

Regulatory Impact Statement

EXTENSION OF THE YOUTH SERVICE

MINISTRY OF SOCIAL DEVELOPMENT

FEBRUARY 2015

EXECUTIVE SUMMARY AND CONCLUSIONS

This regulatory impact analysis finds:

- Those who first go onto benefit as teenagers make up the majority – an estimated 75% – of the total liability of the welfare system.¹
- As a cohort, those who first receive the benefit when 18-19 make up an estimated 42% of this amount compared to 58% for those who first receive the benefit at age 16-17.²
- Some teenage beneficiaries are provided with intensive wraparound support from the Youth Service, but others – 18-19 year olds at risk of long-term benefit dependency; 19 year old teen parents; and 16-19 year olds receiving Supported Living Payment (SLP) but with risk factors similar to the aforementioned 18-19 year olds, are not.
- These three groups are likely to make up a significant proportion of the total liability of the welfare system, so there is the potential for a significant return on investment from investing early in them.
- Preliminary evidence suggests that the Youth Service is an effective intervention – it equips young beneficiaries with skills and education that reduce their risk of long-term benefit dependency. A very early preliminary estimate is that for every dollar spent on the Youth Service, the liability reduces by \$2.53.³
- The three new cohorts described above have similar risk factors to those currently in the Youth Service and it is likely that they will gain similar benefits from Youth Service interventions that the current groups do.
- The preferred option of this analysis is for:
 - a. “at risk” 18-19 year olds to remain on Jobseeker Support (JS), but receive the majority of Youth Service interventions;
 - b. 19 year old teen parents to receive the Young Parents Payment (YPP) and the complete wraparound Youth Service package;
 - c. “at risk” 16-19 year old SLP clients to “opt-in” to the Youth Service on a trial basis. They would remain on SLP but receive most Youth Service supports.
- The preferred option is likely to have significant positive impacts on average years spent on benefit, lifetime cost to the welfare system and socioeconomic outcomes for these new cohorts, but it is not yet possible to accurately quantify the extent of these impacts .
- The preferred option is workable – the administration and implementation costs (approximately \$25 million per annum), operational difficulties, required legislative change, and legal risks are not prohibitively onerous.

¹ Estimated based on the July 2014 valuation of the welfare system.

² This split is based on a client group aged 30-39, as we don't have the data for current clients older than this.

³ Based on net present value. It is still too early to give complete confidence to the calculations and some qualifications as to uncertainty are warranted. Some assumptions have been based on findings from the Youth Service Evaluation by iMSD, based on experiences in the first 18 months. Other assumptions have been gleaned from valuation results to date. The savings only take into account future benefit savings (they do not allow for potential savings in other parts of social services – e.g. health and corrections). Costs only relate to MSD costs for contracted services and some internal administration.

- An accurate liability assessment of the policy change is not possible at this stage, but a high-level analysis shows that only a small percentage reduction in lifetime costs is required to equate to the estimated operational costs of the preferred option.

AGENCY DISCLOSURE STATEMENT

Ideally this regulatory impact analysis would have measured the Net Present Value (NPV) of the predicted change in lifetime costs to the welfare system as a result of the various options, compared this to the operational costs and selected the option with the highest benefits relative to costs.

However, this type of analysis was not possible for several reasons:

- It is too early to accurately measure the reduction in average years on benefit and lifetime costs to the welfare system of those who have been in the Youth Service.
- It is not possible at this stage to isolate the effects of the Youth Service interventions on the above factors from other influences.
- It is difficult at this stage to accurately predict how well the impact the Youth Service is having on those it currently serves will translate to other groups.

Instead, this regulatory impact analysis proceeds by applying multi-criteria analysis to a variety of different options for extending the Youth Service to new cohorts, notes the likely impact on three broad criteria – “off-benefit” outcomes, socioeconomic outcomes and ease of implementation/administration, and then selects the package of interventions for each cohort that reflects the best balance between the criteria.

The preferred option is then evaluated (mostly qualitatively) against the status quo – revealing that it has significant advantages and that it is operationally workable.

It is not possible to apply a rigorous comparison of the expected changes in liability to the operational costs. However, a high-level analysis shows that only a relatively small percentage reduction in lifetime costs is required to equate to the estimated operational costs of the preferred option.

This RIS only contains a “high-level” consideration of alternative approaches (ie other than extending the Youth Service) to the problem. This is a result of MSD responding to the priorities outlined in the Government’s welfare manifesto, which explicitly proposed extending the Youth Service to new cohorts. Consideration of alternative approaches was therefore largely excluded from the policy development process. However, the high-level analysis provided in this RIS indicates that the preferred option is likely superior to obvious alternative approaches in any case.

No formal public consultation has taken place on the proposal to extend the Youth Service, but the original proposal to establish the Youth Service was widely consulted on, the proposed extension has been well signalled by Government and current Youth Service providers have expressed support for an extension.

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CONTEXT

MSD has been tasked with reducing the number of people on benefit and the long-term cost of benefit dependency

1. Over the course of its three terms in office, the current Government has committed to various goals to reduce benefit numbers and/or the total actuarial cost of the benefit system.
2. The Governments 2014 Welfare Manifesto contained challenging targets to reduce benefit numbers.
3. On 1 December 2014 Cabinet agreed to the following targets:
 - reduce the total number of people receiving benefit by 25 percent, from 295,000 in June 2014 to 220,000 by June 2018; and
 - reduce the long-term cost of benefit dependency by \$13 billion as measured by an accumulated Actuarial Release, by June 2018.⁴
4. MSD has been undertaking policy work and providing advice to Ministers on how best to meet these targets.

A new Investment Approach has been introduced

5. The Investment Approach uses actuarial tools to recognise and make transparent the full long-term costs to the welfare system of groups or segments of people within that system. An annual valuation is done to assess the impact of Work and Income activity on future liability and hold Work and Income accountable for its performance.
6. Annual valuations of the whole welfare system identify likely future trends in benefit receipt. The Investment Approach takes this information, breaks it down, and uses it to shape its performance management, its services and case management, and its work to identify new ways of doing things. The forward liability valuation is now a key part of MSD's monitoring and accountability arrangements.

A specialised Youth Service was established in 2012 to help young people at risk of long-term benefit dependency

7. The Youth Service is a policy intervention that uses the logic of the Investment Approach, ie by intervening (on a mandatory basis) at an early and formative stage in people's lives, it aims to reduce their risk of long-term benefit dependency and their resultant high lifetime costs to the welfare system.
8. The Youth Service is primarily a contracted service⁵ where community-based providers work with unemployed or disengaged young people and teen parents. Providers deliver wrap-around support aimed at improving educational and social outcomes. Around 14,000 young people are involved with the Youth Service and more than \$148 million in services are being targeted towards these groups over four years.
9. Those in the Youth Service who are eligible for a benefit receive either a Youth Payment (YP), or a Young Parent's Payment (YPP) depending on whether or not they have children.

⁴ CAB Min (14) 38/8 refers

⁵ Work and Income provides the service in regions where there are no providers

10. Young people receiving a youth support payment:

- have youth activity obligations (being in some form of education or training, attending a budgeting course and doing a parenting course if they have children) and can receive incentive payments where they meet these obligations;
- receive support from a Youth Coach – a “quasi-parent” who provides mentoring to help them meet their obligations, manage their money and provides help with other “life issues”;
- have their money managed by MSD; and
- receive additional support to cover childcare costs if they have children.

11. The following groups of vulnerable youth are currently supported:

- 16-17 year olds and 16-18 year old parents who are receiving financial assistance from the Government through the Youth Payment (YP) and Young Parent Payment (YPP) or those who are young partners of specified beneficiaries;⁶
- at risk 15-17 year olds who are not engaged in, or are at risk of not being engaged in, education, employment or training (NEETs).

12. Currently, young partners of specified beneficiaries also receive support from a Youth Service provider and have youth activity obligations. They can also receive additional support for childcare costs where they have children. However, as they are receiving a portion of a main benefit through their partner, they do not have their money managed and do not receive the incentive payments. They can opt-in to money management support which can range from the complete money management package to having their payments redirected to a utility supplier or landlord and receiving a payment card.

Initial findings suggest that the Youth Service is working well

13. The June 2014 Youth Service Evaluation Report finds that the Youth Service is having a positive impact on clients education outcomes and is helping them stay off-benefit.

14. In the first 12 months of enrolment in Youth Service, YP and YPP participants are more likely to gain NCEA credits than similar young beneficiaries before Youth Service was established⁷:

- nearly two-thirds (63 per cent) of YP participants increased the number of credits they held towards an NCEA level qualification in their first 12 months of participating in Youth Service, compared to one quarter (24 per cent) of their comparison group
- over two-fifths (43 per cent) of YPP participants increased their number of NCEA credits in their first 12 months, compared to one-fifth (20 per cent) of their comparison group.

15. YP and YPP participants are also more likely to meet the requirements⁸ of NCEA Level 2 within their first 12 months in Youth Service:

- Over this period, both YP and YPP were more likely to meet the requirements for NCEA Level 2 relative to similar young beneficiaries before Youth Service was established (a nine percentage point gain for YP, and a two percentage point gain for YPP).

6 A specified beneficiary is someone who is receiving the Emergency Benefit, Jobseeker Support, Supported Living Payment, or those who have elected to receive New Zealand Superannuation or Veterans Pension at the alternative relationship rate.

7 The evaluation findings are preliminary and some impacts may be due to uncontrolled differences in participant profiles (e.g. school achievement) or because of changing labour market conditions before and after Youth Service was introduced. A more rigorous analysis is being developed for the 2015 evaluation update. The comparison group for YP and YPP compares participants who started youth benefits between 2008 and 2012 and matched a small number of characteristics, e.g. being a teen parent and age at first benefit start date. No comparison group for NEET could be made as historical information is not available.

8 Data on NCEA qualifications was not available for this analysis. Instead we have counted young people as having ‘met the requirements’ for NCEA Level 2 when they had gained 80 NCEA Level 2 credits. However, NCEA L2 includes the achievement of literacy and numeracy standards, so this measure does not take this into account.

16. Early evidence suggests that Youth Payment participants spend less time on benefit in the medium-term:

- After one year, fewer YP participants are receiving a main benefit relative to similar young beneficiaries before the Youth Service was established. These findings suggest that the service is improving YP participant's prospects of moving off benefit in the medium term. We expect this is due to participants taking up employment or full-time tertiary training.⁹

17. Fewer YP recipients are transitioning to a working-age benefit.

- As a consequence of more YP participants exiting benefit after one year, the proportion of young people eligible for YP¹⁰ who transition from a youth benefit onto a working-age main benefit has fallen by eight percentage points¹¹ since Youth Service was implemented.

18. It is too early to assess the impact of the Youth Service for participants receiving YPP.

19. A very early preliminary estimate is that for every dollar spent on the Youth Service, the liability reduces by \$2.53.¹²

The Government's welfare manifesto outlined a goal of extending the Youth Service to other groups of people.

20. The manifesto commitment was to extend the Youth Service to 19 year old sole parents and 18-19 year old beneficiaries at risk of long-term benefit dependency.

21. MSD has subsequently provided advice on how to extend the Youth Service to these groups, as well as teen parents with partners and some 16-19 year old SLP clients on an opt-in trial basis.

9 Analysis of employment outcomes will be able to be undertaken once MSD has completed linking with the Integrated Data Infrastructure (IDI) at Statistics New Zealand (within 12 months).

10 Young people without children who are receiving a benefit from Work and Income.

11 Ie from 38 percent to 30 percent.

12 Based on net present value. It is still too early to give complete confidence to the calculations and some qualifications as to uncertainty are warranted. Some assumptions have been based on findings from the Youth Service Evaluation by iMSD, based on experiences in the first 18 months. Other assumptions have been gleaned from valuation results to date. The savings only take into account future benefit savings (they do not allow for potential savings in other parts of social services – e.g. health and corrections). Costs only relate to MSD costs for contracted services and some internal administration.

PROBLEM DEFINITION

Teenagers who go onto benefit are likely to cost the taxpayer a relatively large amount of money over their lifetimes

22. People who first go on a benefit as a teenager make up the majority – an estimated 75 percent – of the welfare systems future liability.¹³ There are two main reasons for this:
- i. People who go onto benefit as teenagers are likely to lack basic skills and education, making them at higher risk of long-term benefit dependency.
 - ii. Young people have more years ahead of them and therefore potential to spend more time on benefit.
23. International research¹⁴ shows that prolonged unemployment and spells of inactivity may permanently lower young people's employability, particularly if they are low-skilled and inexperienced, and especially if they remain unattached to the labour market for significant periods of time - the longer a person is on benefit, the more likely they are to stay on benefit.

They are also more likely to suffer negative socioeconomic outcomes

24. Persistent periods of low income from long term benefit dependency are associated with high levels of social deprivation.
25. Teen parents in particular face a variety of disadvantages throughout their life. In general, it will take longer for them to gain qualifications due to their parenting responsibilities. Their earnings potential can be hindered by their disrupted education, and by their apparent lack of work experience compared to other people the same age when these parents eventually enter the workforce.
26. Children of teen parents are at greater risk of a range of poor outcomes, and long term benefit dependency for teen parents has negative implications for their children.

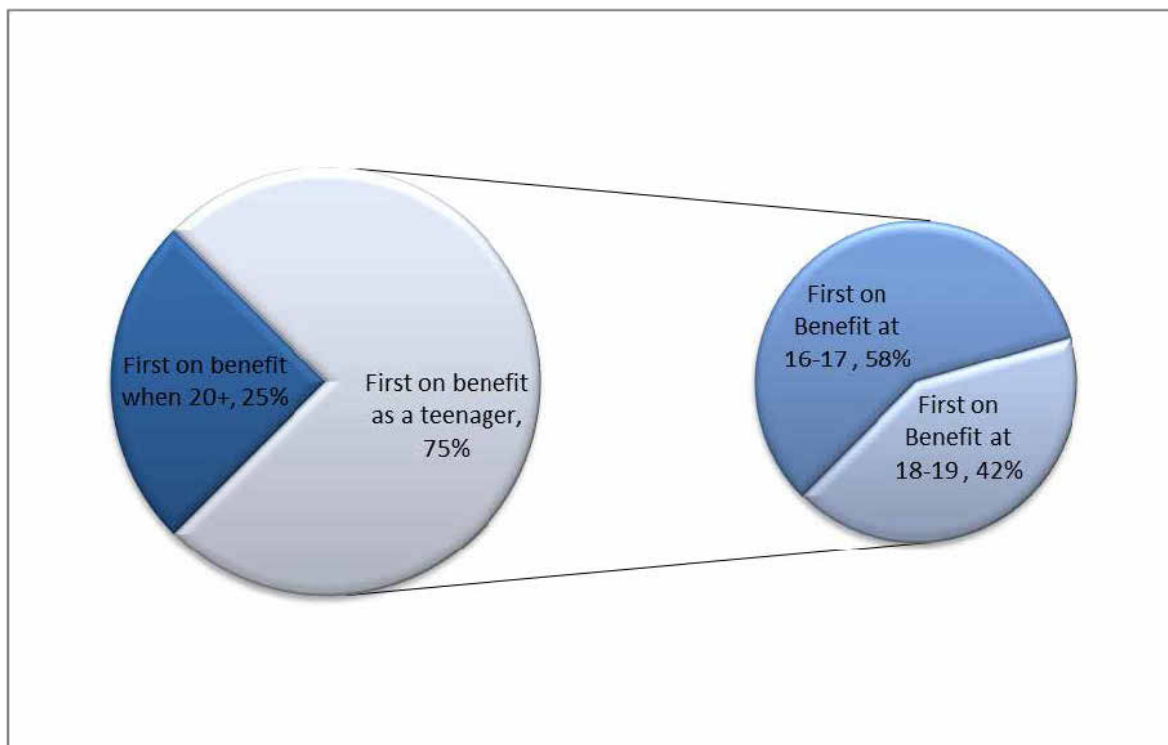
As a group, those who first go onto benefit as older teens cost the taxpayer almost as much as those who first receive benefit as younger teens...

27. Figure 1 below shows an indicative age split for those who first go on benefit as teenagers (making up an estimated 75% of the total liability). Those who first receive the benefit when 18-19 make up 42% of this amount compared to 58% for those who first receive the benefit at 16-17 years of age.

¹³ June 2014 Actuarial valuation of the welfare system.

¹⁴ OECD, Off to a good start: Jobs for youth, 2011, and Øivind Anti Nilsen and Katrine Holm Reiso, Scarring Effects of Unemployment, Institute for the Study of Labor, December 2011.

Figure 1: Proportion of liability of those who go first go on benefit as teenagers¹⁵



..but the welfare system does not currently provide older teens with the same level of intensive support

28. 16-17 year old beneficiaries without children and 16-18 year old parents are currently provided with a wraparound system of support from the Youth Service.

29. But the following groups do not receive similar intensive support:

- i. 18-19 year old JS clients
- ii. 19 year old parents
- iii. 16-19 year old SLP clients.

18-19 year old JS clients

30. Most unemployed 18 and 19 year olds without children on benefit currently receive Jobseeker Support.¹⁶ There are 6,952 of these clients. They have an average lifetime cost to the benefit system of \$114,636 per person and will spend an average of 13 years on benefit over their lifetime.¹⁷

31. A subset of 18-19 year old JS clients are at high risk of long-term benefit dependency. These clients have characteristics which suggest that they have been disadvantaged in some way, either through problems at home or motivational and learning problems resulting in poor qualification attainment.

32. Through risk modelling, MSD can determine which young beneficiaries have the highest risk, and would benefit the most from the Youth Service. Risk modelling is widely used to

¹⁵ The 75% figure is estimated based on the July 2014 valuation data. This split is based on a client group aged 30-39, as we don't have the data for current clients older than this.

¹⁶ Eligibility requirements for benefits, rates payable and the obligations for recipients are set out in the Social Security Act 1964.

¹⁷ Based on the 2014 actuarial valuation of the welfare system

target services to those most in need. Risk factors for long-term benefit dependency include, but are not limited to:

- low education levels;
- benefit history;
- previous contact with Child, Youth and Family; and
- parents or siblings with a benefit history.

33. Risk modelling takes into account all of these factors and calculates the risk of long-term benefit dependency of individuals with them.

34. MSD estimates that there are 2,794 18-19 year old JS clients who are “at risk” of long-term benefit dependency. Their average lifetime costs to the welfare system are expected to exceed that of all JS clients (\$114,636 per person).¹⁸

35. Table 1 (below) illustrates the proportion of 18-19 year olds on benefit who have these risk factors.

Table 1: Characteristics of teenagers at risk of long-term benefit dependency¹⁹

Characteristics	Proportion of total group	Estimated number of 18 and 19 year olds
Contact with Child, Youth and Family		
Had some contact with Child, Youth and Family	41%	2,639
Had some contact with Child, Youth and Family and has an NZQA qualification below Level 4	34%	2,157
Had some contact with Child, Youth and Family and has an NCEA qualification below Level 2	9%	576
Had some contact with Child, Youth and Family; has an NCEA qualification below Level 2 and family has benefit history	6%	402
Education level		
Education below NCEA level 2	20%	1,302
Family benefit history		
Caregiver has spent 20 per cent or more of past five years on benefit	46%	2,919
Caregiver has spent 80 per cent or more of past five years on benefit	27%	1,750
Caregiver has spent 20 per cent or more of past five years on benefit and client has an NCEA qualification below Level 2 and family benefit history	6%	402

36. These clients are also at higher-risk of negative socio-economic outcomes. For example, persistent periods of low income from long term benefit dependency are associated with high levels of social deprivation (financial stress, low standards of living, lack of essential items, and poor housing).

19 year old teen parents

37. The vast majority of 19 year old teen parents receive Sole Parent Support, although a small number (those with partners) receive JS. There are 1,199 19 year old sole parents. Their

¹⁸ The average liability of this sub-group has not been estimated.

¹⁹ Care must be taken when looking at the data on education level as information is missing in 24 per cent of cases. Some people have multiple risk factors, so will show up in more than one of the groups in the table. Therefore, the numbers do not add up to 100 per cent.

average lifetime cost to the welfare system is \$218,897 and they will spend an average of 18 years on benefit over their lifetime.²⁰

38. Teen parents are disproportionately represented in negative socio-economic statistics. Some reasons for this are that:
- Teen mothers face a variety of disadvantages throughout their life, and that, in general, it will take longer for them to gain qualifications due to their parenting responsibilities.
 - Teen parents' earnings potential can be hindered by their disrupted education, and by their apparent lack of work experience compared to other people the same age when these parents eventually enter the workforce.
39. Children of teen parents are also at greater risk of a range of poor outcomes. Almost all teen parents on benefit have children aged five years or younger – the early years are formative, good quality parenting, nutrition and provision of basic necessities can have a big impact on the socioeconomic outcomes of these children later in life. Long-term benefit dependency for teen parents has negative implications for their children.

At risk 16-19 year old SLP clients

40. 16-19 year old teens who are permanently and severely restricted in their ability to work due to the impact of a disability or health condition can receive Supported Living Payment. There are 2,497 of these clients. Their average lifetime costs to the benefit system are \$278,171 and they will spend an average of 28 years on benefit over their lifetime.²¹ This is the highest liability of any group in this age range.
41. All teen SLP clients (16-19 years) are at risk of being on benefit long-term as clients are assumed to be eligible for support for many years due to their disability or health condition.
42. However, a portion of young SLP clients have similar risk factors to other at risk cohorts referred to the Youth Service (as outlined above in the section on "at-risk" 18-19 year old JS clients). There is potentially a very large return on investment from providing additional support to help SLP clients with these risk factors move off benefit.

²⁰ Based on the 2014 actuarial valuation of the welfare system

²¹ Based on the 2014 actuarial valuation of the welfare system

OBJECTIVES

43. This section sets out:

- the objectives of the proposed youth service extension;
- the criteria by which the various elements of the package were evaluated; and
- provides some context for why these objectives and criteria have been used.

Context

44. As previously stated, over the course of its three terms in office, the current Government has committed to various goals to reduce benefit numbers and/or the total actuarial cost of the benefit system; most recently the revised BPS target.²²

Current objectives of the Youth Service

45. The overall objective of the Youth Service is to reduce long-term benefit dependency and improve socioeconomic outcomes for current and future teen beneficiaries, and their children. As education and training is key to improved outcomes for teens on benefit, the primary focus for this group is to be in education or training.

46. The August 2011 Cabinet decision, which provided the foundation for the Youth Service model, agreed that welfare assistance for 16 – 19 year olds should be redesigned to:

- discourage an early reliance on welfare receipt
- require teens to remain in education or training, or to be in work, in return for assistance
- ensure that they learn good budgeting skills so that they are better able to manage their money, and have the strategies to cope when resources are limited;
- support the development of their parenting skills (teen parents only)
- ensure that cost is not a barrier to children of teen parents accessing childcare
- support teens to access services including, where appropriate, family planning services, to address a range of needs that will enhance longer-term outcomes
- provide wrap-around support to improve social outcomes for teens and their children.

Objectives of the Youth Service extension

47. The objective of the proposal is to improve the lifetime socioeconomic outcomes of people who receive a benefit as a young person (and their children, if they have them) and in so doing reduce the average number of years they spend on benefit and their lifetime costs to the welfare system.

Criteria for assessment

48. Three primary criteria were used to inform the design of the Youth Service extension, to evaluate the proposal, and assess alternatives:

- i. The effect of the policy on “off-benefit outcomes” – ie average years on benefit and lifetime cost to the welfare system;
- ii. The effect on the long-run socioeconomic outcomes of people who first come onto benefit as teens;
- iii. Ease of implementation/administration.

These primary criteria can be broken down into sub-criteria as follows:

²² Refer to P6 of this RIS.

Table 2: Criteria for assessment

Primary Criteria	Explanation
1. Effect on “off-benefit outcomes”	The main measures of this are: <ul style="list-style-type: none"> · Average years on benefit · Lifetime cost to the welfare system This criterion also considers the effect on Government's BPS targets
2. Effect on socioeconomic outcomes of people who first come onto benefit as teens	This includes: <ul style="list-style-type: none"> · Effect on financial/material hardship · Effect on education outcomes – ie number of teens achieving NCEA Level 2 · Effect on child development
3. Ease of implementation and administration	This includes: <ul style="list-style-type: none"> · Implementation costs, including IT costs · Operational costs to Work and Income/other providers · Workability – ie how difficult is it to operationalise? · Effect on the complexity of the benefit system – to provide clarity for both clients and administrators · Extent of required legislative change · Risk of legal challenge

PRELIMINARY DESIGN CONSIDERATIONS

49. This section sets out some preliminary analysis required to understand the design of the options.
50. The Youth Service comprises a suite of individual interventions. Some of these interventions are likely to be effective for the new cohorts MSD proposes to include and some are not. However, some interventions cannot be applied independently of others – it is not as simple as merely applying all the interventions likely to be beneficial to the new cohorts.
51. Another consideration is that multi-criteria analysis – the mode of analysis used in this paper to evaluate the options, is best applied to options which are fully formed and mutually exclusive. Before we can get to that stage, we need a preliminary analysis to inform the decisions of what package of interventions to include in each option.
52. The analysis in this section brings these factors to light.

How applicable are the Youth Service interventions to the new cohorts?

53. One key consideration when applying the Youth Service model to the new cohorts of clients is that currently the Youth Service is a “total package” of support. When considering extending the Youth Service to new cohorts of clients, not all these interventions are likely to be as applicable or beneficial in reducing benefit dependency and improving socioeconomic outcomes.
54. A key difference between the current clients the Youth Service caters to and the new ones proposed for inclusion is that current Youth Service clients are younger and in need of greater skills and education to improve their socio-economic outcomes and reduce their risk of long-term benefit dependency. The Youth Service is therefore currently designed to provide this “education focus”. Some of the new cohorts by contrast will be better served by having a “work focus”.
55. The Table 3 below provides a description of each of the individual interventions that comprise the current Youth Service and examines their applicability to the new cohorts of clients proposed for inclusion in the Youth Service.

Table 3: Youth Service interventions and their applicability to new cohorts of clients:

Youth Service Feature	Description	“At risk” 18-19 year old JS clients	19 year old teen parents	“At risk” 16-19 year olds SLP clients – on an opt in basis
Youth Payment (YP)	YP is the benefit for Young people in the Youth Service with no children. Its rate is \$174.21 net per week. The abatement regime ²³ for YP recipients is aimed at encouraging study rather than full-time work. It incentivises only a limited amount of part-time work so recipients can concentrate on achieving qualifications. The threshold aligns with the student support system and allows around 15 hours of work a week at the adult minimum wage.	YP is designed to encourage study, but most at risk 18 and 19 year olds (and all 18-19 year olds not at risk) would be better suited having a work focus.	Not relevant to teens with children.	The benefit rate for SLP is higher than YP. Requiring SLP clients to move to a lower benefit rate would create losers.
Young Parent Payment (YPP)	YPP is the benefit for Young Parents in the Youth Service. Its rate is \$299.45 net per week for sole parents living alone ²⁴ . The abatement regime ²⁵ for YPP recipients is aimed at encouraging study rather than full-time work. It incentivises only a limited amount of part-time work so they can concentrate on achieving qualifications. The threshold aligns with the student support system and allows around 15 hours of work a week at the adult minimum wage.	YPP is for young parents – not applicable to this cohort.	Nineteen year old parents are likely to have similar education levels to 18 year old parents when they enter Youth Service – so a benefit designed for education outcomes is suitable. Education and training courses can also help address a young person’s social, emotional and confidence issues. ²⁶	The benefit rate for SLP is higher than YPP. Requiring SLP clients to move to a lower benefit rate would create losers.
Youth Coach	A youth coach takes a “quasi-parental” role by regularly engaging with a young person and providing mentoring and advice to improve the young person’s educational participation and achievement, financial literacy, parenting skills and other outcomes, such as health. The youth coach acts as a check in point to assess, monitor, track and discuss aspects of the young person’s life. Above all, they ensure the young person is undertaking their youth activities, meeting their obligations and managing their finances.	A youth coach is a relatively expensive intervention, but MSD considers it of great value to all these cohorts. Individuals across all these groups are likely to have experienced difficulties with mainstream education, are disengaged from school, and require intensive support with serious or complex issues which are often health and family related. ²⁷ As a result, it can often take several months to enrol a participant in an education or training activity. Youth coaches work with the young person to stabilise their living situation or other factors in their life and then assist them to attain the skills they need to avoid long-term benefit dependency.		
Youth Activity Obligations <ul style="list-style-type: none"> • Education • Budgeting • Parenting 	The youth activity obligations are: <ul style="list-style-type: none"> • to be in full-time education, approved training or work-based learning that leads towards an NCEA level 2 qualification (or equivalent or higher) • to participate in approved budgeting courses and, for YPP recipients, approved parenting courses. 	Evidence shows that obligations are effective in changing behaviour. Education and budgeting improve the lifetime outcomes for at risk clients. ²⁸ These activities assist clients to achieve better socioeconomic outcomes. The chance of being on benefit ²⁹ reduces with a higher qualification level and earnings and employment rates increase. The activities also encourage a range of other skills to be learned – eg parenting programmes help improve parenting at a critical time in their child’s development, when children are very young and particularly vulnerable. However, for some young people (eg those with NCEA level 2 or equivalent, or with previous work experience or skills) work is likely to a more appropriate obligation than education.		
Incentive Payments <ul style="list-style-type: none"> • Education • Budgeting • Parenting 	Where youth support payment recipients meet their obligations, they can also earn incentive payments: <ul style="list-style-type: none"> • \$10 a week for education – after having continuously attended and participated in either education, training or work-based learning for at least six calendar months • \$10 a week for budgeting – after having attended and participated in discussions on budgeting with their service provider for at least three continuous calendar months and attended and completed a budgeting programme • \$10 a week for parenting education (for teen parents only) – after having engaged with their service provider for at least three continuous calendar months; participated in and completed a parenting education programme; and met other social obligations. 	Young people respond well to incentive payments and are more likely to participate in activities when there is a financial incentive. Allowing at risk young people to receive the same incentive payments that currently exist as part of the Youth Service package would be a way of incentivising them to remain engaged in activities that are designed to improve their outcomes and reduce their risk of long-term benefit dependence. However, incentives have not previously been extended into the main benefit system and may not be appropriate for some activities (ie where young people have work, rather than education, obligations, or are engaged in short-term vocational activities).		

²³ Young people (and their partner if any) can earn up to \$210.88 gross per week before it will affect their benefit. A young person who receives over \$210.88 gross a week will have their benefit reduced by \$1.00 for every \$1.00 of income until they earn \$260.88 when they are no longer eligible for the payment.

²⁴ Those supported by parents receive \$139.37 net per week, while those with a partner receive \$174.21 net per week.

²⁵ Young people (and their partner if any) can earn up to \$210.88 gross per week before it will affect their benefit. A young person who receives over \$210.88 gross a week will have their benefit reduced by \$1.00 for every \$1.00 of income until they earn \$260.88 when they are no longer eligible for the payment.

²⁶ June 2014 Youth Service Evaluation Report

²⁷ For example, a review of YP grants by Work and Income found that 38 per cent of applicants were victims of domestic violence, 76 per cent suffered emotional neglect and 5 per cent were homeless or victims of sexual abuse. [Youth Service Evaluation Report – June 2014, P9]

²⁸ June 2014 Youth Service Evaluation Report P12.

²⁹ Based on the first seven years after study.

Sanctions	If those receiving support from the Youth Service fail to meet their obligations they can lose part or all of their benefit and any incentive payments they earn. A graduated sanction regime applies to youth support payment recipients, with the opportunity to re-comply within a five working day notice period. If the young person fails to re-comply initially their in-hand allowance and any incentives earned are suspended, increasing to their full benefit being suspended. If after four weeks the young person still has not complied, their benefit is cancelled. YPP recipients can have a maximum of 50 per cent of their payment sanctioned as children are involved.	Sanctions are an effective way of encouraging people to meet their obligations.	Sanctioning SLP clients is impossible under current legislative settings as they do not have work obligations.	
Money management	<p>Money management redirects a young person's youth support payment (and other financial assistance) in the following way:</p> <ul style="list-style-type: none"> · MSD pays a portion of the young person's payment directly to their accommodation and utility suppliers (redirection) · deductions under the Social Security Act 1964 or other legislation are paid out of the base payment (eg child support) · an in-hand allowance of up to \$50 per week is paid directly to the young person · the balance of the payment is loaded onto the young person's payment card each week to fund standard living costs (eg, food and groceries) to be purchased at approved suppliers. <p>YP and YPP recipients can earn the right to have their benefit payment, and any other financial assistance, paid directly to them where they can demonstrate continued compliance with their obligations and their service provider considers that they are financially competent. This takes at least six months.³⁰</p>	Money management is an expensive intervention. However, some 18-19 year olds are likely to be struggling to manage their money to their detriment. Money managing these clients would assist to mitigate this problem. This intervention, in combination with budgeting activities and working with a Youth coach may reduce the risk of falling into financial/material hardship in later life.	Caring for a child places greater pressure on teen parents financially and some will struggle to manage their money appropriately. This can impact on their child. Ensuring that they have the money management support will assist them to manage their money in the future. It allows a youth coach to be able to monitor how they are managing their money and provide them with advice and assistance where they are struggling. This intervention, in combination with budgeting activities and working with a youth coach may reduce the risk of falling into financial/material hardship in later life.	Money management is an expensive intervention. However, some at risk 16-19 year olds SLP clients are likely to be struggling to manage their money to their detriment. Money managing these clients would assist to mitigate this problem. This intervention, in combination with budgeting activities and working with a Youth coach may reduce the risk of falling into financial/material hardship in later life.
Guaranteed Childcare Assistance Payment (GCAP)	YPP recipients and young partners of specified beneficiaries also receive financial assistance to cover the majority of their childcare costs where their child is less than five years (up to 50 hours a week at \$6.00 an hour). This supports them to participate in their education and training obligation by reducing the barrier childcare costs can present. GCAP is paid up to 15 hours a week to provide financial assistance when a young parent is working. GCAP also provides assistance to other young parents who are not eligible for a benefit but are participating in full-time secondary education where they are aged between 16 and 18 years.	Not relevant to this group as they do not have children.	GCAP will support 19 year old parents to participate in their education and training obligation by reducing the barrier childcare costs can present.	Unlikely to apply to this cohort because very few have children, but they would be eligible if they were in fulltime secondary education and aged 16-18.

³⁰ YP and YPP recipients can opt out of money management in situations where they would qualify for a main benefit due to their age but choose to remain on YP or YPP to complete their study.

Dependencies between the interventions

56. Many of the Youth Service interventions are mutually reinforcing – eg incentive payments and obligations go together to encourage desirable behaviour – and the analysis in Table 3 illustrates that most of the cohorts would benefit from most of the interventions most of the time. The major exception is 18-19 year old JS clients who are not assessed as at risk. This subgroup is unlikely to benefit as much from the Youth Service interventions because they do not have the same risk factors as the other groups.
57. However, it is not as simple as merely applying all the interventions likely to be beneficial to the new cohorts. Some of the features of the Youth Service and existing benefits and interventions do not work well together, or can only be applied together with considerable difficulty. The main considerations are:
- Fulltime work availability obligations do not fit well with those on benefits other than JS – ie SPS, SLP, YP and YPP – because the abatement regimes associated with these benefits discourage fulltime work;
 - Giving an education obligation to those who remain on JS does not work well either, as an obligation to be in fulltime education is at odds with the current JS obligation of being available for and seeking fulltime work. However, where study up to NCEA Level 2 is likely to result in the best long-run outcomes, JS work obligations could be deferred to allow study on work preparation obligations. This would still leave them on a benefit with an abatement regime designed to encourage fulltime work rather than study, but this is a very minor problem;
 - Youth coaches do not currently assist people to find work. Providing a youth coach to those with a fulltime work obligation would require a change in role for youth coaches to allow them to assist those with work obligations;
 - Giving obligations to SLP clients is contrary to current legislative settings and would be inappropriate *in some cases* due to their disability or health condition.

OPTIONS

58. This section sets out the different packages of Youth Service interventions MSD developed for each of the new cohorts. The design of these different packages was informed by the considerations in the previous section, ie an analysis of which aspects of the Youth Service the new cohorts were likely to benefit from and the interdependencies between the different aspects.
59. The main consideration underlying the differences between these options is whether it is better to leave the group on the main benefit – with the associated abatement regime designed to incentivise work – and then apply the various Youth Service interventions to them; or to move them onto YP or YPP and give them the wraparound service that incentivises study and a small amount of part-time work.

60. Table 4: Options for extending the Youth Service to 18-19 year olds

Options	Description
Status quo: All 18-19 year olds remain on JS and are streamed into Work and Income case management	<ul style="list-style-type: none"> · All 18 and 19 year olds continue to receive Jobseeker Support · All 18 and 19 year olds have a work obligation · 18 and 19 year olds are streamed into various types of Work and Income case management, ie: Work Focused Case Management, Work Search Support or General Case Management · 18 and 19 year olds are referred to training where this is appropriate for them
Option 1: All 18-19 year olds receive YP. Those “at risk” receive the complete Youth Service package, all others receive some supports	<ul style="list-style-type: none"> · All 18 and 19 year olds receive the Youth Payment · “At risk” 18 and 19 year olds would receive the complete wrap around support of the Youth Service: <ul style="list-style-type: none"> ○ case management support from Youth Service providers ○ youth activity obligations (education and budgeting) ○ financial incentives when they meet their obligations ○ money management (for at least six months) · 18 and 19 year olds not at risk will: <ul style="list-style-type: none"> ○ receive case management support from Work and Income ○ continue to have a work obligation
Option 2: “At risk” 18-19 year olds receive the complete Youth Service package, all other 18-19 year olds receive JS and some supports	<p>This option separates 18 and 19 year olds into those at risk and those not at risk. Only those at risk would be eligible for YP. Benefit eligibility would be based on risk profiling or specific risk factors.</p> <ul style="list-style-type: none"> · At risk 18 and 19 year olds would receive the Youth Payment and the complete wrap around support, ie: <ul style="list-style-type: none"> ○ case management support from Youth Service providers ○ youth activity obligations (education and budgeting) ○ financial incentives when they meet their obligations ○ money management (for at least six months) · All other 18 and 19 year olds remain on Jobseeker Support and: <ul style="list-style-type: none"> ○ receive case management support from Work and Income ○ continue to have a work obligation
Option 2a: At risk 18-19 year olds with less than NCEA level 2 or equivalent receive YP; other 18-19 year olds receive JS and those at risk are referred to the Youth Service	<ul style="list-style-type: none"> · At risk 18 and 19 year olds who do not have NCEA level 2 receive Youth Payment and the complete wraparound Youth Service package · At risk 18 and 19 year olds who have NCEA level 2 but have other risk factors receive Jobseeker Support and: <ul style="list-style-type: none"> ○ support from a youth coach ○ have work obligations ○ have a budgeting obligation ○ sanctions that align with their obligations ○ financial incentives when they meet their budgeting obligation ○ money management · Other 18 and 19 year olds receive Jobseeker Support and: <ul style="list-style-type: none"> ○ receive case management support from Work and Income ○ continue to have a work obligation
Option 3: All 18-19 year olds remain on JS and receive most aspects of the Youth Service	<ul style="list-style-type: none"> · All 18 and 19 year olds continue to receive Jobseeker Support · At risk 18-19 year olds would receive: <ul style="list-style-type: none"> ○ support form a youth coach ○ work obligations in most instances, with discretion for those without NCEA Level 2 to have their work obligations deferred so they can study on work preparation obligations. Work and Income will consider if studying will improve a client’s work prospects and existing training programmes are not suitable ○ a budgeting obligation ○ sanctions that align with their obligations ○ financial incentives when they meet their obligations for education and budgeting ○ money management · 18 and 19 year olds not at risk will: <ul style="list-style-type: none"> ○ receive case management support from Work and Income ○ continue to have a work obligation

Table 5: Options for extending the Youth Service to 19 year old teen parents³¹

Option	Features
Status quo: 19 year old parents remain on a main benefit	<ul style="list-style-type: none"> · 19 year old parents receive Sole Parent Support where they are single (90% of cohort), and JS or SLP where they are partnered. · They have the associated obligations and sanctions that focus on work preparation for the primary carer until their youngest child is five years old · 19 year old parents would receive case management support from Work and Income
Option 1: All teen parents aged 19 receive the complete Youth Service Package	<ul style="list-style-type: none"> · 19 year old teen parents would be eligible for the Young Parent Payment (both single and partnered³²) and will: <ul style="list-style-type: none"> ○ receive wrap around support from the Youth Service ○ be expected to meet youth activity obligations (education, budgeting and parenting) ○ be paid financial incentives when they meet their obligations ○ be money managed · A small group (currently 96) of young partners of older beneficiaries³³ will be treated in the same way as other teen parents but continue to receive a share of their partner's benefit. That is, they will: <ul style="list-style-type: none"> ○ receive wrap around support from the Youth Service ○ be expected to meet youth activity obligations (education, budgeting and parenting) ○ be paid financial incentives when they meet their obligations, but ○ will not be money managed
Option 2: Teen parents aged 19 remain on a main benefit but receive some of the supports from the Youth Service	<ul style="list-style-type: none"> · All 19 year old teen parents remain on a main benefit with the associated obligations and sanctions that focus on work preparation · 19 year old parents would receive coaching support from the Youth Service providers and receive other supports, such as being required to undertake a budgeting or parenting programme · They would not receive an incentive payment for undertaking a budgeting or parenting programme and it would not be an automatic requirement for all teen parents to undertake these activities · They would not be money managed

31 Another option would be to for teen parents aged 19 remain on a main benefit but receive all the Youth Service supports except Youth Activity obligations. This option was not considered in detail because it offers no advantages over Option 1, but has significant implementation and administration difficulties.

32 Currently, 23 are in a relationship with another 19 year old or younger.

33 This is a specified beneficiary who is older than 20 years. A specified beneficiary is someone who is receiving the Emergency Benefit, Jobseeker Support, Supported Living Payment, or those who have elected to receive New Zealand Superannuation or Veterans Pension at the alternative relationship rate.

Table 6: Opt-in trial for “at risk” 16-19 year old SLP clients

Option	Features
Status quo: Young SLP clients receive case management from Work and Income	<ul style="list-style-type: none"> · All 16-19 year old SLP clients continue to receive SLP · SLP receive case management support from Work and Income · They receive other supports available to SLP clients through Work and Income
Option 1: An “opt-in” trial for SLP clients judged to be at risk. These clients would remain on SLP but receive some of the supports of the Youth Service	<p>There is already a voluntary trial underway for young SLP clients aged 16-29 to be better supported to find and remain in work. Included in the existing trial are some 16-19 year olds who have risk factors that indicate they may benefit from the Youth Service. These clients would be allowed to “opt-in” to receive some Youth Service supports. While it is too early in the young SLP trial to know what rates clients are opting in at, it is estimated that only 10-15 per cent of the eligible pool of clients may opt in (100-150).</p> <p>Those who opt-in will largely be treated the same as their non-disabled peers. The key difference for the young SLP cohort is they do not have work obligations set by legislation, accordingly, the Ministry will work with them on an opt-in basis.</p> <ul style="list-style-type: none"> · All 16-19 year old SLP clients continue to receive SLP · Those 16-19 year old SLP clients assessed as “at risk” would be able to opt-in to receive the following supports from the Youth Service: <ul style="list-style-type: none"> ○ a youth coach ○ financial incentives ○ money management (for at least six months) · 16-19 year olds that opted in to the trial would not have: <ul style="list-style-type: none"> ○ obligations ○ sanctions

ANALYSIS OF YOUTH SERVICE EXTENSION OPTIONS

61. This section contains analyses of each of the options outlined in the previous section. The options are analysed by cohort. Multi-criteria analysis is applied, using the criteria outlined in the objectives section.

Summary of analysis

62. 18-19 year old JS clients without children:

- Option 1 would unnecessarily place all 18-19 year olds onto YP, a benefit that is geared toward facilitating study when most of this cohort would be better placed being assisted and incentivised to find work.
- Options 2 and 2a make the most sense conceptually (option 2a moreso). The Youth Service is currently geared toward providing clients with the education and skills they need to avoid long-term benefit dependency, and these options separate the 18-19 year old cohort into those needing this education focus – and apply the full Youth Service package to them – and those needing a work-focus – and apply selected parts of the Youth Service to them when it will be beneficial.
- However, Options 2 and 2a involve significant implementation and administration problems.
- Option 3 still allows the “at risk” cohort of 18-19 year olds to benefit from the majority of beneficial Youth Service interventions whilst remaining on JS. This avoids the implementation and administration difficulties of Options 2 and 2a. As such, this option is preferred.

63. 19 year old parents:

- 19 year old parents have very similar problems to 16-18 year old parents currently in the Youth Service. Providing them with the same package of wraparound support (Option 1) is likely to have the biggest impact on their socioeconomic outcomes and long-term costs to the welfare system.
- Option 2 has lower operational costs.
- Option 1 is preferred.

64. “At-risk” 16-19 year old SLP clients:

- This cohort shares the same risk factors as the groups above and it is likely they will benefit and their long-term cost to the welfare system will be reduced as a result of Youth Service interventions.
- Historically, MSD has not proactively engaged with SLP clients and they have not been given access to the tools and supports made available to other clients. However, some young SLP clients want support to engage in training or employment. The trial offers MSD the chance to learn more about this cohort and use the information to develop more effective interventions in future.

Multi-criteria analysis of options for each cohort

Table 7: Analysis of options for 18-19 year old JS clients

Options	Impact on “off-benefit outcomes”	Impact on long-term socioeconomic outcomes for clients	Ease of implementation and administration
Status quo: All JS clients remain on this benefit and receive case management support from Work and Income	<ul style="list-style-type: none"> There are 6,952 of these clients. They have an average lifetime cost to the benefit system of \$114,636 per person and will spend an average of 13 years on benefit over their lifetime. MSD estimates that 2,794 of these clients are at risk of long-term benefit dependency. Their average lifetime cost to the welfare system is expected to exceed that of all JS clients. These clients currently receive Work and Income case management. More intensive support can be provided through work focussed case management, but an education focus is not available. 	<ul style="list-style-type: none"> This group is at high risk of negative socio-economic outcomes. Persistent periods of low income from long term benefit dependency are associated with high levels of social deprivation (financial stress, low standards of living, lack of essential items, and poor housing). 	<ul style="list-style-type: none"> No changes required.
Option 1: All 18-19 year olds receive YP. Those “at risk” receive the complete Youth Service package, all others receive case management from Work and Income and a work obligation	<ul style="list-style-type: none"> Would likely improve off-benefit outcomes compared to the status quo, but not as much as the other options. The Youth Service supports would be effective for the “at risk” cohort, but most 18-19 year olds would be better suited with work rather than study incentives. The YP abatement regime works against this. 	<ul style="list-style-type: none"> Likely to have a significant positive impact on the long-run socioeconomic outcomes for the “at risk” cohort as they are likely to benefit from the wraparound support provided by the Youth Service. However, the socioeconomic outcomes of most 18-19 year olds would be better served by helping them into work. YP is a sub-optimal instrument for incentivising this. 	<ul style="list-style-type: none"> Would require changes to the Social Security Act 1964 to increase the age of eligibility for Youth Payment from 17 years to 19 years and widen YP settings.
Option 2: “At risk” 18-19 year olds receive the complete Youth Service package, all other 18-19 year olds receive JS and some supports	<ul style="list-style-type: none"> Would have a greater impact on off-benefit outcomes than Option 1 (above), because while the “at risk” cohort will be treated the same as Option 1 (above), the majority, who are not at risk will remain on JS, with work obligations and an abatement regime that incentivises full-time work – a better outcome for this group. Treats <i>at risk</i> 18 and 19 year olds as a homogenous group who would all benefit from an education outcome – an education focus for some and a work focus for others would have a greater impact. 	<ul style="list-style-type: none"> Likely to have a significant positive impact on the long-run socioeconomic outcomes for the “at risk” cohort (as per Option 1 above) as they are likely to benefit from the wraparound support provided by the Youth Service. Those not at risk would be better served by this option than option 1, because of the JS abatement regime which encourages fulltime work. Some at risk 18-19 year olds would be better off with a work focus. 	<ul style="list-style-type: none"> Operationally complex for Work and Income and confusing for young people – risk modelling uses information gathered in benefit application and cannot happen until benefit has been granted - young people would therefore have to be granted JS initially with the at-risk group transferred to YP once they are identified through the risk modelling. Poses legal risks as benefit eligibility would be determined by risk factors. Services would be provided based on benefit type rather than need, which is inconsistent with the previous set of welfare reforms.
Option 2a: At risk 18-19 year olds with less than NCEA level 2 or equivalent receive YP; other 18-19 year olds receive JS and those at risk are referred to the Youth Service	<ul style="list-style-type: none"> Would likely result in the greatest positive impact on off-benefit outcomes. It aligns the benefit type received with whether the client needs an education or work focus and the benefit provides them with the appropriate incentives. At risk 18-19 year olds with a work focus would still benefit from most of the supports of the Youth Service while remaining on JS and being incentivised to find work. 	<ul style="list-style-type: none"> Likely to have the greatest positive impact on long-run socioeconomic outcomes. It most accurately aligns the support and incentives with the needs of the various groups. 	<ul style="list-style-type: none"> This option has similar implementation and administration difficulties as option 2 (above).
Option 3: All 18-19 year olds remain on JS and receive most aspects of the Youth Service PREFERRED OPTION	<ul style="list-style-type: none"> Will likely have a superior impact on off-benefit outcomes than Option 1, but may have a slightly inferior impact than options 2 and 2a above – because under option 3, everyone is on JS and is incentivised by the abatement regime to work rather than study, which is not the best outcome for a small proportion of at risk 18-19 year olds. However, this is likely to make a negligible real-world difference. 	<ul style="list-style-type: none"> Will have a greater impact on socioeconomic outcomes than Option 1 and would be very close to options 2 and 2a (although arguably slightly inferior) – because under option 3, everyone is on JS and is incentivised by the abatement regime to work rather than study, which is not the best outcome for a small proportion of at risk 18-19 year olds. 	<ul style="list-style-type: none"> Simplest in terms of implementation and administration as it does not involve any changes to benefit type or eligibility criteria. It only requires small adjustments to the settings to allow some to study. Avoids the significant implementation and administration problems outlined for options 2 and 2a (above). Provides certainty about entitlement to a benefit as there is no need to develop and justify risk-based eligibility criteria. Currently, a person who is a full-time student is ineligible for JS, so the Act will need to be amended to allow a client to have a deferral from work availability obligations, so they can study on work preparation obligations. Changes will also have to be made to allow the other Youth Service supports to be provided. Involves change to the role of the youth coach, who will now help some people meet work obligations.

Table 8: Analysis of options for 19 year old teen parents

Options	Impact on “off-benefit outcomes”	Impact on long-term socioeconomic outcomes for clients	Ease of implementation and administration
Status quo: 19 year old parents remain on a main benefit	<ul style="list-style-type: none"> There are 1,199 19 year old beneficiaries with children. Their average lifetime cost to the welfare system is \$218,897. Most young parents currently have work preparation obligations. These can require study, but can be as limited as preparing a CV. 	<ul style="list-style-type: none"> Teen parents are disproportionately represented in negative socio-economic statistics. They face a variety of disadvantages throughout their life: <ul style="list-style-type: none"> It takes them longer to gain qualifications due to their parenting responsibilities. Their earnings potential can be hindered by their disrupted education, and by their apparent lack of work experience compared to other people the same age when they eventually enter the workforce. Children of teen parents are also at greater risk of a range of poor outcomes. 	<ul style="list-style-type: none"> No changes required
Option 1: All teen parents aged 19 receive the complete Youth Service Package PREFERRED OPTION	<ul style="list-style-type: none"> Is likely to have the greatest impact on expected lifetime average years spent on benefit and lifetime costs to the welfare system because 19 year old teen parents are more likely to benefit from a focus on education and the associated obligations and incentives than work - the chance of being on benefit reduces the higher the qualification level and earnings and employment rates increase. 	<ul style="list-style-type: none"> Is likely to have the greatest impact on long-run socioeconomic outcomes for this group than Option 2 because: <ul style="list-style-type: none"> the education focus better equips them for future life – higher education outcomes are correlated with less socioeconomic problems caring for a child places greater pressure on teen parents financially and some will struggle to manage their money, impacting on their child. Ensuring that they are money managed assists them to manage their money better in the present and alongside budgeting obligations and working with the youth coach allows them to gain the skills to manage it better in future. As a package, the other supports are also likely to improve their socioeconomic outcomes. 	<ul style="list-style-type: none"> Has higher operational costs than Option 2. These costs are due to: <ul style="list-style-type: none"> the operational cost of Youth Service wrap around support being higher than for Work and Income case management financial incentives money management is costly for Work and Income to administer and requires more staff Will require changes to the Social Security Act 1964.
Option 2: Teen parents aged 19 remain on a main benefit but receive some of the supports from the Youth Service	<ul style="list-style-type: none"> This option is likely to have less of a positive impact than Option 1 on expected lifetime average years spent on benefit and lifetime costs to the welfare system (although it will still have a positive impact relevant to the status quo). The reason for this is that 19 year old parents would remain on the main benefit and have work preparation obligations, no incentive payments and no money management. MSD considers all these interventions effective in improving clients’ chances of remaining off-benefit in the long-run. 	<ul style="list-style-type: none"> This option is likely to have less positive outcomes on socioeconomic outcomes for teen parents than Option 1, although it will still have significant positive impacts compared to the status quo. This option gives teen parents a work preparation rather than education focus. Higher education levels are correlated with better socioeconomic outcomes Teen parents are not money managed under this option, so they are less likely to learn the financial skills they need for later life. The children of teen parents will be less well off than they would be under Option 1 (although they would still benefit relative to the status quo). 	<ul style="list-style-type: none"> Lower operational costs than Option 1 because these parents would not receive financial incentives or be money managed. Does not require legislative change - teen parents would be referred to the Youth Service as part of their existing work preparation obligations.

Table 9: Analysis of options for 16-19 year old SLP clients

Options	Impact on “off-benefit outcomes”	Impact on long-term socioeconomic outcomes for clients	Ease of implementation and administration
Status quo: Young SLP clients receive case management from Work and Income	<ul style="list-style-type: none"> There are 2,497 of these clients. Their average lifetime costs to the benefit system are \$278,171. This is the highest liability of any group in this age range. All teen SLP clients (16-19 years) are at risk of being on benefit long-term as clients are assumed to be eligible for support for many years due to their disability or health condition. However, a portion of young SLP clients have similar risk factors to other at risk cohorts referred to the Youth Service. MSD is not actively working with this group. 	<ul style="list-style-type: none"> These clients suffer from a disability or health condition and are at high-risk of negative socioeconomic outcomes. 	<ul style="list-style-type: none"> No changes required.
Option 1: An “opt-in” trial for SLP clients judged to be at risk. These clients would remain on SLP but receive some of the supports of the Youth Service PREFERRED OPTION	<ul style="list-style-type: none"> This option is likely to have a positive impact on average years spent on benefit and lifetime costs to the welfare system, compared to the status quo, for those who opt in. This is because: <ul style="list-style-type: none"> This cohort of clients shares the same risk factors as others in, and proposed for inclusion in the Youth Service. They are therefore likely to benefit from similar interventions. The return on investment (ROI) for this group is likely to be high, with a lower risk of non-compliance, as participants choose to opt-in and are provided incentives. 	<ul style="list-style-type: none"> This option is likely to have a positive impact on the socioeconomic outcomes of those who opt in. Without the right support, a disability or health condition can seriously impact on a person’s ability to work and SLP clients are likely to be very disadvantaged if at risk. Any gains in terms of basic skills and education could have a big impact on their life outcomes. Factors such as motivation, confidence and support through case management provided by the Youth Service are critical determinants in a person’s ability to attach to the labour market, or tertiary education system. 	<ul style="list-style-type: none"> Relatively simple implementation: <ul style="list-style-type: none"> as clients will be identified and referred to the Youth Service through existing trial mechanisms due to the opt-in nature and working with small number of clients in areas of known provider capacity and capability. Operational costs are likely to be relatively low.

PREFERRED OPTION

65. The table below sets out the combination of preferred options for each cohort from the preceding analysis. It shows which aspects of the Youth Service will be provided to each new cohort proposed for inclusion.

Table 10: Preferred option³⁴

YOUTH SERVICE COMPONENTS	CURRENT		PROPOSED		
	16 – 17 year old without children	16 – 18 year old parent on benefit	At risk 18 or 19 year olds without children	19 year old parents on benefit	At risk 16 – 19 year old Supported Living Payment clients (if opt-in)
Benefit	Youth Payment	Young Parent Payment	Jobseeker Support	Young Parent Payment	Supported Living Payment
Youth coach	ü	ü	ü	ü	ü
Incentive payments	ü	ü	ü	ü	ü
Money management support through Service Provider	ü	ü	ü	ü	ü
OBLIGATIONS					
Be seeking, available, able and willing, and have taken reasonable steps to find work			ü ³⁵		
Be in or available for education, approved training or work-based learning - to at least NCEA L2 or equivalent	ü	ü		ü	
Complete a budgeting education programme and other budgeting requirements	ü	ü	ü	ü	
Complete a parenting programme and other parenting requirements		ü		ü	
Guaranteed Childcare Assistance Payment		ü		ü	ü (parents)

³⁴ This table excludes the NEET group.

³⁵ It is proposed that some “at risk” 18-19 year olds without NCEA Level 2 will be able to have their work obligations deferred so they can study.

ALTERNATIVE APPROACHES

66. The aim of extending the Youth Service was well signalled by the Government. MSD's policy development process has therefore largely excluded consideration of alternative approaches to the problem outlined in the problem definition.
67. Despite this, this section includes a brief consideration of some alternative approaches to the problem:
- i. An expansion of intensive work-focussed case management;
 - ii. Extending the Youth Service to even older cohorts of clients; and
 - iii. Trialling the extension, rather than implementing it in full.

Expanding Work Focussed Case Management (WFCM)

68. One feasible alternative to extending the Youth Service to the new cohorts would be to expand WFCM delivered by Work and Income instead.
69. The intention of WFCM is to offer an intensive level of case management support to clients who could potentially be in receipt of benefit for a long period of time without access to this elevated level of intervention.³⁶ Since its inception, the results of WFCM indicate that it is beneficial to clients in staircasing towards an exit off benefit, with annual data showing that clients remain on benefit for less time than similar clients in a less intensive service stream. Work is currently under way to evaluate the effectiveness of WFCM in comparison to the outcomes being achieved by the Youth Service.
70. However, this intervention is likely to be less effective for the cohorts identified for inclusion in the Youth Service because:
- It is work-focussed rather than skills focussed – equipping people with education and skills is likely to do more to reduce their chances of long-term benefit dependency and improve their socioeconomic outcomes.
 - Work focussed case managers do not necessarily have a background in youth issues and social work. Many of the “at risk” young people in the cohorts proposed for inclusion in the Youth Service are likely to have experienced difficulties with mainstream education, are disengaged from school, and require intensive support with serious or complex issues which are often health and family related.³⁷ Youth providers and Youth coaches are more qualified to deal with these issues.
 - The Youth Service provides much more intensive support – case loads of 80 per provider rather than 150.
 - Youth providers have outcome-based contracting, milestone payments and success fees that incentivise innovative approaches that are difficult to achieve within Government.

³⁶ This service is divided in to different focuses, with Integrated Services (WFCM-IS currently supports 4,662 clients) focused on supporting clients who were previously part of the Youth Service or came on to benefit at a young age. Health Condition and Disability (WFCM-HCD currently supports 7,640 clients) supports clients with illness and health conditions whilst General (WFCM-Gen currently supports 68,877 clients) supports clients who are judged a priority by Work and Income's streaming rules driven by potential length of time on benefit with the proxy of this being their liability. The Young SLP trial has extended WFCM to young SLP clients and 43 opted in since November 2014.

³⁷ For example, a review of YP grants by Work and Income found that 38 per cent of applicants were victims of domestic violence, 76 per cent suffered emotional neglect and 5 per cent were homeless or victims of sexual abuse. [Youth Service Evaluation Report – June 2014. P9]

Extending the Youth Service to even older cohorts of clients

71. In line with the manifesto commitment, the policy development process has focussed on extending Youth Service coverage only to those under 20 years of age, rather than older cohorts. There are some good reasons for this:

- The Youth Service was designed specifically to cater to the needs of “at risk” young people. Many of the interventions – the Youth Coach, education focus (obligations, abatement, incentive payments and sanctions) and money management become less beneficial as clients become older.
- The average lifetime liability of clients decreases as the age at which they first come on benefit increases – so it makes sense to focus first on those who form the biggest component of the liability.

72. However, some older cohorts could also benefit from some of the interventions. This could be considered as part of future work.

Trialling the extension rather than implementing it in full

73. The intention of the Government’s manifesto commitment was to extend the Youth Service on a permanent basis, rather than as a trial. So the policy development process has proceeded on that basis and excluded a trial from the pool of viable policy options, with the exception of SLP clients.

74. In any case, a trial would have the following shortcomings:

- The purpose of a trial is to see if the interventions work before investing all the time and resources necessary into legislative change and operational rollout. But any trial that did not involve legislative change would have to work on an “opt-in” basis, involve a different package of interventions, and work in a different way. The data from such a trial would not necessarily be indicative of the effectiveness of a full rollout of the preferred option(s).
- We have preliminary data on the effectiveness of the Youth Service that indicates it is an effective intervention. The new cohorts proposed for inclusion have similar risk factors to those currently served, so it is likely they will benefit similarly (as argued in this RIS).
- Delaying full implementation will result in a delay in the benefits being realised and work against meeting the BPS targets.

75. With the introduction of the Multi-Category Appropriation (MCA), which includes funding for the Youth Service, there is more flexibility to trial alternative approaches if evidence shows they will be more effective for the new cohorts.

EVALUATION OF THE PREFERRED OPTION

76. This section evaluates the proposal according to the criteria outlined in the Objectives section. In summary, it finds:

- The preferred option is likely to have significant positive impacts on “off-benefit outcomes”, and socioeconomic outcomes for the new cohorts of clients proposed for inclusion in the Youth Service. However, it is impossible to accurately quantify the extent of these outcomes.
- This conclusion has been reached by:
 - a. noting the initial evidence is that the Youth Service is improving the “off-benefit” and socioeconomic outcomes of existing YP and YPP recipients; and
 - b. inferring that the new cohorts planned for inclusion in the Youth Service are similar enough to those it already serves that they are likely to receive similar benefits from similar interventions.
- We can have some confidence that the extension will provide value for money. Only a small percentage reduction in lifetime costs is required to equate to the estimated operational costs of the preferred option.

What effect will the proposal have on the total long-term liability of the welfare system?

77. It is too early to provide an accurate liability assessment of the Youth Service because:

- a. The Youth Service is only two and half years old and so not enough time has passed to assess the impact on lifetime benefit costs;
- b. It is difficult to isolate the effects of Youth Service interventions from other factors. There is not a suitable comparison group of clients who have not received the Youth Service.

78. An accurate liability assessment of the *proposed Youth Service Extension* is even more difficult to perform at this stage because of the additional uncertainty in estimating the impact on the liability for the new cohorts.

79. Nevertheless, we can have some confidence that the extension will provide value for money. A very early preliminary estimate is that for every dollar spent on the *existing* Youth Service, the liability reduces by \$2.53³⁸ and compared to the total estimated liability for the cohorts proposed for inclusion (see Table 11 below) estimated annual operational costs (approximately \$25m) are relatively small - only a small percentage reduction in lifetime costs is required to equate to the estimated operational costs of the preferred option.

Table 11: Total liability of at risk cohorts³⁹

Cohort	Number of clients	Average liability	Total liability
“At risk” 18-19 year olds	2,794	\$114,636*	\$320,292,984
19 year old parents	1,199	\$218,897	\$262,457,503
“At risk” 16-19 year old SLP clients who opt-in	100-150	\$278,171*	\$34,771,375**
TOTAL			\$617,521,862

*These liability figures are for all 18-19 JS clients and all 16-19 year old SLP clients respectively, the figure for those “at risk” has not been estimated, but would be higher, perhaps substantially. This makes these estimates conservative.

38 Based on net present value. Some assumptions have been based on findings from the Youth Service Evaluation by iMSD, based on experiences in the first 18 months. Other assumptions have been gleaned from valuation results to date. The savings only take into account future benefit savings (they do not allow for potential savings in other parts of social services – e.g. health and corrections). Costs only relate to MSD costs for contracted services and some internal administration.

39 Based on the 2014 actuarial valuation of the welfare system.

**This number was calculated by taking multiplying the average liability by 125 clients (ie the midpoint of the estimated number)

Detailed evaluation of the package

Table 12: Evaluation of the preferred option against “off-benefit outcomes” and socioeconomic impact

Criteria	Effectiveness of Youth Service for current cohorts	Likely impact for “at risk” 18-19 year olds	Likely impact for 19 year old teen parents	Likely impact for “at risk” 16-19 year old SLP clients
Effect on “off-benefit outcomes”				
Average years on benefit	<p>Early evidence suggests that over the medium-term, YP recipients spend less time on benefit - an 8 percentage point reduction in those receiving main benefit 18 months post Youth Service enrolment.</p> <p>There is not yet any evidence that YPP recipients spend less time on benefit, but MSD expects that this effect will occur 4-5 years after their enrolment.</p>	At risk 18-19 year olds are likely to spend less time on benefit over the medium-term as a result of the proposal – this cohort has similar risk factors as current YP recipients, so it is reasonable to expect a similar level of effectiveness – ie an 8 percentage point reduction in those receiving main benefit 18 months post Youth Service enrolment.	This cohort has very similar risk factors to current YPP recipients. Although there is no evidence yet of a reduction in average years on benefit for YPP recipients, we nevertheless expect to see a positive impact 4-5 years after enrolment and expect a similar impact for 19 year old teen parents.	<p>To the extent they are on benefit due to their “risk factors” we expect to see an improvement.</p> <p>Overall we expect some positive impact for this group, but probably less than the 8 percentage point drop in benefit receipt noted for current YP recipients.</p>
Lifetime cost to the welfare system	<p>Less time on benefit will reduce clients’ lifetime costs to the benefit system.</p> <p>A very early preliminary estimate is that for every dollar spent on the existing Youth Service, the liability reduces by \$2.53.</p>	An actuarial valuation is not possible at this stage. But if the reduction in benefit receipt noted above holds for this group in the long-run, we would expect a decrease in lifetime costs to the welfare system for this group.	If the expected reduction in benefit enrolment occurs after 4-5 years (noted above), lifetime costs would reduce accordingly.	These clients have high lifetime costs to the benefit system, so even a small decrease in average years spent on benefit can lead to significant drops in total lifetime cost to the welfare system.
Effect on Government BPS targets	If early indications (above) are reliable, it is likely that the reduced time on benefit and lifetime costs to the welfare system will assist in meeting the BPS targets over the medium term.	As above – MSD expects positive impacts in the medium term on average years on benefit and lifetime cost to the welfare system of this cohort. MSD expects these impacts to be significant and manifest in time for the 2018 BPS target.	MSD expects there will not be enough time between implementation and June 2018 for the expected improvements in average years on benefit and lifetime costs to the welfare system for this group to manifest themselves.	We are only dealing with small numbers of clients. However, MSD expects some small contribution from this group toward the June 2018 targets.
Effect on socioeconomic outcomes of people who first come onto benefit as teens				
Effect on financial/material hardship	There is no firm evidence of long-term improvement at this early stage. However, it is very likely that by improving work outcomes, participation in budgeting activities being money managed and receiving support from a youth coach that both short and long-run financial/material hardship will be improved.	<p>MSD expects a reduction in the incidence and severity of financial and material hardship for all of these cohorts, as a result of the proposal, because:</p> <ul style="list-style-type: none"> As discussed above, MSD expects an improvement in the ability of these cohorts to find and stay in employment. Those in employment are less likely to be in financial and material hardship. MSD expects that the combination of budgeting activities, money management and youth coach support will improve both short and long-term financial/material hardship outcomes. 		
Effect on education outcomes – ie number of teens receiving NCEA Level 2	Early evidence suggests YP and YPP recipients are more likely to gain NCEA credits & more likely to meet the requirements of NCEA Level 2 after 12 months in the service.	Because of the similarities in risk factors and situation between current YP and YPP recipients and “at risk” 18-19 year olds and 19 year old teen parents, MSD expects similar improvements in educational outcomes for those with an education focus.		
Effect on child development (for sole parents)	There is no way of measuring the outcomes for children at this stage. But YPP participation in parenting programmes increases with duration of the service. If these programmes are effective, child development should be improved.	N/A – these clients do not have children.	MSD expects that the participation in parenting courses, the support from the youth coach and the (above) predicted improvement in rates of financial/material hardship for this group will result in developmental benefits for their children.	N/A – unlikely to have children, but will be treated the same as other Youth Service participants if they do.

Ease of implementation and administration

80. MSD considers this a workable proposal. It will result in a small increase in the complexity of the benefit system due to some JS clients now being allowed to study, and some JS and SLP clients now having incentive payments and money management.
81. The proposed delivery model reflects the existing Youth Service model, with the service provider being the key point of contact for young people in the Service.
82. Nineteen year old parents will automatically be referred to a service provider once they have applied for a benefit. The service provider will then assist the young parent to apply for financial assistance, gather any supporting information and provide this to the Youth Services Support Unit (YSSU - within MSD) who will make a final decision on benefit entitlement.
83. Once an 18 or 19 year old JS client has their benefit granted, 'behind the scene' rules currently match them to the most appropriate case management service. Eighteen and 19 year old JS clients who are not at risk of long term welfare dependency will be streamed into Work and Income case management. For those identified as 'at risk', they will be referred to a Youth Service provider. Once in service, YSSU will make all final decisions on a young person's financial assistance based on the provider's recommendations.
84. Operational details of how the young SLP trial will work have not yet been finalised.
85. Based on the proposed implementation date from March 2016 the total cost of the proposed extension is \$86.727 million over four years. A breakdown of this funding is shown in Table 13 below:

Table 13: Estimated costs over four year budget

Teen parents 19 years old	2015/16	2016/17	2017/18	2018/19
Receive Young Parent Payment and complete Youth Service package				
<i>Operational costs (including one off costs)</i>	0.119	0.191	0.191	0.191
<i>Contracting costs</i>	1.500	5.950	6.240	6.240
<i>Guaranteed Childcare Assistance Payment</i>	0.669	3.104	3.119	2.909
<i>Incentive payments</i>	0.176	0.894	0.906	0.843
Total	2.464	10.139	10.456	10.183
18 and 19 year olds without children	2015/16	2016/17	2017/18	2018/19
All JS clients continue to receive a main benefit but at risk clients are referred to the Youth Service for intensive wrap around support				
<i>Operational costs (including one off costs)</i>	0.078	0.126	0.126	0.126
<i>Incentive payments</i>	0.017	1.194	1.658	1.761
<i>Contracting costs</i>	1.610	12.700	13.800	13.800
Total	1.705	14.020	15.584	15.687
Young Partner	2015/16	2016/17	2017/18	2018/19
<i>Incentive payments</i>	0.000	0.046	0.049	0.049
Total	0.000	0.046	0.049	0.049
Project costs	2015/16	2016/17	2017/18	2018/19
Project Team Costs				
<i>Operational costs (including one off costs)</i>	0.538	0.392	0.000	0.000
<i>IT Costs</i>	5.415			
Total	5.953	0.392	0.000	0.000
Total costs	10.122	24.597	26.089	25.919

Extent of required legislative change:

86. To implement these proposals, changes to the Social Security Act (SSA) 1964, and delegated legislation are required. This includes provisions in the SSA relating to information sharing with the Ministry of Education and others; along with relevant information sharing agreements.

Human rights implications:

87. Under the proposed extension to the Youth Service, all 18-19 year olds on JS will be assessed by a statistical risk model to estimate their risk of future long-term benefit receipt. The results of this risk model will be used to 'stream' young people at highest risk of long-term benefit receipt into Youth Service interventions.

88. The risk model is purely a statistical tool so cannot include all factors that determine someone's risk of remaining on benefit (eg gang affiliation or the presence of tattoos on the face may affect the chances of a person finding employment but cannot be captured by a risk model). However, additional factors such as these will be able to be added manually by Work and Income case managers or Youth Service providers to indicate that a young person is at greater or lower risk than the risk model might suggest.

89. The proposed risk modelling approach builds on similar processes already in place (eg, Work and Income already use streaming rules to determine the type of service response a beneficiary receives based on their characteristics). However, the proposed Youth Service extension will be the first time that such a model will be used to 'stream' a person into a service where they will be eligible to receive more money, have different obligations, and be money managed. For example, Youth Service recipients will be eligible for incentive payments which other 18-19 year olds on benefit will not be eligible for).

90. From a human rights perspective, this risk modelling approach makes a number of distinctions based on age, family status, and other risk factors that results in 18 and 19 year olds that are identified as being 'at risk' of long term benefit dependency being treated differently from 18 and 19 year olds on benefit that are not considered 'at risk' of long term benefit dependency.

91. The principle of providing a different service to different groups of people based on the characteristics of the groups is well established. MSD considers that the different treatment can be justified in light of the high expected future liability of the cohort that are determined to be "at-risk" of long term benefit dependency.

92. MSD therefore believes the proposals do not contradict the New Zealand Bill of Rights Act 1990 (NZBoRA) and the Human Rights Act 1993 (HRA) in relation to the right to freedom from discrimination.

MONITORING AND REVIEW

93. Evaluation reports of the Youth Service are published in June every year. The next evaluation report will be available in June 2015.

94. The evaluation reports include:

- an outcomes evaluation of young people's participation in education, training or work-based learning, budgeting and parenting activities, and achievement of NCEA qualifications;
- an impact assessment of Youth Service on young people's benefit receipt, using a comparison group drawn from young people who started a main benefit before the introduction of the service; and
- a process evaluation of the Youth Service implementation, that assesses whether it operates as intended, what works well, and what could be improved.⁴⁰

95. Youth Service Evaluation reports can be found on the MSD website here:

<https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/evaluation/youth-service/index.html>

96. MSD will continue to monitor and evaluate the Youth Service as it currently stands. Further work to establish outcomes of interest for these other cohorts at risk of long term welfare dependency and how best to evaluate them will need to be carried out once the details of the Youth Service extension are finalised.

CONSULTATION

97. No formal public consultation has been undertaken on the proposal to extend the Youth Service. However, public consultation occurred on the proposal to establish the original Youth Service. The development of policy in this area was informed by the recommendations of the Welfare Working Group (WWG). Its final report, *Reducing Long-Term Benefit Dependency: Recommendations*, drew on the following consultation:
- 27 workshops with key stakeholders in May/June 2010
 - a forum over 9-10 June 2010 in Wellington with over 200 participants
 - public submissions on its August 2010 issues paper, *Long-Term Benefit Dependency: The Issues*
 - public submissions on its November 2010 options paper, *Long-Term Benefit Dependency: The Options*.
98. The proposal to extend the Youth Service to new cohorts of clients was included in the Government's welfare manifesto – so parties with an interest in this issue have been made aware of it and the proposal has been well signalled in the public domain.
99. MSD has also received feedback from existing youth service providers about the possibility of an extension. This feedback indicates that they would like to work with young people for longer, so would very likely be supportive of the extension. MSD will be working closely with providers on the operational implications and details of the extension.
100. In addition, the following agencies were consulted: Treasury; the Department of Prime Minister and Cabinet; the Ministry of Business, Innovation and Employment; Ministry of Justice; the Ministry of Education; Tertiary Education Commission; Te Puni Kokiri; the Ministry of Pacific Island Affairs; and the Ministry for Women.
101. MSD considers the level of consultation has been adequate to provide Ministers with robust advice at this stage.