Regulatory Impact Statement

Youth Package
Agency Disclosure Statement

- This Regulatory Impact Statement has been prepared by the Ministry of Social Development.
- It provides an analysis of options to improve outcomes for current teenage welfare recipients and future generations. Analysis has been informed by the work of the Welfare Working Group.
- As numerous factors external to the social assistance system impact on long-term social outcomes, there are significant constraints on our ability to make precise predictions on what outcomes will occur for young people and their children after the Youth Package measures are introduced. Regular evaluation and monitoring of the package will provide evidence of its impact, and refinements can be made to the package based on this evidence.
- Policy proposals were developed within the parameters set by Cabinet in August 2011, and opportunities to provide further or qualifying advice were limited in the pre- and post-election periods considering the desire to implement changes in July 2012 (particularly in terms of IT limitations and budget constraints).
- We consider that the policy options are not likely to impose additional costs on businesses, impair private property rights, market competition or the incentives on businesses to innovate and invest, or override fundamental common law principles.

Sue Mackwell, Deputy Chief Executive Social Policy and Knowledge   Date

Status quo and problem definition

Current benefit assistance for young people

1. Benefit assistance for 16 and 17 year olds is provided in a social and legal context where parents are responsible for their welfare. Most teenagers live with parents who support them (and some parents receive government assistance through Working for Families Tax Credits). Eligibility requirements for benefits, rates payable and the obligations for recipients are set out in the Social Security Act 1964.
2. A relatively small group of teens are not supported by their parents. Some of these teens are cared for by another adult who may receive Orphans Benefit or Unsupported Child Benefit.
3. Extra financial help, such as Disability Allowance, is available to teens on benefit with recognised additional costs. The Working for Families Tax Credits, including the Family Tax Credit, are available to teen parents. MSD may pay, on behalf of Inland Revenue, the Family Tax Credit to beneficiary parents along with their benefit payments.
4. Few additional support services are provided to teens on benefit to achieve social outcomes and some of these teens lack positive adult guidance. There is no proactive provision of budgeting help to assist a teen on benefit to meet costs (those who frequently seek emergency assistance are supported in this way). Requirements to attend education or training are not comprehensively backed by sanctions for failures.

Context for policy change

5. The Welfare Working Group (WWG) was tasked by the Government to undertake a wide-ranging fundamental review of New Zealand's welfare system, with a focus on long-term benefit dependency. In August 2010, WWG released a paper identifying welfare issues in New Zealand, and on 22 February 2011 reported to Government with recommendations for change. The WWG:

- recommended changes to benefits for 16 – 17 year olds and teen parents that would aim to ensure these young people are linked to responsible adults, their benefit income is well managed, and they improve their future prospects through education, training or paid work
- urged the Government to give high priority to work on prevention of teen pregnancies
- noted that teenagers are a small group of entrants each year but, because they stay for long periods, they represent a considerable proportion of those on a benefit.

Problem definition

6. Entering welfare at the age of 16 - 17 is associated with the highest likelihood of long-term benefit dependency of any age group.
   - Over 50 per cent of people who first enter the benefit system at 16 or 17 years old go on to be long-term benefit dependent (ie, spending at least five of the next 10 years on benefit), which is considerably higher than for people entering welfare at any other age.[1]
   - Persistent periods of low income from long-term benefit dependence are associated with high levels of social deprivation (financial stress, low standards of living, underinvestment in consumer durables and poor housing).[2]
   - Entering welfare at a very young age has particularly negative outcomes, with evidence linking unemployment at a young age with negative outcomes including suicidal ideation, substance abuse and criminal behaviours.[3]
7. In addition to these social costs, the high rate of long-term benefit dependency of young people entering onto benefit has a direct cost to the Crown. The estimated average future liability of a 16 or 17 year olds entering onto benefit (excluding those on IB) is $113,000 and for 18 or 19 year olds the estimate is $108,000. These costs are significantly higher than the estimated average liability for all unemployment ($58,000) and sickness ($105,000) beneficiaries.[4] Long-term benefit dependency by young people on benefit also has a cost through the lost employment and resulting economic contribution that they would make if not on benefit. The Ministry of Social Development (MSD) has estimated the lifetime cost of benefit receipt for 16 – 19 year olds currently on benefit is $2.7 billion.[5]
8. There is also compelling evidence that children of teen parents are at greater risk of a range of poor outcomes,[6] and that long-term benefit dependency for teen parents has negative implications for their children. Long-term benefit dependency leads to prolonged periods of low income and poverty. Children raised in benefit-dependent families are at increased risk of a number of poor socio-economic outcomes, such as joblessness and of themselves becoming benefit dependent as adults.[7] This is partly because as a group, teen parents tend to have few educational qualifications, poorer mental health, and higher rates of smoking, alcohol and drug use than the rest of the population.[8]
9. Evidence shows that educational attainment is one of the best pathways to lowering the likelihood of being unemployed, earning a higher income and improving social outcomes. This is particularly important for teen parents as early parenthood places them at risk of disconnecting from education. New Zealand teen parents' participation in education is low when compared with participation in other countries.

[1] Ministry of Social Development Benefit Dynamics Dataset.

[2] Berthoud, R; Bryan, M and Bardasi, E (2004); *The Dynamics of deprivation: the relationship between income and material deprivation over time*; Department for Work and Pensions, Research report 19.

[3] Fergusson, DM, Horwood, LJ and Woodward, LJ; "Unemployment and psychosocial adjustment in young adults: Causation or selection?", Social Science and Medicine, 2001; 53(3): 305-320.

[4] Values are total income support costs (main benefit, supplementary and ad hoc) at present value (2011 dollars, with a 3.5% real discount rate). This liability is estimated using a point in time calculation and its based on Work and Income data only. Liability may be different if calculated using the methodology proposed as part of the Investment Approach.

[5] This estimate is based on point in time Work and Income data, the result may differ if a different calculation approach is used (eg, an investment approach calculation).

[6] Jaffee, S, Caspi, A, Moffitt, TE, Belsky, J, Silva, PA (2001), Why are children born to teen mothers at risk for adverse outcomes in young adulthood? Results from a 20-year longitudinal study, Development and Psychopathology, 13, 377-397.

[7] Maloney, T, Maani, S and Pacheco, G. (2008), 'Intergenerational Welfare Participation in New Zealand'. *Australian Economic Papers*, 42: September p346-362.

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

Objectives

10. The overall objective of the Youth Package is to improve 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 beneficiary teens is to be in education or training.

11. In August 2011, Cabinet agreed that welfare assistance for 16 – 19 year olds be reformed 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.

Regulatory impact analysis

Legislation involved

12. Proposals involve benefit redesign and require changes to the Social Security Act 1964, which sets out the specifications for benefits. Regulation-making powers are proposed in the Social Security Act 1964 to allow technical detail to be specified in regulations on: information sharing with contracted Service Providers; the scope of services to be provided by contracted Service Providers; money management; obligations; exemptions; and incentive payments.

13. The Tax Administration Act 1994 and the Income Tax Act 2007 need to be amended to authorise the Chief Executive (CE) of MSD to redirect any Family Tax Credit for a teen parent receiving the Young Parent Payment.

Policy process

14. On 10 August Cabinet Social Policy Committee (SOC), with Power to Act, agreed to a package of changes to redesign welfare assistance for 16 – 19 year olds, as the initial focus of an Investment Approach to welfare reform. SOC agreed that the package would cover:

    - the provision of a payment that will be similar to the level of financial assistance currently provided, but with changes in access to, and use of, the payment
    - increased obligations in return for financial support, including that teens be in education, training or looking for work, participating in a budgeting education programme, and, if they have a child, in a parenting education programme
    - sanctions for non-compliance with obligations
    - incentives for compliance with obligations
    - financial support so teen parents' children can access childcare
    - access to existing payments (eg, the Disability Allowance) for recognised additional costs.

Design of the Youth Package

15. Policy proposals were developed within the parameters set out by Cabinet. Opportunities to provide further or qualifying advice were limited in the pre-election period. However, options were considered where appropriate, taking into account a number of constraints including IT limitations, budget constraints and the feasibility of implementing the option by July 2012.

Recommended package

16. The proposed Youth Package has two main components. It:

    - establishes two payments, a *Youth Payment* (YP) and a *Young Parent Payment* (YPP), with obligations, sanctions, an abatement regime, incentives and a new method of payment administration
    - uses contracted Service Providers to provide for wrap-around support for young people.

Sanctions

17. Two options were considered in relation to sanctions:
    - *Status quo*: this option involves the application of the current graduated sanctions regime for failing a work test to the YP or YPP (that is, a first failure 50 per cent reduction in payment, second failure payment suspension, third failure payment cancelled (for 13 weeks). The option is seen as overly complex when most of the payment will be paid directly to suppliers or loaded onto a payment card, with only a small portion directly available to the young person.
    - *Modified graduated three-stage sanctions regime*: the option is based first on suspending the In-Hand Allowance and any incentive payments for a first or second failure. The option includes some different penalties for the third failure for YPP recipients to reduce the potential impact of the sanction on children (ie, it includes a '50 per cent protection' rule that currently applies for the benefit population).

Young partners of beneficiaries

18. The option of providing young partners of older beneficiaries with access to a separate income support payment, an YP or YPP, was considered. This option is not favoured as it is complex and involves a major shift in the treatment of couples within the benefit system (where eligibility is currently determined jointly and the couple's income is assessed and abated jointly, recognising that benefit assistance is a safety net for people with no other resources to support themselves).
19. The preferred option is to align the obligations for young partners (ie, 16 – 17 year olds without children and 16 - 18 year old parents) with those that apply to people on YP or YPP. This option is favoured as it provides obligations that are more focussed on the young partner's specific needs, along with the wrap-around support offered through Service Providers and the choice to opt in to partial money management. It allows young partners to continue to receive their portion of the benefit that they and their spouse are eligible for, but requires them to complete the same youth specific activities as their Youth Package peers.

Childcare

20. A Guaranteed Childcare Assistance Payment (GCAP) is proposed to support childcare. Two **eligibility** options were considered.
    - *Provide GCAP to young parents who receive the YPP or who are the partners of beneficiaries*: the option would provide a subsidy for up to 52 weeks a year at $6 per hour to help ensure that the cost of childcare is not a barrier to young parents meeting obligations.
    - *Provide GCAP to young parents covered by the Youth Package and young parents aged 16 to 18 years who are in secondary schooling but are not eligible for the YPP*. This option would assist young parents with obligations under the Youth Package and a small group of young parents (31 at August 2011) currently participating in full-time secondary education by choice (the group that is eligible for the Young Parent Childcare Payment (YPC) under current rules). This option is favoured as simplifies assistance and continues support for a small group of parents making the effort to study and improve life opportunities.

21. Two options in relation to the **age of child** covered by the GCAP were considered.
    - *Provide GCAP for children up to age three*: the option requires teen parents to access the Childcare Subsidy (paid at a lower maximum rate of $3.84 per hour) and 20 hours ECE for children aged three plus. The option created an anomaly because YPC recipients are currently assisted until their children turn five years old. It also provided a less generous subsidy to YPP recipients accessing ECE services that do not offer 20 hours ECE (only around 90 per cent of eligible ECE services offer 20 hours ECE).
    - *Provide GCAP for children up to age five years*: the option merges the YPC into one new combined programme and covers children up to the age of five (provided no other childcare subsidies are being received or 20 hours ECE is not being received for that child for those hours). This option is favoured as it less complex and addresses the differences in treatment between teen parents with the same obligations, arising from the lack of full, national coverage of the 20 hours ECE policy.

Delegation of certain functions and powers to Service Providers

22. To allow Service Providers to fulfil their role in providing wrap-around support and providing information to Work and Income for decision making purposes, we considered whether some of the functions and powers currently administered by Work and Income needed to be delegated to Service Providers to

enable them to fulfil their role. A range of options was considered based on different service design models in terms of the specific role of the Service Providers. These options included:

- *A broad delegation power in legislation:* this option would include a clause in the legislation which gives MSD's CE a broad delegation power to delegate functions to Service Providers to implement the Youth Package. This would provide maximum flexibility in terms of implementing the package, but it would 'open the door' to the delegation of more fundamental powers.
- *A restricted delegation power in legislation:* this option would include a clause in the legislation which gives MSD's CE a restricted power to delegate a narrowly defined set of functions to providers. This ensures the Service Provider role is subject to review rights when they are exercising delegated functions and so provides protection for MSD, providers and young people in the Youth Package.
- *Amend administrative provisions of Social Security Act 1964:* this option does not include any delegation powers in the legislation, but amends certain administrative provisions in the Social Security Act 1964. This would not require the formal delegation of any functions and power, but would be a more cumbersome mechanism. Also, regardless of how carefully the provisions were drafted to restrict their application only to service providers, run the risk of the courts choosing to read the provisions wider in difficult cases (eg, where a community organisation or NGO gives advice on payments to a young person).
- *No formal delegation of functions and powers;* under this option the role of the Service Provider is limited to gathering and verifying information which is provided to Work and Income. Work and Income retains all decision-making powers in relation to the provision of financial assistance.

Information Sharing

23. To provide a wrap-around service, Service Providers will need access to information about teens on the Youth Package. Options considered for the information-sharing required were:
    - *Use information sharing agreements that authorise information sharing with Service Providers:* the option involves information sharing agreements authorised by Orders in Council once an amendment to the Privacy Act comes into force. The Privacy Act amendments propose a new mechanism for approving information sharing agreements (will also enable agreements between Government and NGOs performing a public function). This option is favoured if the amendments to the Privacy Act can be passed by July 2012.
    - *Explicit authorisation of information sharing between MSD and Service Providers via a legislative amendment:* this option would progress an amendment in the legislation that is due to be introduced to the House in March 2012 to give effect to the Youth Package and other welfare reforms.
    - *A Code of Practice issued by the Privacy Commissioner to authorise information sharing required for the Youth Package.* Ministers would not have control over the ultimate content of the Code as it is the Commissioner's decision as to whether a Code is made and what it includes. Issuing a Code can also be a lengthy process.
    - *Use existing privacy settings and contractual requirements:* this option would involve managing the information sharing arrangements between MSD and the Service Providers through contractual requirements. It would not involve changes to current privacy settings.

Impacts of the package

Fiscal impact

24. The Youth Package is a future liability approach. It is a prescribed investment approach for 16 - 17 year olds and 18 year old parents – to reduce future liability of this population.
25. Young people who come onto benefit stay longer – and their lifetime cost of benefit receipt is higher than for any other group. MSD estimated the lifetime cost of benefit receipt for 16 - 19 year olds on benefits at the end of June 2011 to be:

Table: Lifetime cost of benefit receipt for 16 - 19 year olds on benefits at the end of June 2011

Group	Number	Total Liability	Average Liability (per person)
16/17 excluding Invalid's Benefit	1,800	$0.2 billion	$113,000
18/19 excluding Invalid's Benefit	13,200	$1.6 billion	$108,000
16-19 teen parents	3,700	$0.9 billion	$240,000

26. The package entails additional costs, totalling $37.434 million in 2012-2013, $56.454 million in 2013-2014, $54.160 million in 2014-2015 and $52.929 million in 2015-2016 and out-years. The additional costs arise from incentive payments to young people, payments to contracted Service Providers, childcare costs, increased funding of teen parent education and administrative/IT costs.

27. Funding of $7 million for the IT system that will be required to support the implementation of the Youth Package was approved by Cabinet in October 2011 along with funding for the development of an IT system to support the Youth Pipeline [CAB Min (11) 39/8 refers].

28. The ongoing administrative costs of the Youth Package are considered to be cost neutral. Funding will also be required for staff training and communication costs for Work and Income to implement the Youth Package. These costs were noted in the 'Welfare Reform: Increasing the Work Focus of the Benefit System' paper considered by Cabinet in October 2011.

29. In the short-term, offsetting benefit savings of approximately $14 million per year are expected to occur when the Youth Package is fully implemented. These savings arise as a result of fewer teens receiving a benefit as a result of the support provided through the Youth Package.

Who is affected

30. The Youth Package will affect two groups of young people: approximately 2,710 16 – 17 year olds and 18 year old parents in the welfare system, and approximately 271 16 – 17 year olds and 18 year olds who receive welfare support indirectly as partners of beneficiaries.

Human Rights implications

31. The Youth Package makes a number of distinctions based on age, family status, marital status, employment status, and disability. Young people aged 16 - 18 year olds receiving Youth Package payments are treated differently than others receiving a benefit and those not on benefit in that they:
    - have to meet specific obligations in relation to education and training
    - have to attend compulsory budgeting advice
    - have to attend compulsory parenting education (if a parent)
    - will not have independent control over the payments they receive (money management)
    - will only be able to access hardship assistance under more stringent criteria
    - face a different abatement regime which discourages working.

32. The differences in treatment outlined may be inconsistent with the New Zealand Bill of Rights Act 1990 (NZBoRA) and the Human Rights Act (HRA) in relation to the right to freedom from discrimination. However, the rights in the NZBoRA can be subject to reasonable limits so long as they are demonstrably justified in a free and democratic society.

33. Young people accessing benefits are amongst our most vulnerable. Treating this group differently from other young people is justifiable in terms of improved life chances. Increased expectations are balanced with increased support - together these offer young people the opportunity to break from the prospect of long-term benefit receipt and welfare dependency.

34. Youth Package recipients are particularly vulnerable – lacking parental support or being young parents themselves. Enhancing education obligations in these circumstances is justified. An increased and strengthened education obligation for this particular group is important because it improves their employability later in life and lessens the risk of long-term benefit receipt.

35. Managing money, particularly for those on low incomes, can at times be difficult and can result in debt or lack of essential items. Direct payment of benefit to third parties could have positive benefits, assisting young people to manage their finances better. Coupled with budget training, this could prevent these young people accumulating debt or being evicted because of rent arrears. These positive outcomes justify the different treatment for these young people.

36. Different treatment of young parents can be justified on a number of grounds. Evidence also demonstrates that children of young parents, especially beneficiary parents, are more at risk of negative outcomes than children raised by older and/or non-beneficiary parents. Compulsory parenting education for young parents is a means of promoting positive parenting practices for young parents with better outcomes for their children.

Consultation

37. Policy development has been informed by the WWG work. 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 the August 2010 paper, *Long-Term Benefit Dependency: The Issues* and the November 2010 paper, *Long-Term Benefit Dependency: The Options*.
38. The Treasury, the Ministries of Health, Education, Justice, Pacific Island Affairs and Women's Affairs, Te Puni Kokiri, the Department of Labour, Inland Revenue, the Office of the Privacy Commissioner and State Services Commission have been consulted on this paper. The Department of the Prime Minister and Cabinet has been informed.

Implementation

39. The package contains a number of components that require careful management during the transition, including new payment methods and the wrap-around support.
40. Implementation will begin from 30 July 2012 onwards. The proposed transition refers existing clients to Service Providers over a 12 month period to ensure providers have the capacity to manage these clients, as well as the flow of new clients.

Monitoring, evaluation and review

41. MSD will evaluate the Youth Package as part of a wider strategy to evaluate the Welfare Reform policy changes. MSD anticipates the evaluation of the Youth Package will include:
    - monitoring key measures using MSD data and data from other agencies, where appropriate
    - a process evaluation to support successful implementation and operation of the package
    - an impact evaluation to identify what difference the package made to outcomes (where possible MSD will estimate the impacts by comparing outcomes for cohorts affected, with previous cohorts).
42. Population groups targeted by the Youth Package and Youth Pipeline will overlap to some degree. Where appropriate, MSD will ensure integration of monitoring and evaluation in the two initiatives. This may include monitoring a common set of population level outcome measures (eg, benefit receipt rates) or, where providers participate in both schemes, integrating provider interviews.
43. A more detailed monitoring framework will be developed in early 2012. Depending on the final package, resourcing, priorities, and technical feasibility, monitoring could track:
    - *Real–time measures of how the package is operating and numbers affected, eg:*
        - numbers receiving the new Payments[9] and their characteristics
        - number and proportion meeting obligations with respect to:
            - education, training or work-based learning
            - completion of a budgeting education programme
            - completion of a parenting education programme (for parents)
        - number and proportion sanctioned for non-compliance with obligations (by type of obligation and grade of sanction)
        - number and proportion with abated payments
        - number and proportion exiting payments due to employment or high earnings
        - referral to and participation in support services (eg. mental health services).
    - *Measures of outcomes that the package is seeking to influence (in some cases, these are only able to be monitored with a lag of a year)*, for example, the proportion of each birth cohort in education or training, or in work at ages 16 - 19.
    - *Measures of trends in other outcomes that could potentially be influenced by the Youth Package* (in some cases, these are only able to be monitored with a lag of a year), for example, the proportion of each birth cohort supported by the student loan and allowance system at ages 16 - 18 and are participating in education.

[9] YP, YPP and GCAP.