.

289. A review rather than a reapplication was considered to reduce some of the compliance burden and produce fewer procedural denials. It also did not impact on the clients with annual income charging.

Recommended option

290. Option Three is recommended in the Cabinet paper.

Proposal 4: Mandatory Jobseeker Profiles

Status quo and problem definition

291. A Jobseeker Profile (JSP) records information about the client's work experience, career path[50], qualifications, driver licence attainment, and job location preferences. This information enables MSD to promote clients to employers and match suitable candidates with vacancies. It can also be used to support MSD’s role in the immigration system by enabling better job matching, identifying regional skills gaps and better understanding where New Zealanders could fill roles instead of migrant workers.

292. The JSP is a 'living' document and can be updated as a client's situation and circumstances change. Clients can update them through MyMSD or MSD staff can enter client information via the case management system.

293. Existing operational best practice has seen high rates of JSP activity before people are granted benefit (around 90 percent for clients with work obligations), as MSD staff are encouraged to work with applicants on their JSPs at the new application appointment (where a benefit is granted or declined).

294. There is currently no mandatory requirement for clients to have a JSP. However, MSD can require a person to complete one as a pre-benefit activity[51] for the purpose of helping them find or retain paid employment.[52] Use of this pre-benefit activity is estimated be low, as there are already have high rates of activity through operational practice.

295. If a client does not already have a JSP, or it needs updating, MSD staff can work with them to do this at business-as-usual engagement appointments.

296. Requiring completion of JSPs before a benefit is granted will help MSD have more targeted employment conversations with new clients, and support clients to take responsibility for preparing themselves for employment.

How is the information from the Jobseeker Profile used?

297. Information from JSPs is populated in the Client Job Selector (an operational report in SAS Visual Analytics).[53] This daily report assists with matching clients to vacancies and training programmes by highlighting relevant jobseeker information, such as previous work history, career path choices, programme tags, industry, licensing, education details and Iwi. This helps our staff (e.g. Job Connect, Case Managers, Work Brokers, and Programme Coordinators) match clients to vacancies and training programmes.

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50 This aspect of the profile is for recording work that a client would like to do and is capable of doing with minimal training (i.e. right now).

51 Under current settings, people applying for JS, SPS or Emergency Benefit (EB) may be asked to complete a JSP as a pre-benefit activity.

52 The application of pre-benefit activities is set out in Regulation 110 of the Regulations. This states that MSD cannot require a person who does not have the capacity to seek, undertake and be available for part-time work to undertake a pre-benefit activity. To set a pre-benefit activity of this nature, MSD would need to first speak with the applicant to determine their suitability according to the Regulation. Under Regulation 110, MSD may require a person to undertake a pre-benefit activity for the purpose stated in section 3(a)(ii) of the Act.

53 This is for internal MSD use only.

Options

298. Three options have been considered for introducing a requirement for jobseekers to complete a Jobseeker Profile.

- Option One – Status quo.
- Option Two – Enhanced Status Quo (operational improvements).
- Option Three – mandatory pre-benefit activity for certain cohorts.

Option One – Status quo

299. MSD would continue existing operational practice of encouraging completion of JSPs. No further enhancements would be made to increase JSP activity.

300. This option would have no implementation requirements or costs as it uses current practice. However, it does mean that not all clients will necessarily have the opportunity to work with MSD staff to complete a JSP, as it is not mandated. Clients may create one themselves, however people who need more support to create their JSPs (e.g. disabled people, or people with low literacy) could be at a disadvantage if they are not proactively supported.

Option Two – Enhanced status quo

301. This option would build on existing operational practice to improve on the already high rates of JSP activity for work obligated clients at new application appointments. MSD will also leverage existing policies and the increased number of engagements we have with clients (which have been implemented to support the Government's Jobseeker target) to ensure existing clients have JSPs in place. This option would not make JSPs a compulsory pre-benefit activity for clients but would instead place responsibility on MSD staff to work with clients to create their JSP.

302. Some people who are already on benefit may not have a JSP because it was not appropriate at the time of application or because they came onto benefit before MSD began improving its practice of completing JSPs at the new application appointment stage. However, if their circumstances have changed and they are now assessed as being obliged to seek work, MSD staff could support them to complete a JSP.[54] MSD could also use existing work-test obligation powers to require clients to create a JSP where appropriate. Additional communications with staff could be used to ensure they understand that they are expected to work with clients to continually review and update JSPs. Because the JSP is most useful if it is used to match clients with job vacancies, so there is an argument for targeting the requirement to people with full- or part-time work obligations.

303. This option would be the simplest non-status-quo option to implement, as it would not require legislative change and can leverage existing policy and operational processes. MSD expects it would have minimal cost implications. However, it could put additional pressure on frontline staff who would need to add another activity to their current interactions with clients.

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54 Examples of engagements where MSD may assess the suitability of a JSP, or support a client to create or update one include the 26-week check-ins and Kōrero Mahi.

304. Māori are likely to make up a disproportionate number of people who will benefit from greater job matching through the JSPs due to representing a disproportionate number on Jobseeker-related benefits. This could help to support the principle of equity, if used in combination with effective active labour market programmes.

305. MSD believes this option would be effective in achieving the outcome of equipping every jobseeker on benefit with a JSP, as there are already high rates of JSP activity before benefits are granted and anyone else without one can be followed up with through increased engagements or our existing ability to set obligations. However, this option is relatively weaker on achieving the policy objective that welfare system settings should reinforce expectations to work, where appropriate.

Option Three – Mandatory pre-benefit activity for jobseekers

306. This option would change the Act to allow MSD to require all people applying for specified benefits to complete a JSP before they are granted benefit (so long as this is consistent with the purpose and principles of the Act). This would include:

- all people applying for Jobseeker Support
- all people applying for Sole Parent Support
- people applying for Emergency Benefit (EB) where it is determined they have work obligations as a condition of receiving their benefit. Work would be required to develop exceptions for people applying for EB who would not be subject to work-related obligations, for example, someone where an analogous support would be New Zealand Superannuation or Supported Living Payment.

307. As MSD cannot determine what obligations someone would have until after we have met with them to determine eligibility, this option would include those who have work-preparation obligations. Including clients with work-preparation obligations would require MSD to change its operating practices to ensure that those clients' JSPs are not included in job-matching until they have work obligations, or they want to seek work regardless of their obligations.

308. Under this option, MSD staff would maintain some discretion to waive the requirement to complete a JSP where it is determined the JSP is not appropriate at that time, for example if the applicant is seeking income support due to a family breakdown and is in significant distress. If such circumstances arise, we recommend allowing MSD to grant a main benefit without the client completing a JSP at that time. The client may still be encouraged to complete a JSP at a future engagement point.

309. This option requires more implementation work than Option Two as it requires legislative change. Additional internal and external guidance may also need to be updated to reflect the changes. System changes would also be required to IT systems and MyMSD. However, this option is not likely to generate significant cost and therefore could be funded through MSD baseline.

310. s9(2)(h) [redacted] However, this option does meet the Minister's preference of assigning the JSP as a pre-benefit activity for large cohorts of clients.

311. If staff do not have capacity to work with clients at the new application appointment stage to complete their JSP, this could create disadvantages for people who would not

be able to complete it on their own (e.g. due to disability, low literacy, or English as a second language). This could result in some people's benefit applications being unfairly declined and could increase our reputational risk and risk of legal challenge. However, this risk could be mitigated by maintaining discretion for MSD staff to waive the requirement where it is not appropriate for the person's circumstances. If the requirement is waived, staff could still work with the person to complete their JSP after the new application appointment.

Assessment of options against the criteria: Mandatory requirement for a Jobseeker Profile

	Option One – Status Quo	Option Two – Enhanced Status Quo	Option Three – mandatory pre-benefit activity for certain cohorts
Ease of implementation	0	+ Operational improvements only but would require addition communication with clients.	- Would require legislative and operational change.
Fiscal costs to Government	0	++ Low cost could be met through baseline.	+ Relatively low cost could be met through baseline but could have trade-offs on staff time.
Effectiveness at achieving the outcomes sought	0	+ Effective at achieving high JSP rates but less effective at reinforcing work expectations.	++ Effective at achieving high rates of JSP while also more effective at reinforcing work expectations.
Distributional impacts	0	0 Minimal.	0
Fairness between beneficiaries	0	0	0
Overall assessment	0	++	+

Key for qualitative judgements:

++	strongly aligns with criteria	0	neither aligns nor hinders criteria	- -	severely hinders criteria
+	aligns with criteria			-	hinders criteria

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

312. MSD's preferred option is Option Two. While Option Three better meets the objective of reinforcing work expectations, MSD does not believe it is likely to offer significant benefits above those that could be gained through Option Two. Option Two would also be simpler to implement and likely require slightly less staff time as they would not need to assign and check completion of the pre-benefit activity.

Recommended option

313. Option Three is recommended in the Cabinet paper.

Section 2: Delivering an option

MSD is the agency responsible for delivering these policies

314. Alongside developing the policies set out in this document, MSD is generally the sole agency responsible for delivering and enforcing the reforms. Assistance is not required from local government or other parties, exception for CWE, which will rely on the willingness of community organisations to take on clients to be successful.

315. Stakeholders have not been consulted in the design of proposals or regarding implementation. However, officials note that these policies were signalled publicly through manifesto commitments before the 2023 General Election.

316. The TLS will be implemented in two phases. Phase One involves the following.

    - Communicating with clients what the TLS is, and where they sit within it, what is expected of them in return for benefit receipt and how to meet those expectations. This will be based on their current compliance with their work-test or work-preparation and social obligations, and system and practice changes by 12 August 2024.

317. Phase Two involves enacting legislation and more extensive system changes to give effect to the proposals above. The key dates for implementation are:

    - TLS including non-financial sanctions – 26 May 2025
    - 26-week reapplication – 1 July 2025.

318. Other operational changes, for example introducing more regular work-focused seminars from June 2024, are assisting in preparing clients for this change now.

Non-regulatory changes

319. Elements of these policies can be implemented without legislative or regulatory change. As noted above, this includes phase one of the TLS and requiring a proof of job search (collectively referred to as ‘non-regulatory changes’). For example, requiring proof of job search can be achieved by a change in case manager practice, through building in a progress monitoring conversation with clients to see how they are getting on with their job search.

320. MSD proposed to introduce non-regulatory changes from 26 May 2025. Implementing the non-regulatory changes will require changes to MSD’s operational guidance and practice.

321. In addition to the proposals outlined in this Regulatory Impact Statement, MSD has also taken other steps to introduce new engagements for clients, for example the new Work Check-in seminars. MSD expects that 20,000 JS clients who have been on benefit for 26 weeks, will attend a Work Check-in seminar over the next 12 months. To deliver the employment component of the reapplication process in a more efficient way, there will be a much greater continuing use of these kind of group-based activities (e.g. seminars) as a mechanism for clients to fulfil this component.

Regulatory changes

322. Changes to the Act and Regulations are required to deliver Phase Two of the TLS and the introduction of a 26-week benefit expiry/reapplication for recipients of JS.

323. A Bill is expected to be introduced in November 2024 to make the necessary changes to implement Phase Two.

Traffic Light System

324. All elements of the TLS will apply to clients and partners with work obligations (full-time and part-time) and work-preparation obligations, and clients with social obligations in respect of their dependent children. This will mean that a greater number of clients with dependent children, and jobseekers aged 18-24 will be included.

325. However, only the messaging and communications component of the TLS will apply to clients with youth activity obligations. This recognises that while it is important that all clients understand their expectations, it would not be appropriate to extend other elements of the TLS, particularly non-financial sanctions, to young people given that their regime of obligations and support is very different to adult clients.

326. The extension of the obligation failure count to 104 weeks will be given effect through legislative change.

Mandatory Jobseeker profile

327. s9(2)(h) [redacted] Case managers will receive guidance on opportunities to exempt certain clients.

Non-financial sanctions

328. Non-financial sanctions will be implemented as part of Phase Two of the TLS. Clients and case managers will be made aware of the changes and how they will be affected, particularly if the clients were part of the cohort who would receive a non-financial sanction.

329. MSD IT system rules will provide the presumption of a financial sanction for clients who fail an obligation unless the client makes contact within the five working day notice period. Within the target cohort, MSD will have discretion to apply non-financial sanctions based on client circumstances. This also ensures that the sanction imposed is likely more appropriate for the client and allows for the use of non-financial sanctions to be better targeted.

330. However, discretion can increase risk of disparities between people in equivalent situations, or between different sites. This will be mitigated by delivering clear guidance to staff as to when non-financial sanctions should be applied and ensuring regional consistency where possible.

331. Both Money Management and Community Work Experience also have their own specific implementation considerations which are explored below.

Money Management

332. Legislative change is required to facilitate the use of Money Management and for specific policy settings. This will include amendments to sections of that Act relating to obligations and sanctions to allow for non-financial sanctions to be imposed, as well as to the required manner of payments to allow for a benefit to be paid in a money managed way for those who have had it imposed as a sanction.

333. The use of providers for parts of this process, once enabled through legislation, would need to be specifically contracted for, which would require a procurement process and potentially funding, depending on the agreed arrangement. This would be administered though MSD's standard procurement and contracting processes, but this approach would not be implemented from the on 1 July 2025 implementation.

Community Work Experience

334. Legislative amendments and system changes are required to enable CWE as a non-financial sanction. Delivery of CWE builds on established processes and systems. FTE requirements would not be increased, although some staff responsibilities would adapt so that MSD can support clients to find a CWE opportunity and be satisfied that a client has completed their requirements. MSD will engage with community organisations to form an implementation plan.

26-week reapplication for JS clients

335. Implementing the 26-week reapplication process requires significant system and legislative changes. The new process will replace the existing 52-week reapplication provisions. Implementation of the new arrangements will be supported by the use of automation and potentially automated decision-making, for example to determine when a suitable engagement has been completed within the required timeframes.

336. The intent is that following implementation on 1 July 2025, most clients will have their first 26-week reapplication within six months of 1 July 2025. Some clients will be subject to transitional arrangements, depending on:

- their current expiry date and its proximity to 1 July 2025
- their income charging arrangements.

337. The detail of these arrangements is set out earlier in the options analysis section. These clients will receive clear communication at the earliest opportunity to ensure they understand how they will be affected.

Impact on MSD operations

338. Unless there is an increase in case management resources, introducing these changes is likely to result in less resources being dedicated to other aspects of case management, which risks diluting the overall impact of these changes.

339. While some of these changes, notably the recognition of other points of engagement in the 26-week reapplication process, aim to introduce efficiencies into case management, the overall effect of these changes will likely see less resource dedicated to other aspects of case management, such as assisting high-needs clients.

340. Further strain on MSD case management is likely to occur if the forecasted weakening economic conditions result in a greater number of people seeking income support from MSD, limiting the capacity of case managers to focus on other aspects of their role.

341. IT changes are required to implement proposals outlined above. The estimated IT costs for all changes are $11.31 million ($6.55 million for Proposals 1 and 2, and $4.76 million for Proposal 3). These costs will be met within MSD's baseline.

Communication to affected parties

342. MSD will ensure that clients receive full and timely communication about the changes outlined in this Regulatory Impact Statement and their impact, for example new requirements. There will also be internal communications and reinforced guidance for staff on when to assign additional activities.

Additional work to support implementation

343. These reforms sit within the context of a range of other work that will support the Government's objectives for the welfare system, including:

- implementation of the 'Welfare that Works' policy commitments targeted at Jobseekers who are under 25 years old
- an Employment Investment Strategy to support targeting of employment spend to the most effective interventions
- other operational changes, for example, a reset of work-focused case management cohorts.

Risks and mitigations

344. The key risk associated with these reforms is that they could introduce additional pressure on MSD's frontline workforce, with limited corresponding benefit. For example, if poorly designed, there is a risk that some of these activities could lead to a significant increase in compliance-focused activity at the expense of work-focused activity. Efforts to mitigate this risk have been considered throughout the design of options, for example by the role of specified activities in 26-week reapplications and the design of non-financial sanctions.

345. Given the short period of time expected between Cabinet's decision and the implementation of these non-regulatory policies, there is also a risk that the case managers and other MSD staff who regularly interact with clients will not be adequately prepared to deliver the changes. To mitigate this risk, MSD will deliver an internal communications strategy to ensure that case managers and other MSD staff who interact with clients on a regular basis are aware of the changes, are able to correctly implement them and are able to clearly articulate the changes to MSD clients.

Working across Government

346. Connecting across government is also important to ensuing that MSD clients have the best chance of getting into a job and retaining it for example:

- working with the Ministry of Health (Manatū Hauora) and other agencies to address clients with complex needs
- reducing the competition for lower skilled jobs for MSD clients by, for example, strengthening the labour market check for the Accredited Employer Work Visa scheme.

How will the new arrangements be monitored, evaluated, and reviewed?

347. MSD will use a combination of monitoring and evaluation to track trends and assess the impacts of the policy changes.

348. Monitoring reports will provide detailed information about the numbers and characteristics of clients engaging with and leaving the benefit system. They will also

provide timely indications of trends that warrant deeper understanding through further analysis and evaluation.

349. Regular monitoring reports will be produced that track the number and characteristics of beneficiaries, including:

- flows on-and-off benefits, and between benefit categories
- number of clients with work obligations and application of financial and non-financial sanctions
- how clients are tracking against expected outcomes, including employment (part-time and full-time where known), and movement to benefits closer to the labour market.

350. Evaluation will seek to identify impacts from the policy changes (including by sub-groups of clients where appropriate), assess how well policy changes have been introduced, and identify areas for improvement.

351. Information from both monitoring and evaluation will take time to flow through. Information from monitoring will be available within shorter timeframes, while evaluation findings will be available in the medium to longer term.

352. As a first step in identifying what monitoring and evaluation needs to be put in place, and timeframes for delivering this, MSD will prepare a monitoring and evaluation plan that will encompass the wider suite of welfare policy changes in addition to the introduction of the TLS and non-financial sanctions.

353. As non-financial sanctions are a new concept globally, their implementation and operationalisation will continue to be monitored after implementation. A review of both Money Management and CWE is planned for 12 months after implementation, to assess their impact and consider opportunities for improvements.

Appendix 1: Work test and work preparation obligations and their impacts

The intent of work test and work preparation obligations

1. Work obligations and sanctions encourage movement into work and reduction in benefit receipt through a "carrot-and-stick" approach, for example, by:

   - building up human capital through, for example, requiring participation in training or work experience programs or help through advice on job search strategies.

   - Using threat, warning, and imposition effects of sanctions to prompt job preparation, job search and increase the speed of the return to employment. 55 Threat effects refer to the general pressure on claimants to comply with requirements, whilst warning effects result from formal sanction warnings, where such provisions exist. Imposition effects occur when an applied sanction results in a loss of benefit income. In some cases, incentives are instead used as a reward for compliance, maintaining the same end result but with a more positive framing.

   - Reducing take up of benefit by discouraging eligible individuals from applying for benefits in the first place.[56]

2. Job search theory[57] implies that both the threat and the imposition of sanctions will increase exits to employment, by reducing the relative value of continuing to claim unemployment benefits. Sanctions increase the monetary and non-monetary costs of being unemployed, leading individuals to increase job search efforts and to lower wage expectations, thereby increasing their likelihood of finding employment. Formal warnings exert a similar effect by signalling that a sanction is likely to be enforced.[58] Importantly, however, actual effects are contingent on benefit design. Threat effects, for example, will be ineffective if they simply lead to a direct substitution of formal for informal job search methods.[59]

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55 Brian Krogh Graversen, BK., & van Ours, JC. (2008). How to help unemployed find jobs quickly: Experimental evidence from a mandatory activation program, Journal of Public Economics, Vol 92, Issues 10–11.

Bonoli, G. (2010). The political economy of active labour market policy. Working Papers on the Reconciliation of Work and Welfare in Europe, REC-WP 01/2010. Edinburgh: University of Edinburgh, Publication and Dissemination Centre (PUDISCwowe).

Eichhorst, W., & Konle-Seidl, R. (2008). Contingent convergence: a comparative analysis of activation policies, IZA Discussion Papers, No. 3905, Institute for the Study of Labor (IZA), Bonn.

Griggs, J., & Evans, M. (2010). Sanctions within Conditional Benefit Systems: A Review of the Evidence. Joseph Rowntree Foundation.

Immervoll, H., & Knotz, C. (2018). 'How demanding are activation requirements for jobseekers', OECD Social, Employment and Migration Working Papers No. 215, Paris: OECD.

56 Griggs, J., & Evans, M. (2010). ibid. Immervoll, H. and Knotz, C. (2018). ibid.

57 Abbring, JH., van den Berg, GJ., & van Ours, JC. (2005). The effect of unemployment insurance sanctions on the transition rate from unemployment to employment. *Economic Journal.* 2005; 115:602–630.

58 Lalive, R,, Zweimüller, J., & van Ours, JC. (2005). The effects of benefit sanctions on the duration of unemployment. *Journal of the European Economic Association.* 3(6):1386–1417.

59 Van den Berg, GJ., van der Klaauw, B. (2006). Counselling and monitoring of unemployed workers: theory and evidence from a controlled social experiment. *International Economic Review;* 47(3):895–936.

3. A stricter obligations and sanctions regime can result in significant savings in Crown expenditure on benefit receipt as more people move into work. However, the wider societal costs are less clear, with some suggestion that the overall cost to governments can be higher when stricter regimes are used, with respect to the impacts of material hardship and health problems for sanctioned recipients.[60]

Obligations and sanctions can have positive and negative impacts

4. International and New Zealand evidence around the use of obligations and sanctions suggests that they increase the rate at which clients exit benefits.[61] Labour market studies show evidence of a positive impact of sanctions on employment outcomes. This is consistent with the findings from existing reviews.[62] The size of this impact varies across studies.[63]

5. The impacts of work obligations are influenced by whether a work-first or human capital development approach is taken. Larger immediate gains are shown when clients are enrolled in labour force attachment programmes that require them to search for work. This is also reflected in the medium-term for clients with lower educational qualifications. However, in the long-term, programmes with a focus on human capital development, e.g. interview skills or CV preparation, have more significant impacts than a labour force attachment programme.

6. Obligations and sanctions can become less effective over time, e.g. if jobseekers lose motivation following unsuccessful job search.[64] Barriers to work, particularly for “disadvantaged” clients, can significantly restrict the positive impacts of work testing, obligations, and sanctioning.

7. However, sanctions were associated with a range of adverse impacts in terms of worsening job quality[65] and stability in the longer term,[66] along with higher rates of exits to non-employment or economic inactivity[67], and more rapid returns to benefit. Null or negative impacts were shown for earnings or income measures.

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60 In the New Zealand context this could see costs borne in other areas such as Student Support if people move off benefit and into education.

61 Ministry of Social Development. (2018). *Obligations and Sanctions Rapid Evidence Review Paper 2: Work-related Sanctions*

62 Griggs, J. & Evans, M. (2010) ibid; McVicar D. (2020). The impact of monitoring and sanctioning on unemployment exit and job-finding rates. IZA World of Labor. 49:2.

63 Ministry of Social Development. (2018). *Obligations and Sanctions Rapid Evidence Review Paper 2: Work-related Sanctions*.

64 Watts, B. & Fitzpatrick, S. (2018). Welfare Conditionality. London and New York: Routledge.

65 Pattaro S, et al. (2022). The Impacts of Benefit Sanctions: A Scoping Review of the Quantitative Research Evidence. Journal of Social Policy. 51(3):611-653.

66 Wolf, M. (2024). Persistent or temporary? Effects of social assistance benefit sanctions on employment quality, *Socio-Economic Review*.

67 Knotz, C. (2019). Why countries 'get tough on the work-shy': The role of adverse economic conditions. *Journal of Social Policy*, 48, 615–634.

van den Berg et al. (2021). The Impact of Sanctions for Young Welfare Recipients on Transitions to Work and Wages, and on Dropping Out. Economica, 89 (353): 1-28.

8. Sanctions may also impact on a wide range of areas including health,[68] debt and financial problems,[69] homelessness or crime, which in some circumstances can hinder the ability of a client to re-enter the work force.[70] There is evidence of negative impacts on child wellbeing.[71]

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68 One recent review which considered the impacts of reductions in social security across high-income countries found negative effects for mental health outcomes. See Simpson, J. et al. (2021). 'Effects of social security policy reforms on mental health and inequalities: a systematic review of observational studies in high-income countries', Social Science & Medicine, 113717.

69 Sanctions initiate or worsen pre-existing debts, rent and utility arrears and severely restrict expenditure on basic necessities, such as food, heating and electricity. See Dwyer, P. (2018). 'Punitive and ineffective: benefit sanctions within social security', Journal of Social Security Law, 25, 3, 142–157.

70 Griggs, J., & Evans, M. (2010). ibid; Watts, B., & Fitzpatrick, S. (2018). ibid.
Williams, E., (2020). Punitive welfare reform and claimant mental health: The impact of benefit sanctions on anxiety and depression. Soc Policy Adm. 2021;55:157–172.

71 Pattaro S, et al. (2022). ibid. Watson, S. (2015). Does Welfare Conditionality Reduce Democratic Participation? *Comparative Political Studies*, *48*(5), 645-686.

Appendix 2: Expiry and regrant of benefits and their impacts

International evidence to support reapplication processes

1. There is a growing body of evidence that shows that requiring clients to engage in mandatory activities like the 52-week reapplication process reduces benefit receipt (both in terms of volumes and duration). Studies have found that comparatively short job search programmes or compulsory interviews reduce the time clients spend on welfare.[72] [73]

2. However, an Australian study found that impacts are sensitive to local labour demand: the strategy had lower impacts for areas with higher unemployment rates.[74]

Impacts often occur before participation

3. The impact of these activities comes about in large part because of the obligation to participate. People often exit benefit before starting the activity (the referral or compliance effect). On the other hand, while these activities lead to a greater number of people exiting benefit, there is less evidence that participating in the compulsory activities itself improves participants' employment outcomes.[75]

Impacts may be short-term, and exits are not always into employment

4. International evidence from studies tracking the longer-term impacts of activation measures show that the early large impacts of activation programmes decrease over time.[76] In several of the US welfare-to-work evaluations the initially higher impact of job search focused mandatory activities decreased over time, while the impact of training plus job search showed better long-term results. However, these studies still conclude that work-first approaches are more cost-effective.[77]

5. Policy work undertaken on the 52-week reapplication process in 2019/2020 showed that when the benefit was cancelled as part of the reapplication process, in a large number of cases, clients applied for a new benefit shortly after. This indicates procedural denials, rather than being ineligible for benefit.

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72 Benus, J., Joesch, J., Johnson, T., & Klepinger, D. (1997). Evaluation of the Maryland Unemployment Insurance work search demonstration: Final report. Baltimore: Maryland Department of Labor.

73 Black et al (2003). Is the threat of reemployment services more effective than the services themselves? Evidence from random assignment in the UI system. American Economic Review, 93, 1313-1327.

74 Borland, J., & Tseng, Y. (2003). How do administrative arrangements affect exit from unemployment payments? The case of the job seeker diary in Australia (Melbourne Institute Working Paper No. No. 27/03). Melbourne: The University of Melbourne.

75 Black, D. A., Smith, J. A., Berger, M. C., & Noel, B. J. (2003). Is the threat of reemployment services more effective than the services themselves? Evidence from random assignment in the UI system. American Economic Review.

Dolton & O'Neill (2002), The Long-Run Effects of Unemployment Monitoring and Work-Search Programs: Experimental Evidence from the United Kingdom, Journal of Labor Economics, Vol. 20, No. 2. .

OECD. (2005). Labour market programmes and activation strategies: Evaluating the impacts. Employment outlook 2005 (pp. 173-208). Paris: OECD.

76 OECD. (2005). Ibid.

77 Greenberg, D., Deitch, V., & Hamilton, G. (2009). Welfare to work program benefits and costs: A synthesis of research. New York: Manpower Demonstration Research Corporation.

6. Activation strategies can encourage people to leave benefit but not necessarily into paid employment.[78]

Impact of activation measures on quality of jobs

7. Increasing the strength of activation may result in faster exits at the expense of suitability of a role to match the person's skills and experience. Quality of job matching is important as it affects the individual, and reduces the availability of suitable matches for other job seekers. The worst case would be having activation measures moving higher-skilled jobseekers into low-skilled jobs potentially generating skill shortages and limiting job openings for low-skilled job seekers.[79]

8. A more recent review of existing research finds that meetings with caseworkers have ex-post effects (resulting from participating in the meeting) and ex-ante effects (the referral or compliance effect resulting from being called to a meeting). The size and significance of the effects vary across studies, but effects are generally positive, and include positive effects on employment.[80]

9. Research also suggests that requiring more frequent benefit applications will contribute to people exiting from benefit and re-applying shortly after. A high administrative burden can also contribute to negative psychological impacts on applicants.[81]

78 Schoeni, R., & Blank, R. (2000). What has Welfare Reform Accomplished? Impacts on Welfare Participation, Employment, Income, Poverty, and Family Structure. NBER Working Paper No. 7627.

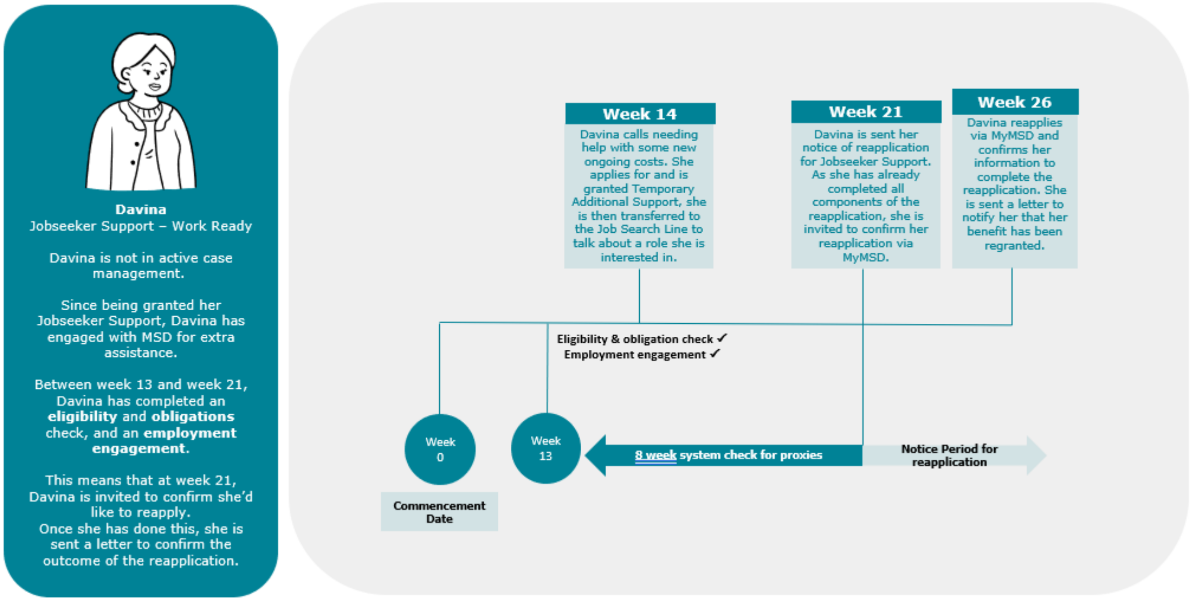
79 Ministry of Social Development. (2013). Impact of the 52-week Unemployment Benefit Reapplication Process Update 2: Technical report. Centre for Social Research and Evaluation, Ministry of Social Development, Wellington.

80 Maibom, J., Rosholm, M., & Svarer, M. (2017). Experimental Evidence on the Effects of Early Meetings and Activation. Scandinavian Journal of Economics, 119, 541-570. doi:10.1111/sjoe.12180.

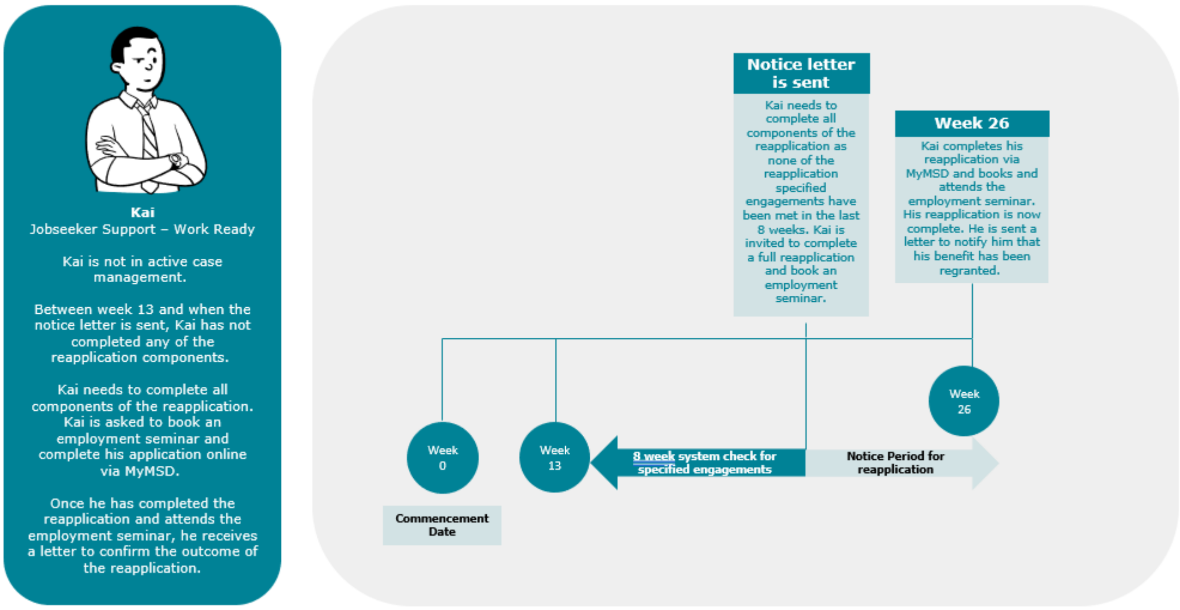
81 Baekgaard, M., Sass Mikkelsen, K., Krogh Madsen, J., & Christensen, J. (2021). Reducing Compliance Demands in Government Benefit Programs Improves the Psychological Well-Being of Target Group Members, Journal of Public Administration Research and Theory, 31(4): 806–821.

Appendix 3: Client scenarios for Option Three and Four (using specified activities)

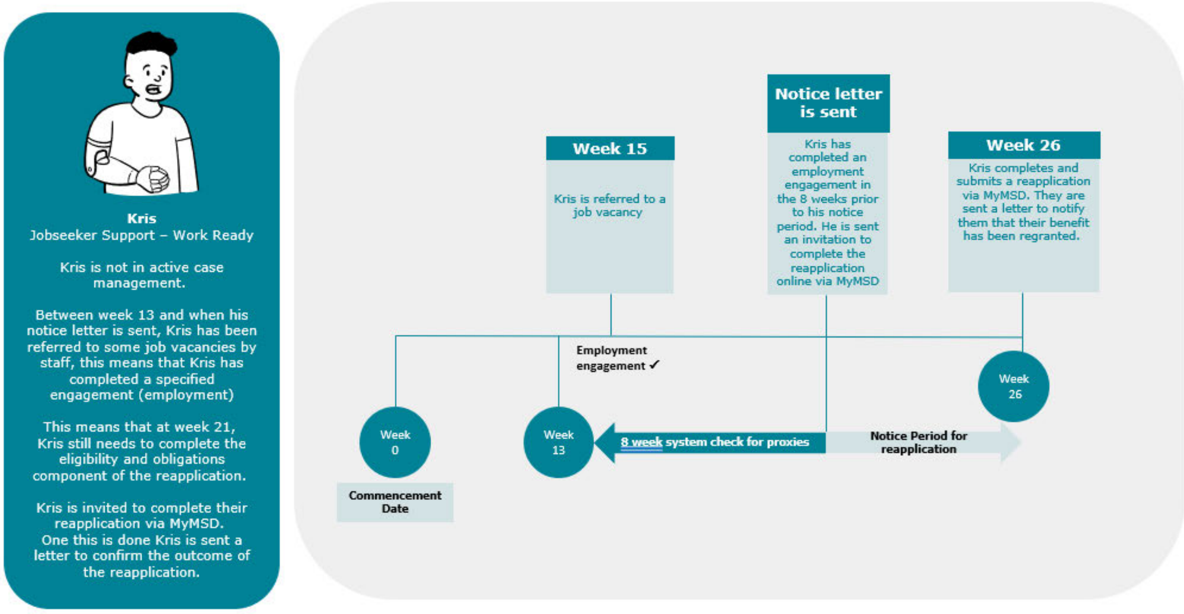
Future State: 26-week reapplication (confirm reapplication – all specified engagements met)



Future State: 26-week reapplication (full reapplication and book employment engagement – no specified engagements met)



Future State: 26-week reapplication (full reapplication – employment specified engagement met only)



Future State: 26-week reapplication (confirm reapplication and complete employment engagement – only eligibility specified engagement met)