

Report

Welfare Expert Advisory Group: Interim Report to the Social Wellbeing Committee

Purpose

This interim report updates Ministers on the Welfare Expert Advisory Group's (WEAG) work to date. The report also serves as a further lens for Ministers considering Budget 2019 proposals, and other policy decisions.

The views expressed here are a work-in-progress, but they do indicate our direction of travel. We also provide a report-back on the themes to date from our consultation and public engagement.

The WEAG's approach

The WEAG formed in May this year, and is on track to report at the end of February 2019. Our focus is on the strategic shifts that will establish a welfare system fit for the next 20 years. Our work will be informed by public consultation, the early themes from which we discuss later in this report.

Our work has emphasised the close connections between the welfare system and other key public services – especially taxation, health, education, labour market policy, housing policy, and justice. Effective and lasting welfare policy needs to be a partnership with all of these areas. We recommend that Ministers consider our advice in the context of the reviews underway in these complementary areas. The breadth and complexity of the WEAG's work is such that a second phase of work, after February 2019, is needed to examine further the interfaces between welfare and other services.

Our advice on the future of the welfare system is guided by the Government's vision, as set out in our terms of reference:

- *a welfare system that ensures people have an adequate income and standard of living, are treated with and can live in dignity and are able to participate meaningfully in their communities, and*
- *the welfare system is part of an integrated Government approach that enables people to be earning, learning, caring or volunteering and ensures a dignified life for those for whom these options are not possible.*

Our views on the role and performance of the welfare system (our “narrative”)

New Zealand was one of the first countries to establish a comprehensive welfare state following major disruptions arising from the Great Depression and World War 1. While much has changed since welfare was first introduced, there remains a strong social contract for citizens who are unable to live reasonably without public support. Almost all New Zealanders require this help at some point in their lives due to personal life shocks such as losing a job, illness or disability, having to care full time for someone else, to look after children, or in retirement.

Despite our country changing dramatically since the welfare system was established, the system has not kept pace with these changes. Decisions have tended to be reactive rather than strategic or long term. We need an approach to welfare that expresses our values and upholds the social contract between citizens funding welfare through taxation and those citizens who require assistance - in ways which all citizens can all be proud of. We want to ensure that those in marginal financial and social positions retain their dignity. In the recent past, welfare has focused heavily on obligations, work requirements, and sanctions. This occurred during a period which saw large increases in casualised work and increases in new migrants.

The welfare system is embedded within a wider constellation of activity including the labour market, income levels (including wages), housing, immigration, education, health, justice and taxation. How we approach the interaction of those requiring public support shapes how effectively the welfare system can cope with the myriad needs of people who often face multiple challenges including long term disability, relationship break-downs, job loss, caring for others or illness. How we provide support – not just financial but also educational and health, to enable people to lead more fulfilling lives, is a challenge for the next 20 years.

We want welfare to be an opportunity for better lives in ways that enrich not just their own lives but also their families and our communities. In this way, we all benefit.

Values

To support the Government’s vision, and the wider Terms of Reference, the WEAG is basing its work on improving the overall wellbeing of those who access benefits. This is captured in the ‘Kia Piki Ake’ concept which is used as the WEAG’s “Strap-Line”. We intend to utilise a kaupapa Māori values approach to inform our understanding of wellbeing. The WEAG recognises it is critical not just to use Māori words, but actually to apply the values they represent. The emerging kaupapa Māori base is still in development and will undergo both community and academic feedback over the consultation period. Currently the values as applied to welfare and informing our WEAG approach are:

- *Whakamana Tangata*– Ensuring an adequate income and standard of living, including access to long-term, healthy housing
- *Manaakitanga* – Treated with, and able to live in, dignity
- *Mana Motuhake* – Actively recognising and addressing Treaty of Waitangi interests throughout
- *Kotahitanga* – Able to participate meaningfully in communities

- *Whānaungatanga* – Valuing whānau, families, children and relationships
- *Whakatakatūtanga* – To be fit for the present and prepared for the future, to respond to future ways of working and to support participation in the economy
- *Kaitiakitanga* – To be financially and politically sustainable across the medium to long-term

Purpose and principles of a future welfare system

The WEAG has a mandate to advise on an updated purpose and principles for the welfare system to inform an updated Social Security Act. We have developed working definitions of a new purpose and principles. Building on the Government’s vision, we consider that the purpose of the welfare system is to support wellbeing by:

- providing social and financial security sufficient for an adequate standard of living
- supporting people to achieve their potential for learning, caring or volunteering, and earning through good and rewarding work

We consider that the following principles should guide the welfare system’s design and operation:

- provide an income sufficient for an adequate standard of living
- put all children at the centre
- treat people with dignity and respect
- be equitable and compassionate
- promote mutual expectations
- be accessible and timely
- be sustainable

We are exploring the legal practicalities associated with applying the new purpose and principles to update the Social Security Act.

Key policy shifts the WEAG is exploring

Consistent with our proposed purpose, principles, and values, the WEAG is exploring options to achieve the following key policy shifts:

- a welfare social contract that reflects our vision, purpose, principles, and values
- income support that is easy to access (simpler and more timely) and adequate to live reasonably and prevent poverty
- financial assistance that values families, and ensures no one is left behind
- child support that puts children at the centre
- housing that is affordable, secure, good quality (safe, not cold, not damp), and of adequate size

- effective employment services and active labour market policies that promote social inclusion
- addressing inequalities in support for people with health conditions and disabilities and those that care for them
- ensuring better quality of life outcomes for nga tangata Māori and Pacific peoples.

A welfare social contract that reflects our vision, purpose, principles, and values

The welfare system is an expression of our values and the social contract between New Zealanders and the State. The State's responsibility in this contract is to provide adequate and accessible employment and income support. People can also expect to be treated with dignity and respect, and to receive all the support they are entitled to. This includes the assumption that most people want to receive only what they are entitled to. The welfare system should be designed with this in mind.

There are also expectations on people receiving financial support, such as the expectation to seek employment where appropriate. There is nothing new about these expectations. However, we are concerned the current approach to obligations and sanctions disproportionately impacts on children, marginalised people, and is inconsistent with the value of Manaakitanga. Obligations have become complex and one-sided, and are often not fully understood by the people affected by them, or are inappropriate, increasing their risk of a sanction. These obligations and sanctions may have been effective in moving some people into work, but job stability can be short-lived, precarious and low-waged. The effects on the children affected are not monitored or mitigated. Employment rights may be diminished through pressuring people into work.

The WEAG is exploring options to restore balance to the welfare social contract. That contract needs to be grounded in a wellbeing approach, with expectations that are mana-enhancing.

To ensure people are treated with and live in dignity, we are considering options for:

- restoring the balance of expectations, including making the State's responsibilities clearer
- reframing expectations in terms of earning, learning, caring, and volunteering, and introducing new options for meeting expectations, such as volunteering
- putting the wellbeing of children at the centre of expectations
- improving practice and language related to expectations (instead of obligations)
- increasing use of financial and non-financial incentives, instead of sanctions
- removing extraneous obligations e.g. social obligations, pre-employment drug testing, warrants to arrest
- improving practice and language related to potential instances of fraud.

Financial assistance that is easy to access (simpler and less complex) and adequate to live reasonably and prevent poverty

Welfare provides financial support to those who need it when they cannot work or earn enough to live reasonably, or have young children. Financial support needs to:

- enable people to participate meaningfully in their communities
- be sufficient to access a good quality and secure home, either through ownership or renting
- provide a sufficient basis for children to thrive
- keep pace with increases in the cost of living and average wages.

Current levels of financial support are too low, thereby not achieving the underpinning value of Whakamana Tangata. This means rates of poverty and hardship are too high for people receiving benefits, especially families with children, and for low-income working people. There are increasingly large numbers of children in the greatest depth of poverty with increased risk of poorer outcomes throughout childhood, as young adults, and as adults. Poor outcomes can be wide-ranging and include poor mental health, physical health, disabilities, and maladaptive coping mechanisms including addictions and antisocial behaviour. Rising housing costs are a big cause of this hardship. Levels of financial support have also adjusted more slowly than the cost of participating in society. This means the incomes of people receiving benefits have fallen greatly, and continue to fall behind.

Financial support needs to be easy to access and offered proactively. All eligible people need to know what is available to them. The current system is highly complex and hard to access. This puts an extra burden on people who already face multiple challenges, and means they are less likely to receive everything they are entitled to. We are aware that there are challenges to simply increasing the Accommodation Supplement which may simply be passed onto landlords, and are likely to look at how to increase core benefits and remove complexity and any perception of being able to simply claim increases in the private market.

Increasing debt is another result of a complex system with low levels of financial support. Debt results from the need to seek extra help for essential costs. It also results from the accidental overpayments of benefit that are common in our complex system. Debt causes additional stress, is very hard to repay on a low income, and reduces the returns from paid work. Many people resort to very high-interest fringe lenders, adding to their debts. We note the work being done by the Government to curb companies that prey on marginalised communities with exorbitant interest rates and questionable practices and encourage the Government in this. We are also considering how community based organisations may have a greater role in assisting those who need financial aid through loans to meet their cultural or financial obligations beyond what is immediately available.

To ensure people have an adequate income and standard of living, and can meaningfully participate in their communities, whānau, hapū and iwi, we are considering options for:

- increases in the levels of income support (either through payment rates, tax credits, abatement rates and thresholds, or a mix of these)
- regular and more generous indexation of financial support

- simplifying the system, and providing timely assistance
- monitoring and reporting of levels of take-up of financial assistance
- making it easier to access full and correct entitlements
- changing which payments are recoverable
- reviewing how debt is written off
- increasing funding to services focused on financial capability
- improving practice and language related to debt
- increasing access to community-based providers of fee and interest free loans – particularly those supporting people to reduce indebtedness to third-tier lenders.

Financial assistance that values families, and ensures no one is left behind

The eligibility rules for financial assistance matter too. Under the current rules, people in a relationship need to look to their own resources first before being eligible for welfare. If one person in a couple is working, this usually means that the other person cannot receive financial support. This rule assumes an outdated view that one income is enough to support a family. In practice, one income may not be enough, especially if there are children.

The relationship rules are also very broad, so that even people who do not share resources are treated as though they do. This can mean that people have to make choices not to enter relationships because they will lose money, or that they enter relationships and take the risk being liable for fraud. The rules also mean that welfare case managers need to ask intrusive and personal questions to determine if people are in relationships.

These rules have resulted in the current welfare system being available largely to single people and sole parents only, with very few couples qualifying for support. This is inconsistent with the approach taken in the tax system and the ACC system. Such an approach does not support the value of Whānaungatanga. We note that the 1988 Royal Commission on Social Policy recommended moving to individualised entitlements.

The definition of de facto relationship is also difficult to administer, yet the consequences are far reaching for those concerned. Similarly, the lack of recognition of shared care in the main benefit system has failed to keep up with changes in families, or even the Government's child support system.

To value whānau, families and relationships, we are considering options for:

- moving more of the welfare system towards an individual basis, allowing people to make decisions about relationships and families without penalty
- providing better guidance on when a relationship is recognised, to reflect better the reality of relationship formation and to err in favour of the person seeking financial support
- recognising where the care of children is shared between adults.

Child support that puts children at the centre

To put children at the centre, we advise Government to change the child support rules affecting children with a parent on a benefit. Under these rules, sole parent beneficiaries who do not name the other parent may lose some of their benefit, and child support payments are kept by the government. Both of these rules reduce the financial assistance available to children, contributing to child poverty.

To put children at the centre, we are considering options for:

- removing the benefit sanction that applies to sole parents who do not apply for child support (which does not apply to anyone else receiving Government support)
- options for passing on child support collected to the carers of children who receive a main benefit.

Effective employment services and active labour market policies that promote social inclusion

Adequately paid employment remains the first, best source of income for most New Zealanders. However there are many reasons why a person may need help to find work. A core role of the welfare system remains as a provider of public employment services to support people to work, from whatever their starting point, and to a level that matches their potential, even in a sudden crisis like an earthquake. New Zealanders should expect to receive both income support adequate for a reasonable life, and employment support sufficient to ensure sustainable employment in a good job, including access to any necessary training. Such an approach will support the value of Whakatakatūtanga,

Work expectations should also reflect what is best for a person's wellbeing. This may mean being more flexible to different outcomes than is currently the case. The application of the value Kotahitanga means different outcomes – such as learning, caring, or volunteering – may be appropriate depending on a person's circumstances, and those circumstances can change over time. The approach needs to support the value of whānaungatanga – valuing whanau, families, children, and relationships. Work that is flexible for a family's needs is important.

We are concerned about the consistently poor employment outcomes for many New Zealanders – especially Māori, Pasifika, young people, people with health conditions and disabilities, and people displaced from their jobs.

Underpinning these outcomes are an under-funding and fragmentation of employment services across agencies and loss of expertise over a long period. There has also been an excessive focus on punitive measures to compel people to accept unsuitable work, rather than to invest for sustainable employment.

We further note that if the nature of work begins to change rapidly, there will be a greater role for the welfare system in assisting people during transition, both through income support and active labour market policies. As technology impacts on available employment and flexibility continues in the market place, we prefer an active labour market strategy that supports people retraining and upskilling rather than ending up on welfare benefits. This will require cross-government cooperation which will lift the skill base of New Zealanders and

productivity. It will also provide a much more effective pathway into employment for those on benefits seeking work.

To be fit for the present and prepared for the future, to respond to future ways of working and to support participation in the economy, we are considering options for:

- substantial additional investment in employment services (active labour market policies) especially for people experiencing disproportionately poor outcomes
- measures to improve coordination across agencies and other partners (such as an overarching governance body) to prevent problems before they arise and to work together better at national, regional, and local levels when they do
- financial incentives for everyone moving from a benefit into a significant amount of paid work, not just those who have dependent children.

Housing that is affordable, secure, and adequate

A safe and secure good quality home of adequate size is fundamental to improve and maintain the well-being of individuals and families. Moreover, enabling individuals and families to develop an asset base through housing will help to ensure their well-being by reducing the need to rely on income support payments to help pay for accommodation costs. Currently, housing in New Zealand is unaffordable for many people, and unavailable for some, with declines in home ownership rates since 1991, increased homelessness, and poor housing quality. As housing costs have increased, households have less discretionary income for basic needs and increasingly need housing subsidies or public housing placements. Housing unaffordability is an important additional contributor to poverty and declining standard of living for lower income households.

The WEAG's priorities for the welfare system in the housing context are to:

- provide a realistic definition of housing affordability (giving consideration to achieving adequate housing tenure and housing quality objectives)
- improve home ownership for low-income people who are able to sustain it (and for Maori families, and Pasifika families, in particular)
- improve public and private rental housing with laws and regulations which support affordability, tenure, and accessibility
- reconsider the design of the Accommodation Supplement system to ensure that additional income support does not become consumed by housing costs.

We see these as contributing to the underpinning values of Whakamana Tangata, Whānaungatanga and Manaakitanga. Moreover, an increase in housing supply is vital.

To ensure access to long-term, healthy housing, we are considering options for:

- schemes to support home ownership
- strengthening renters' rights so that tenants are able to have improved control and stability of tenure

- changes to income support payments (Accommodation Supplement and Temporary Additional Support) to ensure that they are adequate for supporting low-income people who are also likely to have consistently high housing costs relative to their incomes, and the relationship between the Accommodation Supplement and Income Related Rents.

Addressing inequalities in support for people with health conditions and disabilities and those that care for them, and enabling participation

People on working age benefits with health conditions or disabilities are the largest group of working age beneficiaries and the proportion is increasing. People with health conditions and disabilities are the most marginalised people in the welfare system, and they have the greatest need for integrated support to ensure participation and wider wellbeing. It is essential the emerging range of kaupapa Māori values underpinning the reforms is applied thoughtfully across all areas for those impacted by health conditions and disabilities. The needs of the children of those affected should be at the centre of approaches taken.

Suitable employment – a key form of participation – is generally good for health and wellbeing. Periods disengaged from the workforce may be harmful for health and wellbeing. However, the availability of rehabilitation services to support a return to work – or to remain in work – is limited, except for people covered by the Accident Compensation Corporation (ACC), or for people who can make private arrangements.

Levels of income support and integrated services for people with similar disabilities also vary depending on whether people are eligible for ACC income replacement payments, or the much less generous payments through the welfare system.

When ACC was established, the original intent was eventually to extend coverage to people with a health condition or disability not arising from an accident. Extending ACC cover in this way is one option the WEAG is exploring, and there are a number of choices within this option.

Some people with health conditions or disabilities do not qualify for ACC and also miss out on financial support from the welfare system due to the couples-based eligibility rules for financial assistance. To ensure meaningful participation in communities, whānau, hapū and iwi, and to ensure people are treated with and live in dignity, we are considering options for:

- ensuring horizontal equity to income support for people with health conditions and disabilities
- ensuring horizontal equity to return to work support for people with health conditions and disabilities.

Key themes emerging from public engagement and consultation so far

We are engaging in public consultation in 16 centres across New Zealand. By the end of October, we will have completed our consultation in 12 of these centres. We will prepare a formal summary of our consultation findings in December. Pending that summary, we note the following emerging themes:

- A number of people have noticed positive changes in their experience of receiving services from Work and Income New Zealand, notably a more positive experience of security arrangements (guards). But this improvement in culture is highly variable across and within Work and Income branches. By and large, people continue to report significant mistrust of Work and Income.
- There is congruence with many of the issues raised already by WEAG including the need to urgently address adequacy of income by adjusting core incomes and removing penalties, more generous abatements and removal of sanctions (though this was not universal). There is a high degree of distress in some communities as a result of incomes being inadequate for a long time.
- There was agreement that work is crucial but it had to be meaningful work and not just “any old job”. In particular, the public attending identified the need for a system that responds to the needs of the particular person and tries to use a developmental and supportive approach to find the right job for them.
- Many confirmed the importance of ensuring alignment across health, housing, taxation and welfare.
- Many identified the need to address particularly Maori mana and the high needs that Maori and Pacific peoples have.

Implementation considerations

The WEAG is a little more than half-way through our deliberations. While we have established a clear direction of travel, we are still identifying and reviewing our preferred options to give effect to this direction of travel. This means there are limits as to what we can confidently say about implementing our advice. We can, however, say the following:

- Given the close interdependencies between the welfare review and other reviews, it is desirable that Ministers consider reforms to the welfare system alongside reforms to those related areas where possible – notably the tax system, and the education and training system, and then ensure an integrated approach to implementation.
- We are likely to recommend significant change that will be complex, and require substantial additional spending. This suggests that a gradual transition path is appropriate.
- Given the substantial human and financial costs in implementing reforms, repeated changes to the same aspects of policy or service delivery are best avoided. We therefore recommend Ministers make an early decision about the future of the welfare system, and then take consistent steps towards this future.

Fiscal implications and returns on investment

The WEAG Terms of Reference require us to give due consideration to the fiscal sustainability of recommendations. Without detailed modelling of long-term behaviour responses and consequential fiscal impacts, our fiscal considerations are inevitably high-level.

Nevertheless, we note the extent to which current benefit settings are inconsistent with both

- the government’s vision of the future welfare system as described in the Terms of Reference, and
- our (draft) principles and purposes noted earlier.

Consequently, it is clear that the WEAG's ultimate recommendations will necessarily require a non-negligible increase in fiscal expenditure on benefit spending.

This observation is reinforced by the interim report from the Tax Working Group that explicitly notes that "The best mechanism to improve incomes for very low income households, for example, will be to increase welfare transfers".

Additionally, WEAG recommendations may also require consequential increases in MSD operational resources (including staffing levels and training).

We note that fiscal sustainability of WEAG recommendations is likely to be assisted by the extent to which the demand for ancillary public services (e.g. justice, police, education, housing, health and care) are reduced as a result of the improved wellbeing of benefit recipients.

In this regard, the immediate additional fiscal costs would need to be weighed against the longer-term (and sustained) reductions in justice and police costs (in particular), alongside improvements in education, housing, health and care wellbeing outcomes.

We acknowledge that it is outside the WEAG's terms of reference to assess such a weighting. However, we would be comfortable (in line with the explicit reference to the various interfaces in the terms of reference) with an all-of-government wellbeing approach to such fiscal sustainability considerations.

Recommendations

The Welfare Expert Advisory Group recommends that the Cabinet Social Wellbeing Committee:

1. **note** this interim report on the work of the Welfare Expert Advisory Group; and
2. **take** the Welfare Expert Advisory Group's interim report into account when considering Budget 2019 initiatives, and other policy decisions.

Professor Cindy Kiro
Chair
Welfare Expert Advisory Group

16 October 2018