

# Regulatory Impact Statement: Overview of required information

## Regulatory Impact Statement

Tertiary-welfare interface: improved alignment of student support with welfare for sole parents

## Agency Disclosure Statement

This Regulatory Impact Statement has been prepared by the Ministry of Social Development. It accompanies the Cabinet paper *tertiary-welfare interface: improved alignment of student support with welfare for sole parents*.

The *Tertiary-welfare interface* Cabinet paper proposes a package of three initiatives to facilitate sole parents who want to study full-time to move from the benefit system to the student support system.

This RIS provides an analysis of the proposals that align the two support systems and removes transitional issues. The options were considered taking into account the impact on the sole parent household, the extent of legislative change, and equal access to support for all sole parents. Other constraints such as IT limitations, IT costs and other operational costs were considered.

Due to the behavioural aspects of sole parents making the choice to study full-time in the student system, it is difficult to assess the numbers of sole parents who are likely to move into the student system. This has limited the ability to assess the impact on the long-term liability of sole parents, the potential impact on the student allowance and loan schemes, and the operating costs on both StudyLink and Work and Income of people moving out of the benefit system into the student support system.

The options in this RIS are not likely to impose additional costs on businesses, impair private property rights, restrict market competition, or reduce the incentives on businesses to innovate and invest or override fundamental common law principles.

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## Executive summary

1. This Regulatory Impact Statement outlines a package of initiatives with the primary objective of facilitating sole parents who want to study full-time to move into the student support system, rather than remain on benefit.
2. It has been identified that sole parents receiving benefit have a high risk of remaining on benefit, particularly if they have no or few educational qualifications. This has significant detrimental effects on themselves and their family.
3. Sole parents who want to study full-time can study on benefit or move into the student support system. The student support system is designed to support successful study, while the benefit system focuses mainly on work preparation and availability. While many sole parents take up study, not many are accessing the student support system - thereby not maximising their chances for success.
4. Three aspects have been identified as potentially causing the most disincentives to move to the student system:
  - Different rates of accommodation support, with the accommodation benefit in the student system likely to be less than the accommodation supplement in the benefit system
  - The requirement to apply for child support through Inland Revenue when a sole parent needs to access a benefit over the gap between academic years
  - The stand down period that applies when a sole parent applies for a benefit over the gap between academic years.
5. Analysis was based on a set of objectives that considered detrimental financial impacts on sole parent families, disruption to a family's existing arrangements, and other alternatives to legislative change, with an aim to facilitate sole parents wanting to study to do so within the student support system.
6. While some changes require legislative change, these are mitigated by the identification of legislative vehicles or interim non-legislative solutions.
7. In summary, the preferred package consists of:
  - Aligning the accommodation benefit with the accommodation supplement;
  - No requirement to apply for child support through Inland Revenue when a sole parent needs to access a benefit over the gap between academic years
  - Not applying the stand down for sole parents who apply for benefit support over the gap in academic years.

## Status quo and problem definition

### Background

1. Sole parent beneficiaries are a group at particularly high risk of becoming dependent on a benefit for long periods. Long-term benefit receipt significantly increases the risk of deprivation, financial stress, low living standards, and poor health and housing. For sole parents long-term benefit receipt is also strongly associated with poor results for their

children, including adverse health effects, poor educational achievement and reduced aspirations.

2. Adverse outcomes associated with long-term benefit receipt for sole parents can be avoided through being in paid employment. However, a significant proportion of sole parent beneficiaries have low or no educational qualifications, which can make it harder to secure full-time employment and achieve economic independence. Studying to obtain qualifications can therefore help sole parents to be more employable and realise the benefits of paid employment:
  - the 2013 actuarial valuation of the future cost of the benefit system indicates that recipients of the Sole Parent Support benefit who have an NCEA level one qualification spend an average of around three and a half years less time on a benefit compared to those with no qualifications, with average liability \$42,000 lower
  - Sole Parent Support recipients with a degree level qualification spend around four years less time on a benefit, with average liability \$88,000 lower
  - further, if sole parents begin studying in the student support system before accessing a benefit, achieving educational qualifications may prevent them ever needing benefit support.
3. For sole parents who do choose to study, doing so within the student support system provides better support for completing qualifications than doing so in the benefit system. The benefit system has a focus on work, and studies must be managed around meeting work availability or work preparation obligations. In contrast, the student system does not have work obligations, and allows students to focus on their studies.<sup>1</sup> It also has a focus on student achievement, and incentivises student success by requiring students to pass at least 50 per cent of their courses to continue receiving support.

## Problem

4. Sole parent beneficiaries are at particularly high risk of becoming benefit dependent for long periods of time which has negative impacts for them and their children. The average benefit liability for Sole Parent Support recipients is 15.7 years, at an average lifetime cost of \$212,000.
5. Many sole parents would experience better educational and employment outcomes if they entered the mainstream student support system when they study because:
  - gaining educational qualifications can improve sole parents' long-term employment outcomes and reduce their likelihood of being long-term benefit dependent
  - the mainstream student support system's focus and design makes it more appropriate for full-time students, including sole parents, than the benefit system as it:
    - has a strong focus on student achievement
    - enables people to focus on their study
    - gives people more freedom to manage their affairs

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<sup>1</sup> The student support system discourages work other than at low levels by having dollar for dollar reductions in financial support for earnings over \$208 a week, in contrast to the more gradual abatement on a benefit.

6. However, despite the positive aspects of the student support system, few sole parents are currently using it. This is likely due to the higher rate of financial assistance for housing available to sole parents on a benefit, and problems moving between the systems such as issues in relation to child support treatment.

## Objectives

7. The primary objective is to facilitate sole parents who wish to move from benefit to the student support system, or to avoid entering the benefit system altogether.
8. Secondary objectives are to achieve this while:
  - not increasing hardship for sole parent households
  - making changes that do not require amendment of primary legislation where possible
  - having equal access to support for all sole parents without being excessively costly

## Options and impact analysis

9. An analysis of the differences and interfaces between the benefit system and the student support system shows that there are two areas where improvements can be made:
  - Aligning financial support for accommodation costs
  - Easing some of the transition issues that occur when a sole parent has to use the benefit system for temporary support between academic years, in particular the child support rules and the benefit stand down period

### **First Component: Aligning financial support for accommodation costs**

#### **Option 1: Align accommodation benefit rates with accommodation supplement (preferred)**

10. This option equalises support available in the two systems by aligning accommodation benefit (the flat rate accommodation payment in the student system) with accommodation supplement rates (the variable accommodation payment of the benefit system).
11. This option meets the primary objective of facilitating sole parents who want to move from the benefit system to the student support system by removing the financial difference for accommodation support. It is likely that many sole parents would find the drop in accommodation assistance a major reason to remain on benefit and study, even though there is evidence that study outcomes are significantly more successful when supported by the student support system.
12. It meets, in the main, the secondary objective of avoiding hardship for sole parents when moving between the two systems. The majority will have no change in accommodation support if they move into the student system.
13. Aligning the rate of accommodation benefit to that of the accommodation supplement can also be achieved by amending secondary legislation (Student Allowance Regulations 1998) rather than primary legislation.

14. All sole parents wanting to move into the student support system will be affected by this alignment, although not all will benefit from increased accommodation support.

#### *Impact*

15. On average it is expected that aligning accommodation benefit rates with accommodation supplement will result in an increase in overall weekly assistance of \$31 a week for sole parent students already in study through the student support system. Other students who are currently in the benefit system but choose to move into the student support system in order to study full-time under the new arrangements would see no financial impact, as the level of accommodation assistance they would be eligible for would remain the same.
16. As the accommodation supplement reflects actual accommodation costs, existing sole parent students who have low housing costs but receive accommodation benefit may experience a drop in support. However, this is expected to affect only a small number of sole parents and the decrease should be minimal.

#### *Cost*

17. The change in rates of accommodation benefit will see the 2,400 sole parents who would be on accommodation benefit without these changes receive an increase in rate, costing \$3.818 million per annum. There is no cost from the additional 3,000 sole parents who are estimated to respond to these changes by entering the student support system, as it is assumed that they would otherwise be receiving a benefit and accommodation supplement at the same rate.

#### **Option 2: Make sole parent students eligible for accommodation supplement**

18. This option is similar to option one, but instead of paying accommodation benefit at accommodation supplement rates, this option makes sole parents receiving a student allowance eligible for the accommodation supplement instead of the accommodation benefit.
19. The costs and impacts of this change would be similar to option one, as substantively the options are the same. However, unlike the preferred option, this option would require legislative amendments to the Social Security Act 1964 to be implemented, which makes it less consistent than the preferred option with the secondary objective that changes be implemented, where possible, without amending primary legislation.

#### **Option 3: Status quo**

20. A significant difference between the two support systems is the financial support provided for housing costs. This is likely to have a significant effect on the decision-making of sole parents as to whether they can manage studying at all. The status quo is an option, but does not meet the primary objective.

#### **Second Component: child-support rules for sole parents accessing a benefit between academic years**

21. Currently, beneficiaries must apply for child support from their child's other parent through Inland Revenue. The child support payment is then used to off-set the cost of the benefit.

22. By contrast, sole parents who are in the student support system can receive their full child support allocation and can also arrange amicable child support agreements without involving Inland Revenue. This is theoretically an incentive to enter the student support system, as sole parents within this system will receive more money in the hand and not required to go through Inland Revenue.
23. However, if sole parents require benefit support in the gap between academic years, they are required to apply for child support through Inland Revenue. This can jeopardise voluntary arrangements and, given that the requirement for benefit support is usually temporary, is disproportionately costly for Inland Revenue to administer.

**Option 1: Not apply benefit rules for child support arrangements when a sole parent temporarily accesses a benefit over the gap in academic years (preferred option)**

24. The preferred option is to not apply the requirement to apply for child support through Inland Revenue when a sole parent temporarily requires a benefit over the academic break, and to also not require that child support be off-set against the benefit for this period of time.
25. This option meets the primary objective of facilitating sole parents moving from the benefit system to the student support system by the removing transition issues between the two systems by providing continuous and stable support through existing child support arrangements. It also retains the incentive effect of ensuring that sole parents who receive financial support from their child's other parent will receive more in the hand in the student support system.
26. The option also meets the secondary objectives of not increasing hardship for sole parent households, in part by ensuring the sole parent receives more money in the hand, and also by ensuring that child support arrangements are consistent and remain amicable for the family by not disrupting any pre-arranged agreements.
27. This option does require changes to primary legislation, but Inland Revenue has an annual tax bill that can include amendments to the child support scheme.
28. All sole parents will have access to this option.

*Impact*

29. Removing benefit system child support requirements is expected to result in an average of approximately \$35 per week more income for sole parent students in the gap between academic years.
30. It also ensures that sole parents are not forced to re-negotiate child support arrangements, which may have been hard won.

*Cost*

31. Making benefit system child support rules not apply to sole parents who access a benefit in the gap between academic years will come at an estimated cost of \$1.884 million in foregone child support revenue to the Crown.
32. However, it will enable both Inland Revenue and Work and Income to dispense with an administrative process that is disproportionately burdensome in terms of administering short-term child support arrangements.

## **Option 2: Status Quo – benefit rules apply for child support arrangements when a sole parent temporarily accesses a benefit over the gap in academic years**

33. This option does not meet the primary objective of facilitating sole parents moving from the benefit system to the student support system as it creates a transition point that may cause financial disadvantage and disrupt satisfactory child support arrangements.
34. The secondary objective of not increasing hardship for sole parent households would be met, as the status quo would mean no change to levels of hardship. However, hardship levels would not be reduced. The requirement to apply for child support and have it off-set against the benefit received reduces income over the inter-semester breaks for any sole parent in the student support system throughout the academic year.
35. The status quo does not require legislative change.

### *Impact*

36. Sole parents will continue to have to apply for child support through Inland Revenue if they apply for a benefit in the gap between academic years. They are likely to experience a loss of income and may also see difficulties in their relationship with the other parent of their child.
37. These difficulties may mean a sole parent is not willing to move to the student support system.

### *Cost*

38. The Crown will experience no additional costs if the status quo is retained.

## **Component 3: Benefit stand-down**

39. When a person applies for a benefit, a stand down period of one or two weeks usually applies. It does not apply for people transferring between different benefit types.

## **Option 1: Removing the benefit stand down when a sole parent applies for a benefit in the gap between academic years (preferred)**

40. Removing the stand down for sole parents needing temporary benefit support in the gap between academic years meets the primary objective of facilitating the move between the benefit system and the student support system by ensuring the sole parent can have security about the level of support they will receive throughout the year. It is also consistent with the overall approach within the benefit system of not requiring a stand down when moving between benefit types. While a Student Allowance is not a benefit, it is a form of government support intended to cover the same purpose as a main benefit.
41. It also meets the secondary objectives of not increasing hardship for sole parent households by ensuring continuous financial stability for the family, and provides for equal access to all sole parents.
42. Stand down provisions will be reviewed as part of the rewrite of the Social Security Act 1964, and as such this provides a vehicle for this change to be embedded. However, it has been identified that there is a Ministerial Welfare Programme - the Student Allowance Transfer Grant. This grant allows for benefit level financial assistance to be paid during the stand down period to people (including non-beneficiaries) with dependants who make an application and meet hardship requirements. To address the stand down issue in the interim, this Welfare programme can be amended to make it easier for more sole parents to obtain this grant.

### *Impact*

43. Removing the stand-down will mean that all sole parents who access a benefit in the gap between academic years (currently around 600 individuals) will receive a benefit in the current stand down period. Of those, it is estimated that between 11% and 25% currently do not receive hardship assistance during this period

### *Cost*

44. Removing the stand-down for sole parents accessing a benefit in the gap between academic years when a student allowance is not available will cost approximately \$0.269 per annum.

### **Option 2: Status Quo**

45. The status quo would mean that sole parents may miss out on benefit payments for one to two weeks. This does not meet the primary objective, as the lack of security of income is likely to be a disincentive for sole parents considering moving off benefit and into the student support system.

### **The Preferred Package**

46. The preferred package of changes therefore comprises:
  - aligning the rate of accommodation benefit sole parents can receive in the student support system with the rate of accommodation supplement they would receive if on a main benefit
  - making sole parent child-support rules for beneficiaries not apply to sole parents temporarily accessing a benefit when not entitled to a student allowance in the gap between academic years.
  - removing the stand-down for sole parents applying for a main benefit because they are not eligible for a student allowance due to the academic year ending

### **Impact of the preferred package**

47. It is difficult to estimate the behavioural impact these changes may have, and responses will be depend upon individual circumstances. Officials from the Ministry of Social Development estimate that these changes could result in the current 2,400 sole parents receiving a student allowance could building to around 5,475 by 2017/18 (assuming the phased implementation discussed in the implementation section, below).
48. It is expected that this increase in sole parents in the student support system will come almost exclusively from the population who would otherwise be receiving a benefit if not for these changes. It is also possible that some sole parents in low-wage, low-skilled jobs may seek to up-skill under the new arrangements (although financial incentives for this are low compared to the income earned through full-time work).
49. It is expected that sole parents studying under the student support system will experience better outcomes and this is likely to reduce the long term liability of sole parents on benefit. The impacts on the long term liability of sole parents should be able to be seen in future actuarial evaluations.



## Costs of the preferred package

50. The total cost of the package is \$23.6 million over four years. In addition to these ongoing costs, it is estimated that there will be one-off costs of changing IT systems to allow payment of accommodation benefit at accommodation supplement rates of \$1.279 million in 2014/15.

## Consultation

51. The Ministry of Social Development and Ministry of Education consulted with the Treasury, Ministry of Women's Affairs, Inland Revenue, and Ministry of Justice. The Department of Prime Minister and Cabinet was informed. No significant concerns were raised.

## Conclusions and recommendations

52. The preferred options were recommended over alternative options because they met the primary objectives and many of the secondary objectives. For those options that require legislative change, it was identified that there were available vehicles, and, in the case of the stand down, that time delays for legislative change could be mitigated by amending a welfare programme.
53. The package of initiatives should bring significant advantages to sole parents wanting to move from the benefit system to the student support system, and ease their transition.

## Implementation plan

54. A phased implementation of the preferred option is planned, reflecting the need for appropriate legislative vehicles to advance some of the changes proposed.
55. Aligning accommodation benefit rates with rates of accommodation supplement available to sole parent beneficiaries can be implemented through changes to the Student Allowance Regulations 1998. It is planned that this be done so that changes take effect for enrolments that commence after 1 July 2015. This approach will mean that those who are in a course of study that continues over 1 July 2015 will not experience a change in assistance during that term of study. StudyLink will prepare a communications strategy to ensure that key stakeholders are aware of this change well in advance of the 2015 study year commencing. IT system changes are currently being made to allow accommodation benefit to be paid at the same rate as accommodation supplement.
56. The proposals to remove the stand-down and benefit system child support rules for sole parents accessing a benefit in the gap between academic will require amendments to the Child Support Act 1991 and Social Security Act 1964, respectively. It is intended that these changes be advanced through the following existing planned legislative amendments:
  - Inland Revenue's next annual tax bill can give effect to changes to the Child Support Act 1991, with changes likely to be in place before the 2015/16 gap between academic years.
  - The rewrite of the Social Security Act 1964 can give effect to the proposal to remove the stand-down. A Bill is scheduled to be introduced to the House in

December 2015 and passed in 2016, before the 2015/16 gap between academic years.

57. Decisions relating to these aspects of the preferred option are in principle only, and final details will be agreed to by Cabinet as part of the processes outlined. Full details relating to the implementation of these parts of the preferred option will be developed as part of those processes.

## **Monitoring, evaluation and review**

58. MSD assesses the liability of different cohort groups within the benefit system. Sole parents are one of those cohorts, and the impact of these proposals on Work and Income's forward liability may be evaluated through actuarial valuations that periodically occur.
59. Any evaluation of the total cost to Government would require access to Studylink and Education data for a full impact assessment.
60. The Ministry of Social Development will work with the Ministry of Education to identify appropriate performance indicators against which to measure the effectiveness of this policy. This will include using existing data held across both agencies which measure the outcomes for students, for example, course and qualification completion statistics, time on benefit or student support, employment rates following study and earnings measures.
61. MoE and MSD will review the effectiveness of this policy as part of their usual monitoring processes in relation to student support / benefits. Findings will feed into ongoing design improvements to the benefit and student support systems.