

those who would benefit the most. In addition, transparency in the way risks are funded is a powerful incentive to provide cost effective services.

Applying these lessons to the welfare system would require a new organisation to manage funding and improve accountability for organisational performance in a way that a Government department cannot. Service delivery needs to be focused on improving work outcomes for people at risk of long-term welfare dependency and reducing the long-term costs of welfare dependency. We propose a new organisational approach to welfare delivery in New Zealand, Employment and Support New Zealand, that would:

- be held accountable for improving work outcomes for people at risk of long-term welfare dependency and reducing the long-term costs of welfare dependency (as measured by the forward liability);
- be measured against the achievement of a target of at least 100,000 people off welfare and in paid work by 2021, including achieving significant improvements for Māori, and an equivalent reduction in the forward liability;
- be expected to develop efficient and effective contracting arrangements with private, not-for-profit and community organisations for the delivery of support to welfare recipients based on the principles of contestability, focus on outcomes and strong accountability arrangements that reallocates services away from those that are under-performing;
- have strict accountability arrangements for delivering better outcomes for Māori and would be expected to introduce innovative approaches to reduce long-term welfare dependency amongst Māori (particularly in working with Iwi, Māori service providers and using whānau-centred approaches);
- need new organisational skills and a new culture especially in service contract management to invest in reducing forward liability, possibly through the creation of a Welfare Fund; and
- allow greater accountability for multi-year investment and long run outcomes, to transparently apply expertise, and to be able to use the expertise of a Governance Board.

The value in considering a Crown entity model is that, unlike a department, a Crown entity is at arm's length from central Government, has external expertise through its Board, and its performance management is based on delivering specified outcomes. Thus, it would deliver sustained change in the operation and culture of the welfare system, a long-term focus on performance (including through a possible welfare fund), more robust contracting for outcomes and greater transparency.

We would expect that when people enter the welfare system there would be clear work expectations, and a range of tailored support would be provided. Other supports and services that we expect to emerge from a clear focus on improving outcomes include:

- flexible and early intervention approaches that are focused on reducing the risk of people spending long periods on welfare;
- contracting for a range of innovative approaches that look comprehensively at an individual's vocational and non-vocational barriers and provide multi-disciplinary approaches to addressing an individual's barriers to getting a job;
- partnerships with Iwi and Māori organisations to support better outcomes for Māori;
- strong partnerships within the health system, and with doctors and medical professionals to promote better health outcomes and the health benefits of work, and highlight the health risks of long-term inactivity and disengagement;

- forming strong partnerships with employers and employer bodies to support better outcomes for welfare recipients and encourage employers to take a chance on employees that they may otherwise not consider; and
- introducing positive incentives to encourage people to move from low employment to high employment regions and to re-train for new job skills.

The Ministry of Social Development would be responsible for providing advice on strategic welfare policy, overseeing the independent assessment of the forward liability, evaluating the effectiveness of welfare settings, advising Ministers on welfare policy and monitoring the performance of Employment and Support New Zealand against the agency's objectives, including forward liability. The Ministry of Social Development would have a crucial role in negotiating across Government to ensure services provided by agencies, such as health and education, support welfare recipients into work. To provide clear direction to Government on how changes in policy would affect the achievement of the reduction in working age welfare numbers by 100,000 people, the Ministry would need to have a sound understanding of the drivers of long-term welfare dependency.

8.3 The current model

The Ministry of Social Development is a public service department of Government, responsible for policy design, research and evaluation and, through Work and Income, administering income support and delivery of employment services for working age people receiving a benefit. It is funded on an annual basis through the Government's budget. Incorporating payment and service delivery in the same organisation provides the opportunity to have an employment focus even during the benefit application process.

Just over half of Work and Income's core employment services are delivered in-house, focusing mainly on people receiving Unemployment Benefit. This includes collecting and listing job vacancies, the Job Search Service, administering financial assistance and service co-ordination for those needing more complex help.

The remaining 46 per cent of Work and Income's annual spend are on national and regional contracted services to deliver work-focused social services. The contracts are a mix of outcome-based agreements (for example, Employment Placement Service, Pacific Youth Mentoring Service, In-work Support) and more general programmes to enhance employability (sole parent employment coaching and ability assessment for people receiving Sickness Benefit). Providers include private companies, community trusts, training providers and other entities.

A mixed model has been successful in a number of OECD countries.¹²⁰ However, the Ministry of Social Development model has a number of limitations. First, the annual funding of welfare does not cover the financial commitment the Government has made when agreeing to pay a benefit. For instance, when agreeing to pay an Invalid's Benefit, the Government has committed to make payments for as many years as that person qualifies for the benefit.

Second, funding for the delivery of employment services is budgeted annually by Cabinet, while funding for benefit payments is driven by demand. If the number of people paid a benefit increase during the year they are funded unless an objection is raised by Ministers.

Finally, there is considerable short-term movement on and off benefit, where additional support is of marginal value. The annual appropriations process encourages a focus on those easiest to move

¹²⁰ OECD. (2005), *OECD Employment Outlook*. Paris.

off benefit, and away from those with greatest disadvantage, where investment based on managing a long-term cost would make the greatest difference.

8.4 Forward looking and transparent approach to cost

The Working Group has found that the best way to evaluate the welfare system's performance is by assessing its impact on the expected long-term costs or the forward liability. In doing so the incentives for good financial management are aligned with the incentive to cost effectively invest in people needing interventions. This can be achieved through a full or partial funding model.

The future liability is the future cost (liability) that might result from having agreed to insure against adverse events.¹²¹ Full funding of the forward liability is achieved when all reasonable steps are taken to ensure money is available to meet estimated financial commitments, whenever they would occur, with contributions to the fund set to cover the costs. In practice, moving from annual funding to full funding is costly and requires a long transition period, so partial funding is a better option over the period discussed in this Report. Partial funding requires that full liability be calculated and some defined fraction of the funding built up, thus creating incentives for financial discipline and transparency.

In practice, partial funding requires the creation of a distinct fund that can be used to objectively measure expected liability and the level of partial funding. This approach has been used by both the New Zealand Superannuation Fund and ACC. A New Zealand Welfare Fund would start as a traditional budget allocation. Each year tax revenue would need to be raised that would cover the expected long-term annual costs of the scheme. In years when fewer people need assistance, revenue would be higher than the cost of the scheme and reserves could be accumulated. These reserves would be drawn down when there was more need for assistance, for instance during an economic recession.

The agency implementing the welfare system has wider non-financial objectives, including the alleviation of hardship and reducing child poverty. It is essential there is independent evaluation of the agency's performance to minimise the unintended consequences of better financial control. These and other practical and legislative issues would need to be worked through, but the view of the Working Group is that a separate fund would significantly improve the accountability and performance of the welfare system.

Whether full or partial funding is used, the advantages of a forward liability approach are that:

- policy makers and the delivery organisation accurately understand the commitments that have been made to provide financial support and take reasonable steps to ensure those commitments can be met;
- it incentivises an appropriate level of intervention for individual clients, with most resources going to those who can most benefit from them;
- it improves accountability by making the full cost and agency performance more transparent;
- robust and transparent multi-year accountability measures can be set out in agreements between the Government and the relevant agencies;
- an emphasis on prevention becomes a priority; and
- there is a greater level of equity within the system for those who may take longer to support into paid work.

¹²¹ Martin Jenkins, (2010), *Lessons from Insurance for Welfare*. See <http://ips.ac.nz/WelfareWorkingGroup/Meetings.html>.

One approach would be to incorporate a forward liability approach to the welfare system into the standard annual Government budget process. Currently, the Budget documents include an investment statement with information on Government assets and liability, including the investments that partially fund the New Zealand Superannuation Fund and ACC.¹²² The Ministry of Social Development has provisionally estimated the future cost of a benefit at an average lifetime cost of between \$125,000 and \$160,000 for each beneficiary at June 2009.¹²³

Moving to a system which uses a future liability model would require a more comprehensive understanding of the expected durations and flows onto welfare than currently available. Nevertheless, these could be developed to include an estimate of the welfare system's liability and be used as a key performance indicator for the delivery agency, its Board and Government policy.

Alone, incorporating a forward liability approach to the welfare system into departmental budget processes would not generate the required transparency. First, the partial funding of ACC is crucial to the financial transparency of those funds. Partial funding opens them up to independent actuarial evaluation and the financial discipline this creates. It is independent evaluation that makes those funds more than an accounting exercise.

Second, the power of forward liability as a performance indicator lies in having an objective link between *current* financial decisions and their *future* consequences. Thus partial or full funding means the financial consequences of policy decisions are assessed using standard actuarial criteria with parameters and definitions that are in wide use. This objectivity provides a powerful incentive for better financial discipline.

An alternative model is provided by the ACC Non-Earners' Account (NEA). This covers injuries to people not in the paid workforce, including students, people receiving a benefit, older people and children. The NEA is funded from the Crown through an annual appropriation on the same basis as other appropriations. However only 55 per cent of the amount collected in any one year is paid in that year, with the remainder invested by ACC to pay for the lifetime costs of those injuries. The funding and investment requirements of the NEA are based on a calculation of forward liability using an analysis of claim behaviour (number and nature of claims incurred, costs and trends in treatment and rehabilitation, claim duration, etc) carried out by ACC's actuaries with quality assurance provided by external actuaries.¹²⁴

While the ACC NEA does not have the work focus and level of support we would expect from the new welfare system, there are substantial similarities between the ACC NEA and the Working Group's recommended organisational form. There would be value in further analysis to see what would be needed for the new model of welfare to be implemented by being amalgamated with the ACC NEA.

¹²² Budget 2010 *Investment Statement of the Government of New Zealand*, p52.

¹²³ Ministry of Social Development. (2010), *Future Liability: Estimating time on benefit and the associated cost*, Centre for Social Research and Evaluation, Ministry of Social Development, Wellington, New Zealand; Ministry of Social Development – scenarios A and C, p6.

¹²⁴ Accident Compensation Corporation. (2010), *Annual Report*.

The ACC model

ACC is a semi-independent Government body that administers the Accident Compensation Act 2001. Currently it has three overarching goals, to:¹²⁵

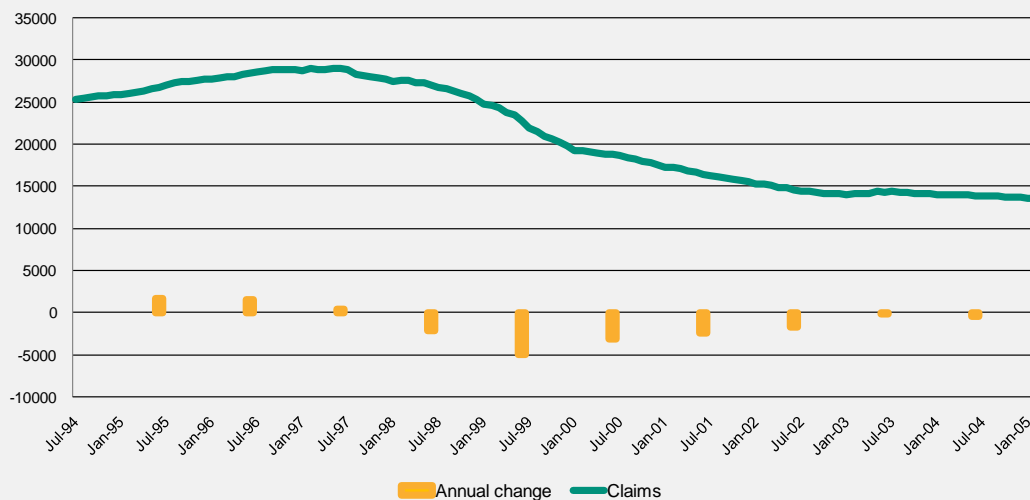
- ensure the scheme is financially sustainable and represents value for money;
- rehabilitate injured people in New Zealand more efficiently; and
- reduce the incidence and severity of injury.

To achieve this ACC collects levies to fund compensation payments; provides rehabilitation and employment services; pays compensation to claimants; and provides service co-ordination and services to claimants, primarily to rehabilitate them. ACC has considerable discretion as to the level of investment in treatment, vocational and social rehabilitation services. It contracts out a lot of these functions. The ACC model differs from Work and Income in that it is funded primarily by levies so it has a strong incentive to keep the future liability of its claimants down. As a result, ACC:

- invests in interventions to prevent accidents from occurring;
- has a strong focus on work, with the majority of clients supported to remain in work. Most cases are co-ordinated with small amounts of resource, while more complex clients receive specialist service co-ordination; and
- uses contestable service delivery, including the option for accredited employers to opt out of most of the coverage and take on the obligations themselves.

The ACC reforms in the late 1990s, that included forward liability as performance indicator, lead to a marked reduction in the number of ACC recipients receiving ongoing payments.

Figure 8.1: Long-term ACC claims 1994 to 2005



Source: ACC Annual Report 2002.

8.5 Outcomes-based contracting and contestability

A new approach to welfare, with earlier intervention and an investment focus to minimise dependence, requires highly responsive and effective services able to assess individual capacity

¹²⁵ Accident Compensation Corporation. (2010), *Annual Report*, p6.

and locate jobs for larger numbers of people. The new agency would need to balance the costs and benefits of building internal capacity against using the considerable untapped capability and innovation in non-Government organisations and the private sector. Any substantial service delivery expansion would need to be done at a pace to allow capability to be developed and ensure there is sufficient competition to realise potential benefits where possible.

Countries that have introduced contestability in employment services have reduced the per capita cost of job placements. For example, when the Australian service became contestable, it was able to find more people jobs for half the cost of the previous system. The cost of providing service packages in the Dutch 'reintegration market' fell from €4,700 to no more than €3,000 for each client while achieving the same outcomes.¹²⁶

Contestable contracting and active performance management are crucial to achieving cost effective service delivery. Well designed contracting out improves the incentives and gives robust accountability on contracted agencies to deliver services efficiently. It also:

- incentivises greater creativity and efficiency in the delivery of services;
- enables risk to be spread across providers, so poorly performing providers can be identified and resources shifted towards better performing providers; and
- provides more flexibility to fill capability gaps.

Contracts would need to be well designed and well delivered to minimise unintended consequences and manage risks. For delivery agencies, the most important element is having clearly specified outcomes. A recent survey of evaluations suggests performance-based contracting in Australia and the Netherlands improved short-term job prospects for participants by five to 10 per cent. In New Zealand programmes conducted in 2002 linked payment to success at finding and sustaining employment for people who had been on the Unemployment Benefit for at least six months.¹²⁷

In addition, services that are contracted out should limit the ability of contractors to choose people who are easiest to place into employment. Such a deterministic referral process limits the ability of contractors to 'cream skim' clients who are easiest to place into work while 'parking' those requiring the greatest investment.¹²⁸

The Australian model

The Australian welfare system gives responsibility for delivering welfare payments and delivering employment services to two separate agencies: the Department of Education, Employment and Workplace Relations (DEEWR) (for contracting employment services) and Centrelink (welfare payments). Job Services Australia is contracted by DEEWR to provide access to training, skills development and work experience for jobseekers in more than 2,000 locations across Australia.¹²⁹ The providers are a mix of small, medium and large, for-profit and not-for-profit organisations.

¹²⁶ Joseph Rowntree Foundation. (2008), *Lessons from contracting out welfare to work programmes in Australia and the Netherlands*.

¹²⁷ DEEWR. (2008), *Welfare to Work Evaluation Report*; Ministry of Social Development (2002), *Outcome Based Contracting*.

¹²⁸ Ministry of Social Development. (2010), *Contracting for Employment Outcomes*.

¹²⁹ <http://www.deewr.gov.au/Employment/JSA/EmploymentServices/Pages/serviceProviders.aspx>

A star rating system is used to assess the performance of contracted service providers. Performance in a given year will be influenced by a number of factors including some outside of a provider's control such as local labour market conditions and the characteristics of individual participants. These factors outside the provider's control are taken into account during the star rating assessment process. Every three months, providers are awarded a star rating, based on their performance compared to providers nationwide. For example, all providers who perform 40 per cent or more higher than the national average receive a five star rating. The June and December assessments each year are published on the internet and all assessments are circulated to service providers.¹³⁰

One model the Working Group considers has much merit is similar to that proposed by David Freud in the United Kingdom.¹³¹ In that model Government manages a small number of contracts with consortia of voluntary and private sector organisations, which then further contract out the work. The advantage of splitting up the contracting process is that the incentives operate where they are most effective. Thus the strategic contracts specifying the outcomes desired by Government are managed by a Government department, while the detailed contracts for each service are managed by organisations that are incentivised to provide services at minimum cost.

Applying this to the New Zealand context, where there is less opportunity for organisations to form consortia large enough, Employment and Support New Zealand would be equivalent to the consortia and would be performance-managed on its delivery of a quality service and minimised forward liability. However, Employment and Support New Zealand would primarily be a contracting agency that contracted non-Government providers for services. This allows for the greatest operational flexibility since all service providers, including those delivering early intervention and job search, could be changed if they did not meet objectives.

8.6 A local risk sharing approach to welfare

There are areas of the country where full community engagement is needed to activate people who are long-term welfare dependent. This is particularly acute for Māori living in areas of New Zealand where there are few jobs. Since the 1980s Māori unemployment has been higher than for non-Māori and initiatives within the welfare system have not eliminated the difference.

The view of the Working Group is that the forward liability approach provides a way to empower local organisations to take greater ownership of the problem and create local initiatives to reduce long-term welfare dependency. This could be through economic development initiatives to bring together local voluntary, private and Government organisations, or collaborative partnerships to provide better services for those needing support into work. What is crucial is that the local organisations are budget holders, facing both the rewards and risks of finding local solutions to dependency. The international evidence is clear that regions need to promote their own growth by mobilising local assets and resources to capitalise on their specific competitive advantage, rather than depending on Government subsidies that carry substantial risk that any jobs created will not be sustained.¹³² It is the combination of incentives provided by a forward liability approach that will encourage long-term solutions.

¹³⁰ Questions and Answers on 30 June 2010 Job Services Australia (JSA) Star Ratings
<http://www.deewr.gov.au/Employment/JSA/PerformanceFramework/Documents/JSAStarRatingsQA.pdf>

¹³¹ Freud, D. (2007), *Reducing Dependency, increasing opportunity: options for the future of welfare to work*. Department of Work and Pensions, United Kingdom.

¹³² OECD. (2009), *How Regions Grow trends and analysis*. Paris. Organisation for Economic Co-operation and Development.

Within Government there are a number of organisational forms with different characteristics that vary depending on their function. Broadly, Government departments are best when the organisation's functions require significant coercive powers (such as taxation and occupational regulation), it has a continuing, close relationship with the Minister requiring it to responsively offer policy advice, and the agency carries out multiple functions making it difficult to provide a robust contract. Crown entities are more relevant where a greater separation of the agency from Ministers allows an increased focus on its operational activities. Such a separation allows the agency to have accountability for multi-year investment and long-run outcomes, to transparently apply expertise and use the expertise of a Governance Board.¹³⁸ Table 8.1 summarises the relevant agency options.¹³⁹

Table 8.1: Types of public agencies

	Public service department (Treasury, MSD)	Crown agent (ACC, TEC and health DHBs)	Autonomous Crown entity (Charities Commission, NZSO)
<i>Agency characteristics</i>	Policy advisor Work for Ministers	Operational agency of the Crown Can be directed by Ministers	Independent Crown service Can be advised by Ministers
<i>Board</i>	No statutory board	Elected or selected by Ministers Ministers can dismiss without reason	Elected or selected by Ministers Ministers can dismiss with reason
<i>Ease of establishment</i>	Legislation may be required	Specific legislation required	Specific legislation required
<i>Scope</i>	As required by Minister	Set in legislation Performance goals set by Ministers	Set in legislation Performance goals set by Ministers
<i>Sustaining change</i>	Designed to work closely on current Ministerial priorities	Independent of day to day shifts in Ministerial priorities	
<i>Focus on long-term financial outcomes</i>	Weak long-term budgeting processes	Stable objectives and focus on operational outcomes Minister can change Board where it is not meeting Minister's expectations	Stable objectives and focus on operational outcomes Harder for Minister to change Board
<i>New culture</i>	Similar to current departmental organisation	Operational focus and responsive to Board that includes people from non-Government and private sectors	
<i>Robust outcome contracting</i>	Difficult to implement robust, evidence based contracting processes	Contracting processes directly linked to specified objectives	
<i>Transparency</i>	Governed by the Official Information Act	Governed by the Official Information Act and Ministerial direction. Objective setting is a public process	

¹³⁸ Summary of submission to the Welfare Working Group from the States Services Commission.

¹³⁹ For a full list of the entities see <http://www.ssc.govt.nz/display/document.asp?DocID=7981>.

research is the 2009 United Kingdom National Audit Office report, which found the benefit of changing the management of incapacity benefit came from bringing forward the medical assessment, rather than from the relatively expensive service contracts.¹⁴¹

The Working Group has been impressed by the Australian employment services model which gives star ratings to providers. Those with the strongest results are allocated more business, while those with the poorest outcomes receive less.¹⁴² This creates a clear and transparent link between evaluated results and the allocation of resources, and would help Employment and Support New Zealand move resources away from less effective to more effective approaches.

In the Australian model, the evaluation organisation is in the monitoring department, Department of Education, Employment and Workplace Relations (DEEWR). The New Zealand equivalent would be a substantially revamped Ministry of Social Development. This approach has a number of advantages. It would enable the evaluation capacity to be built on existing knowledge of policy, it embeds evaluation in policy development and strengthens the capacity of the monitoring organisation. There is also a potential for implementation incentives to be aligned if the organisation designing the policy, and thus with an interest in seeing it put in place properly, oversees implementation.

However this needs to be balanced with potential conflicts of interest. A key issue is how independent the current policy organisation can become once the delivery agency is split away. The regulator, using a scheme like the star system, would need new skills and a more robust approach to assessment, either through contracting out the evaluation or having independent review of the evaluation material.

8.9 Managing the transition

The reform package outlined in this Report is significant. It will require the building of new capabilities, the development of new services and preparing welfare recipients to enter a new welfare system.

A more detailed implementation plan will need to be devised in the next phase of development, including steps to ensure other work by the Ministry of Social Development is not disrupted. As well as the policy functions, the Ministry of Social Development includes the Integrity Services group that deals with fraud and overpayment, Senior Services group that deals with New Zealand Superannuation and other services for older people, Child Youth and Family, and Family and Community Services. An important part of successful implementation is ensuring this other work by the Ministry of Social Development is not unduly disrupted.

¹⁴¹ National Audit Office. (2010), *Support to incapacity benefits claimants through Pathways to Work*. London.

¹⁴² For background to Star Ratings in the Australian model see:
<http://www.deewr.gov.au/Employment/JSA/PerformanceFramework/Pages/JSASTarratings.aspx>.

We consider a reasonable indicative timeframe is as follows:

Preparing for reform

Stage 1: Technical advice and implementation design (completed by September 2011) There is a range of technical issues that the Government will need advice on (including a detailed implementation process and advice on, and introduction of, new legislation).

Stage 2: Establishment of Ministerial Committee and Advisory Board (from May 2011) We consider that a Ministerial Committee may need to be established in order to provide leadership of the reform (including on detailed design and the sequencing of reform). This Committee would be supported by an Advisory Board that would include expertise on social policy, welfare delivery, organisational design, managing to an estimated forward liability, Māori and employer perspectives.

Establishment of Employment and Support New Zealand

Stage 3: Employment and Support New Zealand established (between July 2012 and January 2013) Given the breadth of new capability to be developed we consider that it is critical that there should be significant time allowed following the appointment of the Establishment Board of Employment and Support New Zealand. This will enable it to develop a clear and comprehensive approach to its strategic and operational framework and robust systems for its implementation. In this phase Employment and Support New Zealand will need to develop:

- system design issues, including how it will create an effective service delivery model to achieve the Government's long-term outcomes;
- running the contracting process, including how it will contract for outcomes, what services it will contract for, and how it will design its tendering processes;
- build capability in service delivery where currently no capability exists;
- managing the transition from Work and Income; and
- negotiating its Statement of Intent with Government and building relationships with other Government and community agencies.

Stage 4: Employment and Support New Zealand taking progressive responsibility (January 2013 to end of 2014) After Employment and Support New Zealand is established we propose that it would take over all contracting of services, the design of the system to achieve better long-term outcomes and would be accountable for the delivery of former Work and Income services. At this stage it should have a new service delivery model, a range of contracted support services (including employment support and intensive support), and a clear front-end payment and work process building on the capability within Work and Income.

As Employment and Support New Zealand is implemented, monitoring of the reforms would be critical. The monitoring of the achievement of the long-term outcomes (meeting agreed targets to reduce the forward liability and therefore reduce long-term welfare dependence) would need to be supported by a detailed examination of the strategies and processes that were established.

Stage 5: Evaluation of Employment and Support New Zealand After a period of initial implementation we propose that there would be a full external evaluation of Employment and Support New Zealand and the work-focused strategy. This evaluation should provide a comprehensive evaluation of the outcomes of Employment and Support New Zealand against the objectives of the agency (reducing the forward liability and a consequent reduction in long-term welfare dependency). It should provide a detailed assessment of the performance of the agency in achieving the targets and expectations.

Introducing Jobseeker Support

For welfare recipients, due to the scale of the changes proposed, we suggest that implementation should be staged. New entrants to the system should be initially placed on the new Jobseeker Support (given that they are new to the system). Following that, we consider that it would be sensible for achievement of the target that there be a focus on addressing the number of young people on welfare (given the importance of early intervention and prevention) through an integrated approach to expectations, service delivery and paid work.

All new welfare recipients from June 2012 would have payments, expectations and support in the new model (Jobseeker Support). We would expect that gradually as the model is rolled out welfare recipients who entered before June 2012 would be increasingly incorporated into the model. Initially there would be a focus on the expectations and support that is provided to them, and over time there would be movement to ensure everybody was on the same payment structure. Following the evaluation (and implementation of its recommendations) of stage 5 above, all existing clients should be fully included in the new model.

Grandparenting

There may be merit in temporarily ‘grandparenting’ some changes for people already being paid a benefit. Grandparenting of payments means a person currently receiving payments would see no change in payment unless their circumstances changed or they volunteered to move to the new model. Grandparenting of work expectations would mean a person has no new obligations unless their circumstances changed or they volunteered to move to the new model.

Practically, it would simply not be possible to implement the new model for everyone receiving assistance from the first day, and thus some grandparenting would need to be a part of phasing implementation. Further, there are costs in running two systems side by side, not least because similar people may be treated differently depending when they started receiving a payment.

In the past grandparenting has been seen as a way of shielding people from changes they would find difficult to adjust to. While any grandparenting comes at the cost of considerable complexity, the Working Group sees some merit in grandparenting payments, but not work expectations. Thus benefit recipients’ rate of payment is maintained, but they have the work expectations in the new welfare system. Grandparenting work expectations would be confusing and considerably weaken the opportunity to alter welfare dependency.

The Working Group recommends that work expectations are not grandparented, though it recognises that during the implementation phase there may be a delay before this makes a practical difference for some people. If the Government was concerned about impacts of abatement changes on existing recipients, then it might consider grandparenting, or additional financial support to be in work, for existing recipients. More generally, grandparenting of payments should be on an exception basis and only where change would create a hardship that could not be mitigated by a change in behaviour.

Key risks to be managed

Changes of this magnitude, which require consistent implementation over a number of years, always carry implementation risks. The key risks are set out below.

Needs are not addressed

The new welfare system is intended to be more work-focused and lead to investment that supports more people into paid work. There is a risk this shift in emphasis will lead to people who are not able to support themselves by paid work being refused Jobseeker Support. The Working Group has addressed this by:

- having Employment and Support New Zealand include performance indicators on the quality of the service they offer;

- outcome based contracting to ensure that people are supported into sustainable employment;
- comprehensive assessment of work ability to identify and tailor support to individual's needs; and
- a strong external dispute resolution process.

Cost control

Throughout the Working Group's recommendations are reforms with cost implications. Where possible these have been quantified and incorporated into the analysis, but the reality is that any substantial change in large organisations carries the risk of unforeseen costs. It is necessary to include in the ongoing reform process mechanisms that limit this risk. The Working Group has addressed this by:

- clear accountability for delivering outcomes in the new welfare model;
- transparent long-term funding through the use of forward liability;
- ongoing evaluation and monitoring during and after the transition to the new system; and
- extending contracting out and competition to minimise costs.

Capacity and capability gaps

The reforms proposed here require a shift in the number and location of people with specialist skills in the health, social and education sectors. The Working Group has addressed this by:

- forward liability accounting that incentivises long-term investment in capability; and
- operational independence for the new Crown agency giving it the freedom to internally train or contract others to train people with the necessary skills.

Reform not sustained

The shift to the new system is the start of the process of reform and not the end point. The target proposed in Chapter 10 is modelled to be reached over 10 years and it is in the period following the reforms, when political and public attention will have shifted elsewhere, that gains need to continue to be realised to meet the target. The Working Group has addressed this by:

- the creation of a new agency with a focus on meeting the targeted changes;
- ongoing evaluation and monitoring during and after the transition to the new system; and
- greater transparency, using a forward liability measure that makes clear when future problems are emerging.

Default to previous practice limits gains

We have proposed a new delivery agency to enable a new workforce and culture to deliver the new welfare system. Even where there is a new workforce, their practice and the practice of their managers will be based on the experience of similar agencies. While this learning is important, there is potential for poor practice being retained. The Working Group has addressed this by:

- recommending external expertise to advise the transition process and the board of Employment and Support New Zealand; and
- creating a self-reinforcing package of proposals so those operating in the new system are very clear that defaulting to previous practice is not expected.

Change in external economic circumstances

Changes in the international economic situation, to the education and health systems and many other sectors have an impact on the numbers using the welfare system. Some of these may be benign, such as a greater work focus in secondary education; others may make it harder to reach the proposed target, such as an economic recession in China.

8.10 Summary

We propose a new delivery agency, Employment and Support New Zealand, to:

- improve outcomes for those at risk of long-term welfare dependency and reduce the costs of welfare dependency (as measured by the forward liability);
- focus on reducing the number of recipients of welfare assistance by at least 100,000 by 2021;
- provide effective support to people at risk of long-term welfare dependency through the use of contracted private and not-for-profit providers, including Iwi, Māori service providers, employers and whānau-centred approaches where these lead to better outcomes; and
- operate respectfully within a clearly defined set of rules about what support welfare recipients and their children can expect to receive and provide access to strong external dispute resolution processes.

The Ministry of Social Development would continue to provide advice on strategic welfare policy, evaluate the effectiveness of welfare settings and monitor the performance of Employment and Support New Zealand. It would also oversee the independent calculation of the life-time cost of welfare (the future liability) and have a crucial role in negotiating across Government to ensure services provided by agencies such as health and education support welfare recipients into paid work.

Recommendation 31: Actuarial assessment of the future costs of welfare receipt

The Welfare Working Group recommends that the new work-focused welfare system should:

- a) manage the performance of the system using a regularly estimated actuarial calculation of the forward liability;
- b) explore the setting up of a distinct welfare fund to cover the costs of the welfare system, with the ultimate possibility of partially funding the system; and
- c) manage the Crown's contribution to such a fund on a contractual basis that specifies the outcomes expected from any investment.

Recommendation 32: The establishment of Employment and Support New Zealand

The Welfare Working Group recommends that Employment and Support New Zealand be established as a Crown entity to implement the new welfare system, and be:

- a) accountable for improving work outcomes for people of working age at risk of long-term welfare dependency and reducing the long-term costs of welfare dependency (as measured by the forward liability);
- b) measured against the achievement of a reduction of at least 100,000 people on welfare through increased employment by 2021 (including achieving significant improvements for Māori), a significant reduction in numbers moving onto welfare and an equivalent reduction in the forward liability;
- c) required to provide effective, tailored and innovative support to those people at risk of long-term welfare dependency through the use of contracted private, not-for-profit and community responses;
- d) expected to develop efficient, effective contracting arrangements for the delivery of support to welfare recipients based on the principles of contestability, focus on outcomes and strong accountability arrangements that reallocates services away from providers who underperform;
- e) expected to provide comprehensive assessments of individual's work ability, particularly for sick people or people with impairment, and to identify and tailor support and expectations to individuals' needs; and
- f) required to adopt a respectful approach, within a clearly defined set of rules about what support welfare recipients and their children can expect to receive, and provide access to strong external dispute resolution processes.

Recommendation 33: The role of the Ministry of Social Development

The Welfare Working Group recommends that strategic policy and evaluation functions would reside in the Ministry of Social Development, which would also be responsible for:

- a) oversight of the independent assessment of the forward liability;
- b) monitoring the performance of Employment and Support New Zealand against the forward liability;
- c) evaluating the effectiveness of welfare policy settings and administrative performance;
- d) leveraging cross-Government initiatives to reduce the need for individuals to use welfare; and
- e) providing policy advice to Government on how future policy changes will affect the achievement of the reduction in working age New Zealanders on welfare by 100,000 people by 2021.

Recommendation 34: Employment services

The Welfare Working Group recommends that:

- a) employment services be based on contestable, outcome based contracts; and
- b) contract referral processes and contract payment structures be designed to financially incentivise contractors to achieve positive outcomes for those with greatest risk of long-term dependency.

Recommendation 35: Developing risk sharing approaches

The Welfare Working Group recommends that:

- a) Employment and Support New Zealand pilots and evaluates contracting with consortiums of Iwi, voluntary and private sector organisations to provide payment and employment services in some areas; and
- b) these contracts use the forward liability approach to share the risks between Government, employers and local organisations.

Recommendation 36: Implementation

The Welfare Working Group recommends that the reform of the welfare system be:

- a) overseen by a Committee of Senior Ministers supported by:
 - i. a senior officials group with an independent chair; and
 - ii. an Advisory Board (involving expertise on social policy, welfare delivery, organisational design, managing a forward liability, and Māori and employer perspectives);
- b) implemented in a staged approach with Employment and Support New Zealand, focusing initially on young people and working age people newly entering the welfare system;
- c) that implementation commence as soon as possible, with the following indicative timeline:
 - i. establishment of Ministerial Committee and Advisory Board from May 2011;
 - ii. technical advice and Implementation design completed by September 2011;
 - iii. Employment and Support New Zealand being set up and expectations for new and re-entering welfare recipients established between July 2012 and January 2013;
 - iv. Employment and Support New Zealand taking progressive responsibility for all other working age welfare recipients January 2013 to end of 2014; and
- d) that 'grandparenting' of payment levels be used where this helps implementation, but that work and parenting expectations not be 'grandparented'.

Chapter 9. A Government and community-wide approach

9.1 Introduction

Reducing long-term welfare dependency will require a community-wide approach to tackle the large numbers of people accessing welfare, promote rapid transitions to employment and reduce the long tail of existing beneficiaries.

Central to the Working Group's proposals in this area is a coherent cross-Government plan clearly focused on reducing long-term future liability and achieving the future target of at least 100,000 less people on welfare by 2021. The plan should drive fundamental change in areas such as schooling for at-risk young people, vocational training, health service provision and organisations dealing with released prisoners.

The cross-Government plan is designed to address drivers of long-term welfare dependency outside the welfare system. For example, there are important changes that should be made to school funding and accountability to ensure that less young people leave school with no qualifications. There are also significant improvements that need to be made in health service provision, as there are shortcomings in core health services such as mental health, rehabilitation and generic managed health care.

We envisage a clear action plan that drives practical initiatives as well as fundamental strategic change across Government. Key stakeholders outside of Government will also need to be engaged for this to be successful. The role of employers is essential, as success depends on creating an environment where it is profitable for business to expand and employ people who have previously been on welfare.

This Chapter sets out the proposals for a cross-Government plan, and discusses in more detail the sort of changes that will need to occur across different areas of Government and the wider community.

9.2 A cross-Government plan to reduce long-term dependency

Commitment and action is required in the welfare system to tackle the problem of long-term welfare dependency and joblessness. However there are also a number of factors outside the welfare system including the economy, the labour market, the education and training system and the health system where significant change is also needed.

Our proposal is for a cross-Government plan driven by the overall target of at least 100,000 less people on welfare by 2021. It should have clearly defined actions and initiatives. Progress should be reported annually. It should not be approached as a public relations exercise on the part of Government agencies, but be a clear and honest appraisal of what is working, what has been found to be ineffective and what more needs to be done.

We see the Ministry of Social Development taking a leadership role in creating this cross-Government approach. The Ministry needs to secure a commitment across other agencies about practical and strategic actions. The Ministry of Health, the Ministry of Education, the Tertiary Education Commission, Te Puni Kokiri, the Department of Labour, the Department of Corrections, the Department of Building and Housing, ACC, the Ministry of Economic Development and the Treasury all have a role. Non-Government stakeholders will also need to be actively involved in this approach including employer organisations, representatives of people receiving welfare, iwi leaders and mayors.

The new agency - Employment and Support New Zealand - would also play a central role in this approach. It will have a strong incentive to engage with Government policy and delivery, particularly around housing (particularly state housing), the labour market, education and health. There may be certain circumstances where Employment and Support New Zealand will also need to contract other operational parts of Government for the delivery of services.

Recommendation 37: A Government-wide plan to reduce long-term welfare dependence

The Welfare Working Group recommends a Government-wide plan aimed at reducing long-term benefit dependence be developed with clear targets and practical initiatives. Key aspects of the plan should cover education (including early childhood education and care) and training, health, housing, social services, temporary work and immigration, justice and economic growth. The plan should be developed in partnership with key stakeholders including employer organisations. It should be renewed annually, hold Government agencies clearly to account for performance and be based on evidence of effectiveness.

9.3 Policies to improve results for young people

The Working Group has identified that young people are a key priority for reducing long-term welfare dependency. With their working life ahead of them, it is imperative that long-term welfare dependence is not an option for young people.

In earlier chapters we outlined proposals for a range of additional expectations and supports for young people in receipt of Jobseeker Support. We emphasised obligations to be in education, training, and also increased pastoral support. We have also emphasised the need to focus on teen parents and in particular the well-being of their children. We have suggested that there should be requirements on teen parents to participate in parenting programmes and meet obligations in relation to their child's health and education.

The welfare system is however the ambulance at the bottom of the cliff, and prevention is by far the most effective and human approach. A cross-Government plan would drive a more cohesive, cross-agency approach to address the needs of disadvantaged young people. This should ensure that significantly fewer young people leave school early or with few qualifications. It would also bring together funding for post-school programmes for at-risk youth. It would build on the wide range of local initiatives that have been developed in association with the Mayor's Taskforce for Jobs.

There are a number of critical areas of action that are needed to prevent welfare dependence among at-risk young people.

Early support among disadvantaged families, particularly those on welfare

There is increasing evidence that children born into long-term welfare dependent families are more likely to become long-term welfare dependent as adults. There is ample evidence about the nature of cost effective and intensive early intervention programmes that can break this cycle.

Improving schooling outcomes for at-risk young people

A key component of any action to reduce long-term welfare dependency among young people rests with the education sector. Poor education, especially inadequate numeracy and literacy skills,

makes it difficult to secure jobs or undertake further training. It also exposes young people to a higher risk of joblessness which is accentuated in an economic downturn.¹⁴³

Compared to other OECD countries, New Zealand has a high proportion of young people who leave school early, and who do not achieve basic secondary school level qualifications.¹⁴⁴ Currently more than one in 10 people aged 16 to 24 years are not in education, training or employment. These poor results are particularly concentrated among Māori and Pacific young people.¹⁴⁵

Much of the focus of improving educational attainment clearly rests with the education system, educators and parents supporting their children to achieve. The Working Group supports current initiatives within the education system aimed at improving results for children at risk of educational failure. In particular any focus on improving engagement by Māori and Pacific students is likely to yield significant gains in terms of improved employment outcomes and reduced rates of welfare receipt.

There is increasing evidence from overseas about the nature of interventions and strategies to reduce the level of education failure in schools.¹⁴⁶ The Working Group suggests that the Government should review policies that will tackle the high levels of under-achievement in schools.

Successful approaches range from targets for individual secondary schools to reduce the proportion of students leaving school with few qualifications, linking funding to the achievement of these targets, ensuring that funding mechanisms give parents greater choice (as occurs in many Swedish schools), school improvement programmes that emphasise high quality teaching practice, building community-wide support for individual schools, increasing the range of services provided by schools (for example after-school care and literacy programmes), and practical learning environments linked to real work opportunities provided by local employers. Some of these best practice initiatives, for example Trades Academies, are already being implemented in some schools.

Comprehensive tracking of young people from 12 to 18 years who are not participating in school, further education, training or work

Too many young people are allowed to drop out of secondary education or drift into inactivity after leaving school. A variety of agencies collect information on young people. However, apart from some good local initiatives, there is little co-ordination among agencies and many young people fall through the cracks of agency responsibilities. We suggest that a useful starting point to ensure that at-risk young people do not end up on welfare is to build on the current local youth transitions services and give responsibility to one Government agency to maintain a database with information about young people who are not in school, education, training or paid work. This would then form the basis for better targeting of services and support.

Vocational training for disadvantaged young people

The Working Group's view is that more extensive vocational skills training and employment is a key factor in diverting at-risk young people from welfare. To be effective, this training needs to match

¹⁴³ Oreopoulos, P. (2005), *Stay in School: New Lessons on the Benefits of Raising the Legal School-Leaving Age*, CD Howe Institute Commentary, 223; Higgins, J. (2003), Youth Transitions Report Series 2003: *Labour Market Programmes for Young People: A Review*, Ministry of Social Development, New Zealand.

¹⁴⁴ OECD. (2010), *Jobs for Youth Synthesis Report*.

¹⁴⁵ Household Labour Force Survey. (2010), See also Quintini, G. (2008) *Jobs for Youth: New Zealand*. Paris, France: OECD, p.49-50; Rea, D. and Callister, P. (2009), *The changing nature of young people's transitions in New Zealand*, IPS Working Paper 09/10, Wellington: Institute of Policy Studies.p.6.

¹⁴⁶ See for example Balfanz, R. et al (2010,) *'Building a Grad Nation', America's Promise Alliance*.

what is needed by employers, be practical and suitable for young people with non academic learning styles, and provide sufficient pastoral care to ensure that students complete their training. In our consultations, the now disbanded Māori Trade Training scheme was often mentioned as an example of a successful approach in this regard. There are also a variety of current local initiatives that provide useful guides on what can be effective. For example, the Otorohanga Trade Training Centre has been successful at linking young people and local employers, and has provided extensive support for apprenticeships in the local area.

Further investment beyond the secondary school system in vocational training is needed. There is also a need to build better links between schools and these opportunities. The Youth Guarantee scheme provides a foundation on which to build better linkage between school and further study. Allowing funding to follow students should also provide more opportunities for the needs of at-risk students to be met.

Currently funding mechanisms do not promote strong enough links between secondary and tertiary study. They do not allow many secondary students to study vocational subjects which provide a pathway into an apprenticeship. While there are promising initiatives, such as the Manukau Institute of Technology's School of Secondary-Tertiary Studies, and the Health Science Academies in South Auckland schools, in the Working Group's view a more comprehensive approach is required.¹⁴⁷

Reducing duplication and improving the quality of programmes for at-risk young people

A significant number of Government agencies fund programmes for at-risk young people. These programmes typically aim to get a young person into a position where they can be employed or enrol in training.

Internationally there is good evidence that these programmes can be effective for young people with multiple risk factors.¹⁴⁸ The essence of effective programmes is that they provide young people with the support of caring supportive adults with clear expectations of pro social behaviour. They also work with the wider family and provide young people with challenges and opportunities to develop. In terms of providing effective youth services, evidence suggests that best practice occurs where existing proven programme methodology is used, where the programmes are based in the local community, where there is good training and quality assurance, with emphasis on ownership by young people in the programme.¹⁴⁹

The fact that many Government agencies are funding programmes for at-risk young people suggests there may be duplication. At the same time, the funding is often to small community organisations with limited emphasis on employment outcomes of employment and being off welfare. There is sometimes an absence of standards and training. The Working Group's view is

¹⁴⁷ The School of Secondary-Tertiary Studies is a consortium of Counties Manukau secondary schools that targets disengaged students entering Year 11. The aim of the programme is to keep at-risk students in school. They are enrolled in a Manukau Institute of Technology programme that supports their pastoral and education needs, and provides a positive pathway to secondary and tertiary vocational-based qualifications. The Health Science Academies operate in Otahuhu College and James Cook High school and are virtual foundation programmes that ready students to enter a range of health career training schemes.

¹⁴⁸ Beinert, S. et al, (2002), *Youth at Risk? A National Survey of Risk Factors, Protective Factors and Problem Behaviour among Young People in England, Scotland and Wales* (Communities That Care).

¹⁴⁹ Barwick, H. (2006), *Youth work today: A review of the issues and challenges*, Wellington, New Zealand: Ministry of Youth Development; Higgins, J. (2003), *Labour Market Programmes for Young People: A Review*, Ministry of Social Development. Martin, L. (2006) *Real work: A report from the national research project on the state of youth work in Aotearoa* The National Youth Workers Network; McLaren, K. (2003), *Reconnecting Young People: A Review of the Risks, Remedies and Consequences of Youth Inactivity*, Ministry of Social Development.

that there is considerable scope for improvement in the alignment and overall quality of spend on youth programmes across Government.

Preventing teen pregnancy and better supporting teen parents

New Zealand has one of the highest rates of teenage birth in the OECD.¹⁵⁰ This is a particular driver of high rates of long-term benefit receipt, and is also concerning as the evidence suggests that the children of teen parents are at an elevated risk of poor outcomes.¹⁵¹

The Working Group has proposed that parents under 18 years of age be required to complete their education or be in training. Enabling teen parents to do this requires a supportive education environment with childcare provided. There are currently 20 teen parent units attached to schools. There will need to be an expansion in facilities, both within mainstream schools as well as teen parent units, if more teen parents are to stay in education.

The Working Group's view is that there needs to be a clear focus on reducing teen pregnancy rates. Around 15 per cent of young people engage in unsafe sexual practices and the proportion is higher in the most deprived neighbourhoods.¹⁵² Evidence from both New Zealand and overseas suggests that informing school students of the consequences and responsibilities that come with teenage pregnancy, providing information and access to effective and cheap contraception (including long-acting reversible contraception), should form part of a strategy to reduce teenage pregnancy. Providing counselling and contraceptive advice as part of ante-natal care for teenage sole parents may also contribute to reducing repeat pregnancies of teen parents. Ultimately prevention also needs to be based on community views about what is appropriate.

Recommendation 38: Youth should be a major focus of the Government-wide plan to reduce long-term welfare dependence

The Welfare Working Group recommends that the Government give a high priority to:

- a) further investment in early intervention programmes for at-risk families that will reduce the risk of intergenerational benefit dependency;
- b) policies that will tackle the high levels of under-achievement in schools, including best practice teaching methods for at-risk students, the development of full services schools, and funding mechanisms that ensure more choice and diversity to better fit children's learning needs and lift their achievement levels;
- c) creating a comprehensive database of at-risk young people aged 12 to 18 to ensure youth services are targeted and monitored appropriately;
- d) place increased emphasis on vocational training for young people at risk of benefit dependency, including allowing education funding to more fully follow students; and
- e) rationalising and reviewing youth programmes across all Government agencies so as to ensure that young people at risk of long-term benefit dependence receive appropriate support.

¹⁵⁰ Ministry of Social Development. (2010), Social Report, <http://www.socialreport.msd.govt.nz/people/fertility.html>.

¹⁵¹ Collins, B. (2010), *Teen parents and benefit receipt – paper to the Working Group*, Ministry of Social Development.

¹⁵² Adolescent Health Research Group. (2008), *Youth'07, The Health and Wellbeing of Secondary School Students in New Zealand*, 28, University of Auckland.

Recommendation 39: Reducing teen pregnancy

The Welfare Working Group recommends that the Government give a high priority to developing a programme of initiatives to reduce teen pregnancy, including provision of information about the consequences of teen pregnancy, better youth health services (particularly in schools) and better access to long-acting reversible contraception.

9.4 Re-integration of offenders and recently released prisoners

Ex-prisoners are at high risk of long-term benefit dependency and often find it difficult both to find jobs and sustain paid work. In turn, a high level of unemployment is a risk factor for re-offending. In 2009, almost 9,000 people finished their prison sentence, and around 4,000 were granted a benefit.¹⁵³ About half of people who finish their prison sentence return to prison within four years.¹⁵⁴

Access to appropriate accommodation is the first issue that needs to be addressed for most recently released offenders. Beyond that, there is strong evidence that having a job helps prevent re-offending, particularly for young male offenders. Job-focused training, short-term subsidised jobs and support in the job are known to be effective.¹⁵⁵ While such programmes are expensive, they have significant social and fiscal pay-offs because they reduce welfare receipt as well as criminal offending and imprisonment.

The Working Group is of the view that there are clear gains from a more co-ordinated effort across the relevant agencies, primarily the Department of Corrections and Ministry of Social Development, to ensure there is stronger re-engagement of recently released prisoners in paid work.

Recommendation 40: Offenders and ex-prisoners

The Welfare Working Group recommends that the Department of Corrections and Employment and Support New Zealand jointly purchase outcome-based services for all people finishing a prison sentence with a clear objective of early re-engagement of recently released prisoners into paid work.

¹⁵³ Data from Ministry of Social Development and the Department of Corrections.

¹⁵⁴ Corrections website http://www.corrections.govt.nz/_data/assets/pdf_file/0009/394902/Complete-Recidivism-report-2009-COC.pdf.

¹⁵⁵ Uggen, C. and Staff, J. (2001), *Work as a Turning Point for Criminal Offenders*. Corrections Management Quarterly, 2001, 5(4), 1–16; Bloom, D., Redcross, C., Azurdia, G., Zweig, J. and Pindus, N. (2009), *Transitional Jobs for Ex-Prisoners: Implementation, Two-Year Impacts, and Costs of the Center for Employment Opportunities (CEO) Prisoner Reentry Program*. New York. MDRC. Available at SSRN: <http://ssrn.com/abstract=1667003>.

9.5 Health services to support the new welfare system

The New Zealand health system has a key role to play in reducing welfare dependency.

In Chapters 3 and 4 we discussed the key role that general practitioners and other health professionals could play in preventing people from needing welfare, by extending the focus on promoting the benefits of work to their patients and supporting patients to return to work where possible.

However as well as these primary health care implications, there should be a greater focus in the health system on preventative and rehabilitative health services to people at risk of long-term welfare dependency.

Currently there are failures in the health system – particularly around mental health service provision, youth health and alcohol and drug services – the consequences of which are necessarily absorbed by the welfare system. There are also shortcomings in the generic rehabilitation services, and a missing managed care workforce. A focus on reducing long-term welfare dependency will require a rebalancing of health service provision in many areas.

Across the OECD, there has been growing concern about the rising rate of mental illness and its impact on the welfare system through increasing uptake of incapacity benefits.¹⁵⁶ In December 2009, 41 per cent of people receiving a Sickness Benefit and 29 per cent of people receiving an Invalid's Benefit had psychological or psychiatric conditions listed as their first condition.

The improved assessment of work ability proposed by the Working Group is likely to highlight significant unmet demand in current mental health services.

Specialist interventions would be required to support people with mental illness into work as mainstream employment reforms and programmes have been found to have a limited effect.¹⁵⁷ Promising methods for addressing mental illness include stress management techniques, brief individual therapy, early return to work and frequent contact with managers.¹⁵⁸ For people with severe mental illness, individual placement support programmes¹⁵⁹ are more effective at helping people to find jobs than are pre-employment training schemes.¹⁶⁰ However, it should be noted that there is limited research available on the effectiveness of interventions to help people with common mental disorders remain in work or return to work after sickness.

The UK Government recently committed £300 million over three years to 'Improving Access to Psychological Therapies'. This initiative aimed to reduce the number of long-term welfare claimants with mild to moderate psychological needs that could have been better supported in primary care through increased access to psychosocial therapies. This investment would be funded by the resulting reduction in welfare costs and social costs such as crime, family breakdown and tax. Increased funding of early intervention mental health services could play a big part in preventing many people from losing their jobs and needing income support. In 2009/10, only \$27.85 million was spent on specific primary mental health services for people with mild to

¹⁵⁶ OECD. (2010), *Sickness, Disability and Work; A synthesis report*, Paris.

¹⁵⁷ Black, C. (2008) 'Working for a Healthier Tomorrow', available at <http://www.dwp.gov.uk/docs/hwwb-working-for-a-healthier-tomorrow.pdf>; OECD. (2010), *Mental Health, Disability and Work. Issues for discussion*. Paris.

¹⁵⁸ Hill D., Lucy D., Tyers C., et al., (2007) *What Works at Work: Review of Evidence Assessing the Effectiveness of Workplace Interventions to Prevent and Manage Common Health Problems*. Health Work Wellbeing; Seymour, L. and Grove, B. (2005), 'Workplace Interventions for People with Common Mental Health Problems', British Occupational Health Research Foundation.

¹⁵⁹ These are also referred to as evidence-based supported employment programmes.

¹⁶⁰ Royal College of Psychiatrists (2010) 'No Health without Public Mental Health', available at http://www.rcpsych.ac.uk/pdf/PS04_2010.pdf; Black, C. (2008), see above.

moderate mental health or substance abuse problems, compared with the \$1.157 billion that District Health Boards received for specialist mental health services for people who are severely affected by mental disorders, including addiction.

Investment in drug and alcohol rehabilitation would also be required to support the additional requirements we propose to place on drug and alcohol addicts. There is a shortage of alcohol and drug treatment services available in New Zealand. Current specialist addiction services can provide treatment to approximately 0.5 per cent of the population. The National Committee for Addiction Treatment suggests that this needs to at least double so that those most severely affected by addiction gain timely treatment.¹⁶¹

Recommendation 41: Health services to support the new welfare system

The Welfare Working Group notes that significant shortcomings and lack of capacity in core health service provision are putting pressure on the welfare system and recommends:

- a) Employment and Support New Zealand and the relevant health agencies ensure that people have access to timely health and disability services where these conditions impact on a person's ability to work;
- b) the Government reprioritise and address capacity shortages in mental health services, and in generic rehabilitation services and managed health care, so as to provide greater emphasis on early intervention and reduce significant unmet demand;
- c) health services for young people, particularly around mental and sexual health, be given a priority; and
- d) additional investment in drug and alcohol treatment services to support stronger requirements to address substance dependence for people on welfare.

9.6 Wider economic policies to support more jobs for people leaving welfare

Future job growth is critical to the success of welfare reform, and new jobs need to be suitable for the circumstances of people leaving welfare.

Policies that support employment

Employment growth requires effective macro and fiscal policies, a general regulatory environment that reduces the costs of doing business, and well designed labour market policies. These policies were a focus of some submissions.

Some submissions on our Options Paper argued that Government should be more proactive about creating a vibrant labour market that generated more jobs. For example the New Zealand Chambers of Commerce argued that 'reforms to increase flexibility of the labour market and remove barriers to employment are possibly the single biggest thing the Government can do to reduce benefit dependency'.

Mandating minimum terms and conditions – for example through minimum wages, dismissal provisions and minimum leave entitlements – involve a balance between job creation and protection of vulnerable employees. The OECD urges care in the use of such policies as they sometimes have the unintended consequence of reducing employment, often among the vulnerable workers the policies are designed to address.

¹⁶¹ National Committee for Addiction Treatment New Zealand (2008).

We are of the view that employment growth is an important area, and Government should undertake an investigation into whether labour market barriers to employment need to be addressed as part of a strategy to reduce welfare dependency.

Jobs for people leaving welfare

Submissions and feedback on our Options Paper identified both the opportunities and the difficulties of employing people who had been on welfare.

Some employers told us that they had problems with employing people on a benefit who had low skills and poor employment records. They mentioned that it was risky to employ people who had been on a benefit because they had lost appropriate work habits and motivation. The widespread use of drugs was also frequently mentioned as a barrier to employing some beneficiaries.

Others employers told us about the considerable efforts they were making to ensure that the design of workplaces and jobs were suitable for people leaving the benefit system.

We were told of many examples of dedicated training and induction programmes and concepts such as tiered training wages, partnering with polytechnics to provide NZQA-approved training and programmes combining classroom time with on-the-job training alongside experienced older employees. There was also considerable joint investment in taking on workers from a benefit through the use of subsidies. A number of employers commented on the importance of ensuring that employment programmes were targeted at the specific needs of their industry.

Supporting employers to provide flexible work arrangements

Flexible work arrangements and assistance to overcome physical or other workplace constraints can be an important factor in sustaining employment of people who have been on welfare. The Human Rights Commission, as part of its 'National Conversation on Work' recommended that partnerships between the Commission and business organisations be developed to promote human rights at work, including information about anti-discrimination in employment.¹⁶² As part of the 2006 Welfare to Work reforms in Australia, a range of approaches were used to encourage employers to provide more employment opportunities for the target priority groups which included sole parents and disabled people. These approaches included an advice service and information for employers along with specific targeted incentives.¹⁶³

Flexible arrangements for sole parents

A comprehensive OECD review concluded that workplace flexibility is an important factor in allowing sole parents to juggle the demands of parenting and work.¹⁶⁴ This was echoed in some of the responses we received on the Options Paper, which suggested that parent-friendly workplaces are an important part of arrangements that would have more sole parents enter paid work. Responses also highlighted that there needs to be more recognition that parents sometimes need to be able to take time off work to take their children to the doctor, attend school meetings and care for sick children.

The OECD review also found that for many businesses there was a strong business case for flexible working hours and conditions which improve recruitment and retention of staff and reduce

¹⁶² Human Rights Commission. (2010), *"What next? National Conversation about Work"*, Wellington.

¹⁶³ These included the Workplace Modification Scheme and Wage Subsidy Scheme.

¹⁶⁴ OECD. (2007), *Babies and Bosses: Reconciling work and family life – synthesis report*. Paris.

absenteeism.¹⁶⁵ However, there are some specific approaches that could be considered to support strong and sustained relationships between employers and ex-beneficiaries.

Compared to the OECD average, New Zealand has a high rate of part-time employment amongst women.¹⁶⁶ This suggests that many firms are providing family friendly workplaces. In addition, a range of initiatives have been developed to support the reconciliation of work and family and showcase best practice. These include the EEO awards, paid parental leave, flexi-leave provisions, the Holidays Act and early childhood education.

Despite these initiatives, we have heard from some sole parents that they find it difficult to find family friendly employment. We recommend that further information on the provision of flexible working hours and conditions is provided to employers.

Supporting employers to address workplace related health and disability issues

Prevention of employment-related sickness and disability starts in the workplace. There is growing evidence that health and well-being programmes bring many benefits to firms.

PriceWaterhouseCoopers found considerable evidence from literature reviews and over 50 United Kingdom-based case studies that health and well-being programmes have a positive impact on intermediate and bottom-line benefits. Intermediate business benefits include reduced sickness absence, reduced staff turnover, reduced accidents and injuries, reduced resource allocation, increased employee satisfaction, a higher company profile, and higher productivity.

PriceWaterhouseCoopers (2008) as cited in Black (2008)

In many countries, policies to support more employer commitment to prevention and rehabilitation have focused on providing information to employers on the financial benefits of promoting a healthier workforce and stronger engagement in the rehabilitation process, especially through early intervention approaches. For example, the UK's Health Work and Well-being is a cross-Government initiative promoting links between health and work with initiatives in a range of workplaces.

The Working Group recommends that information is provided to employers to support them in employing sick and disabled people and to help their injured staff back to work. Early intervention when sickness or impairment occurs is critical for a return to work or staying in work. As we noted in the Options Paper, the ACC's Better@Work pilots provide a promising model for supporting employers to help their injured staff get back to work as early as they can. The formation of the Employer Disability Network is also an especially positive development.

Other support arrangements

It can be more risky for employers to consider offering employment to the small group of people who have little work history or been out of work for a long period because of complex personal circumstances. To overcome this, targeted programmes could be used to support some employers. For example, in-work support for six months, where a third party contractor ensures the employee commits to the job and resolves any out-of-work problems, may be sufficient to overcome these risks. This time-limited in-work support would form part of contracting for outcomes services for those at high risk of long-term welfare dependency.

¹⁶⁵ OECD. (2007), *Babies and Bosses: Reconciling work and family life – synthesis report*. Paris.

¹⁶⁶ Ibid.

Broadening the concept of in-work support could involve providing support to both employers and new employees to manage work and family commitments. This may involve the development of practical ways to enable new employees to manage their family commitments in a way that does not impede their work. It could also involve practical support for new employees as they adjust to working, by addressing particular issues such as how to manage work when a child becomes sick. Finally, it may involve providing practical advice to employers about how to manage and support new employees with specific issues.

The Industry Partnership and Contracted Services approaches that involve a delivery agent partnering with industries and firms to address labour and skills needs, as well as to support beneficiaries into work have been successful. Consideration could be given to an expanded role for such services to provide practical support for employers and industries to build practices that would enable them to recruit and retain sole parents and reduce absenteeism.

9.7 Summary

Addressing long-term welfare dependence cannot be done by looking at issues within the welfare system alone. As well as making changes to welfare policy and delivery, there needs to be a concerted plan across a number of areas of Government activity.

Priority areas for attention include education and health. The number of people leaving school without the skills or aptitude to find or sustain employment is a major concern, and this needs to be addressed as a matter of urgency. Reducing teen births is a high priority, as is assisting teenage parents to give their children the best start in life and preparing the teen parent to move into the workforce. Similarly, reducing the number of people unable to work because of sickness points to the need to address areas within the health system where there are long-standing deficiencies in services. Gaps in mental health, rehabilitation services and managed care services create costs which inevitably show up in the welfare system, not to mention costs to individuals in terms of their well-being. Engagement in paid employment by previous offenders is a key strategy to reduce recidivism.

Stable economic policy and policies which support employment growth are critical, and will provide a platform for employers to play their part. There are strong examples of private sector leadership working with vulnerable groups to reduce barriers to employment which can be learnt from and built on.

Recommendation 42: Policies to support employment growth

The Welfare Working Group recommends that the Government:

- a) ensure that stable macro-economic policy, employment-focused labour market regulation and policies which foster job creation and reduce skill mismatches in the labour market support a strategy of reducing long-term welfare dependency; and
- b) undertake an investigation into whether labour market barriers to employment need to be addressed as part of a strategy to reduce benefit dependency.

Recommendation 43: Promoting responsive workplaces

The Welfare Working Group recommends:

- a) that an information package be developed in association with employers to showcase best practice in assisting people with employment barriers to enter and stay in paid employment, and that this include information about the benefits of investing in family friendly and healthy workforce policies;
- b) that an investigation of how an early intervention approach that links a person with a illness or disability, with their family doctor and their employer, be carried out for use in the welfare system (similar to the ACC Better@Work scheme);
- c) that access to practical advice and support for those leaving the welfare system and entering new workplaces is expanded to enable strong and sustained employment relationships through:
 - i. the provision of targeted in-work support for at-risk individuals and their employers; and
 - ii. an expansion in the Employers Disability Network and other services so as to better support employers who are implementing cost-effective health, disability, and family-friendly workplace policies.

Chapter 10. What could be achieved from the new approach?

10.1 Introduction

Over the past eleven months the Welfare Working Group has presented a range of options and directions for reform in the Issues Paper and the Options Paper. These options and directions have intentionally been high level, designed to guide Ministers' decisions about the further detailed work needed to implement the Working Group's recommendations. A specific welfare reform implementation plan would also need to take account of a variety of other considerations, including:

- the current and future fiscal situation;
- complementary areas of reform;
- overlapping policy decisions that need to be made to implement reform;
- decisions Government makes on priorities for programme change; and
- capacity to deliver reform with available organisational and human resource capability.

The overall impact of the reforms is dependent on the nature of the system, the many factors outside of the welfare system (including the education system and the economy), and the way that people respond.

For the purposes of this review it is not possible to precisely model and cost the sub-components of the programmes and then aggregate the effects to a total reform cost-benefit analysis. In part this relates to the degrees of uncertainty in each of the components and in part it relates to the complex interactions between different components of a package – particularly the importance of an approach that combines better support and greater work-focused expectations.¹⁶⁷ We therefore model the package as a whole, rather than attempting to model specific components.

In this section we review some of the evidence on welfare reform and the impact on different groups and discuss the likely impacts. We examine the potential impact on long-term welfare receipt, employment, fiscal costs, on children and families, on poverty, for sick and disabled people, for Māori, and for other economic and social outcomes that could result from a large scale, well-implemented reform. The scenarios presented here scope the opportunity for improvement and, while upper estimates, demonstrate the scope of what could be achieved by the reforms recommended in this Report.

We then undertake some scenario analysis of a reform to the system as a whole that show the costs of inaction and the benefits of action. In Chapter 2 we discussed the importance of reducing the number of people on welfare by 100,000 people by 2021. In the past many successful welfare reforms have led to large increases in employment and reductions in welfare. These reforms include: the reforms to ACC in the late 1990s; reforms to the Unemployment Benefit in the mid 1990s and early 2000s; the Australian Welfare to Work reforms; and cross-country differences in numbers on welfare that reflect differences in policy settings.

¹⁶⁷ OECD (2006) shows that for an activation strategy to be successful it must include policy decisions across a range of dimensions (including targeting, levels of support, expectations and the ways that services are delivered). OECD (2006), *OECD Employment Outlook*, Chapter 3, OECD.

Our analysis indicates that if the reform outlined in this Report were to proceed it could potentially result in:

- a reduction in the numbers of people on welfare in New Zealand of between 49,000 and 93,000 people;
- an expected cost of between \$215 and \$285 million per year in additional services;
- reduction in the future liability from around \$47 billion to \$34 billion by 2021;¹⁶⁸
- annual net savings of around \$1.3 billion per annum if the scenario outcomes are achieved;
- the numbers of partners reliant on welfare declining by around 8,000 people taking the overall decline in numbers reliant on welfare to 101,000 people; and
- higher employment, lower poverty, reduced inequality, better economic outcomes and improved outcomes for children, disabled people, those who are sick, Māori and other key at-risk groups.

10.2 The policy foundation for the assessment

The Working Group is proposing a major change to welfare in New Zealand to improve employment outcomes and to reduce the numbers of people on welfare for long periods. This reform is not simply about providing a range of new programmes within existing arrangements, but it is about a fundamentally new welfare system, for participants, for people delivering welfare and for the broader community. The major components of the reform are:

- the establishment of a feasible medium term target reduction of 100,000 fewer people on welfare by 2021;
- a new delivery agency that is responsible for achieving this target, that is transparently measured against the achievement of this target, and that has access to the full range of instruments to achieve this target (while ensuring a strong welfare system for those that need it);
- a default expectation of work for people who are currently classified as unemployment beneficiaries, sickness beneficiaries, some invalid's beneficiaries, sole parents with children aged three years and over, Domestic Purposes Benefit-woman alone and widows beneficiaries;
- no work expectation for sole parents with children under three years old, some invalid's beneficiaries, Domestic Purposes Benefit-caring for sick and infirm beneficiaries, and people in some other specific temporary circumstances such as bereavement;
- a range of new interventions and support that are targeted at those people for whom it would have the greatest effect, with a particular focus on providing more intensive support for those at risk of long periods of welfare dependency;
- a new welfare system with a simpler payment structure; and
- a greater focus on supporting people into work so that they no longer need to use the welfare system, through better engagement with doctors and employers as people apply for welfare.

The new system is a multi-dimensional approach to reducing welfare dependency with:

- increased levels of personal responsibility for people on welfare to find work;

¹⁶⁸ Figures are projected in 2021.

- increased expectations for those stakeholders outside of the welfare system – the education system, the health system, employers and the community more broadly; and
- increased accountability on the delivery agent to provide cost-effective interventions to support people to find and move into work.

10.3 The evidence for the potential large impact of welfare reform

The impact that welfare reform has on outcomes is the subject of a large and significant debate internationally.¹⁶⁹ While there is some consensus in the mainstream literature about the consequences of welfare reform, there remain significant uncertainties. These uncertainties are in part driven by the observation that similar types of reforms can have different effects depending on the context that they are undertaken, particularly:

- the nature of people on welfare and their capacity for paid work now or in the future;
- the economic climate and the availability of vacancies;
- the coherence of the reforms as a package;
- the capacity, capability and institutional arrangements of the organisation(s) implementing the reform; and
- the ways in which reforms are implemented.

It is therefore difficult to be precise about exactly how many people will leave welfare as a result of a specific reform, before the reform is implemented. This uncertainty suggests that it is important that reforms are based on a model of continuous improvement taking account of what works. The system needs to be adaptable and monitoring and evaluation needs to be undertaken throughout the reform process to identify what elements are or are not working and how modifications can be made quickly.

In the Issues Paper and the Options Paper we have presented broad ranging evidence on the effectiveness of reforms in different countries. Our reading is that the reforms that we have proposed are consistent with identified best practice. In particular, reforms that combine greater levels of work expectations (including preparing for work) for more people, combined with more intensive support for those that need it, and with strong governance and accountability arrangements lead to significantly stronger outcomes (see the Options Paper for further discussion).¹⁷⁰

In this section we review the evidence presented in the Issues Paper and the Options Paper that shows that the welfare system can be a significant driver of being on assistance or being in employment.

The impact of successful previous reform for sole parents

The welfare system for sole parents does have a significant influence over their employment rates and their likelihood of being out of the welfare system.

¹⁶⁹ OECD (2006), *OECD Employment Outlook*, chapter 3, OECD. Heckman, J.J., Lalonde, R.J. and Smith, J.A. (1999), "The Economics and Econometrics of Active Labor Market Programs", in Ashenfelter, O. and Card, D. (eds.), *Handbook of Labor Economics*, Vol. 3A, North-Holland, Amsterdam. Martin, J.P. and Grubb, D. (2001), "What Works and for Whom: a review of OECD countries' experiences with active labour market policies", *Swedish Economic Policy Review*, Vol. 8, No. 2, pp. 9-56. Kluve, J. (2006), "The Effectiveness of European Active Labor Market Policy", IZA Discussion Paper. No. 2018, Bonn.

¹⁷⁰ See Options Paper and references therein particularly: OECD (2006), *OECD Employment Outlook*, chapter 3, OECD.

Until recently New Zealand, Australia and the United Kingdom did not have work expectations for sole parents prior to their youngest child being in secondary school or later.¹⁷¹ In Figure 5.2 of the Issues Paper we showed that these countries now all have a work expectation when the youngest child reaches school age. In contrast we showed that France, Germany, Norway and Switzerland have a work expectation when the youngest child is three years of age. A range of other countries have work expectations at an earlier age (including Sweden, Japan and Denmark).

The impact that low levels of work expectations have on employment rates is demonstrated by the fact that New Zealand, the United Kingdom and Australia have low employment rates for sole parents (at 62 per cent or lower).¹⁷² Countries with a work expectation around a child reaching three years of age (France, Germany, Norway and Switzerland) have medium levels of employment (between 65 per cent and 75 per cent). Countries with an earlier work expectation tend to have even higher employment rates (for example, 80 per cent or higher in Japan, Denmark and Sweden).

Another comparison is that New Zealand's rate of sole parent benefit receipt (3.7 per cent of the working age population) is nearly a third higher than the OECD average (2.8 per cent) and more than six times that in the United States (0.6 per cent).¹⁷³ The differences in sole parent welfare are likely to be driven by a range of factors (including social expectations about sole parenthood, sole parent participation in welfare, and sole parent employment), but welfare design is likely to be one of the key drivers of differences across countries.

The 2006 welfare reforms in Australia provide a useful comparison for New Zealand as they increased the work expectations and support for sole parents who had children between the ages of six years and 15 years. Many sole parents who previously would have received a sole parent payment were transferred to the equivalent of New Zealand's Unemployment Benefit (Newstart Allowance), while others had increased levels of work expectation while remaining on a parenting payment. In addition, increased level of support (with childcare, to find employment and other support) was provided. This reform in Australia resulted in a drop of around 15 per cent of the number of sole parents applying for welfare and 11 per cent more sole parents left welfare as a result of the reform.¹⁷⁴

The reforms to sole parent welfare in the United States were significant. Changes included introducing time limits to welfare, a new earned income tax credit, and introduction of programmes to reduce the need for sole parents to use welfare. The impact of these reforms (in very strong economic conditions) was to reduce the numbers on sole parent welfare from a peak of 5.1 million families in 1994 to 1.6 million families in mid-2008.¹⁷⁵

In February 1999 New Zealand introduced new expectations and supports for sole parents, with a part-time work expectation for sole parents with a child aged six to 13 years and a full-time work expectation for sole parents with older children. The number of people on the Domestic Purposes Benefit declined from 113,329 in 1998 to 107,821 in 2001. There was a fall in the numbers applying

¹⁷¹ Finn, D. and Gloster, R. (2010), *Lone Parent Obligations: A review of recent evidence on work-related requirements within the benefit systems of different countries*, United Kingdom Department of Work and Pensions, London; Kinnear, P., Grant, G. and Oliver, K. (2003), *Welfare Reform in Australia: An Evidence-Based Approach*, paper presented to the National Social Policy Conference, July 9-11, University of New South Wales.

¹⁷² Source: OECD Family Database (Data around 2007).

¹⁷³ Latest available data used. The data refers to 2008-09 year for New Zealand, 2008 for United Kingdom, 2006-07 for Australia, 2004 for the United States and OECD-16.

¹⁷⁴ Australian Department of Education, Employment and Workplace Relations (2008), *Welfare to Work Evaluation Report*.

¹⁷⁵ Finn, D. and Gloster, R. (2010), *Lone Parent Obligations: A review of recent evidence on work-related requirements within the benefit systems of different countries*, United Kingdom Department of Work and Pensions, London; Kinnear, P., Grant, G. and Oliver, K. (2003), *Welfare Reform in Australia: An Evidence-Based Approach*, paper presented to the National Social Policy Conference, July 9-11, University of New South Wales.

for and being granted a Domestic Purposes Benefit and a three to five per cent rise in exit rates for sole parents on welfare.¹⁷⁶ The share of sole parents with children aged six to 13 years who were in employment increased from around 50 per cent prior to the introduction of work-testing in 1998 to around 60 per cent in 2002.¹⁷⁷ There are a range of reasons that we would expect more significant effects from the reforms in this Report than those in 1998/99. The reforms in 1998/99 coincided with the introduction of a new delivery agency, they were not in place for a significant period of time, and the reforms proposed in this Report include a new, more tailored approach to employment support.

Table 10.1: Estimates of the impact of the welfare system on numbers of sole parents on welfare

	Impacts
<i>Cross-country differences in sole parent employment</i>	Countries with work expectations for sole parents when their youngest child is older (New Zealand, Australia, the United Kingdom) have employment rates at or below 62 per cent, compared to countries with work expectations at earlier ages (Sweden, Denmark and Japan) that have employment rates at 80 per cent or higher.
<i>Cross-country differences in sole parent welfare receipt</i>	New Zealand's rate of sole parent benefit receipt is about 30 per cent higher than the OECD average and nearly six times higher than that in the United States.
<i>2006 Australian Welfare to Work reforms</i>	These reforms resulted in a drop of 15 per cent in the number of sole parents applying for welfare and 11 per cent more sole parents left welfare as a result of the reform.
<i>1990s United States Temporary Assistance for Needy Families reforms</i>	The numbers on sole parent welfare in the United States fell from a peak of 5.1 million families in 1994 to 1.6 million families in mid-2008.
<i>1998/99 New Zealand welfare reforms</i>	The share of sole parents with children aged six to 13 years who were in employment increased from around 50 per cent prior to the introduction of work-testing in 1998 to around 60 per cent in 2002.

Source: Provided in text

The impact of successful previous reform for sick people and disabled people

The numbers of sick people and disabled people on welfare reflects the complex interaction of health and disability, labour market outcomes and the welfare system. While the impact of welfare reform on disabled people and those who are sick is more complex and uncertain than that for sole parents (particularly in the case of New Zealand), there are some conclusions we can draw and some evidence that the components of the package identified in this Report would have significant effects.

A key pillar of the reforms identified in this Report is the establishment of new approach to managing disabled people and those who are sick, based on improved assessment, clear expectations, greater access to the full suite of instruments that can improve outcomes and reduce dependence on welfare, a greater focus on the underlying drivers of long-term cost, more transparent reporting, and clear accountability arrangements. The ACC scheme in New Zealand provides an instructive comparison. In the Options Paper we identified that the number of long-term ACC claims declined from nearly 30,000 in 1997 to around 14,000 in 2004. This was the

¹⁷⁶ Information based on administrative grant and application data. Exit rate analysis described in Department of Labour and Ministry of Social Development (2001); *Evaluating the February 1999 Domestic Purposes Benefit and Widows Benefit Reforms: Summary of key findings*.

¹⁷⁷ Options Paper, Section 3.3.

consequence of a clear understanding of the longer time drivers of cost and consequent policy decisions that reduced these costs (including access to medical treatments and more accurate work ability assessment).¹⁷⁸

Across the OECD there is a great variation in the levels of sickness and disability receipt. This ranges from above 10 per cent of the working age population in Hungary, Sweden and Norway to less than 4 per cent in Spain, France and Italy. Furthermore there has been a large variation in trends in disability and sickness benefit receipt across countries with some countries addressing increases in numbers on sickness and disability benefits. Sickness and disability benefit rates have declined significantly in a few countries, especially Poland, Portugal, Luxembourg and the Netherlands, following policy changes which tightened access to disability benefits. The beginning of a turnaround in the increasing beneficiary trend is also visible more recently in several other countries, including Sweden, Switzerland and the United Kingdom (however levels in 2008 were still higher than 10 to 15 years before).¹⁷⁹

The 2006 Australian Welfare to Work reforms involved combining more work expectations with better work-focused support for people with partial work ability. While there were issues with the way that this partial work ability was identified, there was strong evidence that those people who were classified with partial work ability left welfare at significantly faster rates after receiving the support and expectations than equivalent people in earlier years where support was not available. Indeed DEEWR (2008) showed that there was a six per cent increase in the exit rate for people with partial work ability in Australian Welfare to Work initiatives.¹⁸⁰

The Netherlands had high and rising numbers of people on sickness and disability benefits during the late 1990s and early 2000s. There has been major reform in the Netherlands that has included providing comprehensive work ability assessments for all people on these benefits under the age of 45 years, increased expectations of employers and other stakeholders, and increased expectations of people on sickness and disability benefits. Re-assessment of work ability saw 40 per cent classified with less impairment than previously or fit for work (for people under the age of 45 years) and following the reforms there was a drop in the numbers on sickness and disability benefits by 13 per cent (albeit from a higher level).¹⁸¹

In the United Kingdom a significant reform was undertaken to sickness and disability benefits during the mid to late 2000s. These reforms included providing a more active approach to people on sickness and disability benefits, and a better and more precise assessment of work ability. In the United Kingdom around 69 per cent of applicants for an incapacity benefit were classified as fit for work.¹⁸² After a long period of rapid growth, the numbers on sickness and disability benefits stabilised and started to fall over this time.¹⁸³

¹⁷⁸ David Caygill's presentation to the Working Group forum, available at <http://ips.ac.nz/WelfareWorkingGroup/Downloads/David-Caygill-Will-the-benefit-system-deliver-for-NZ-in-the-future.pdf>.

¹⁷⁹ OECD (2010), *Sickness, Disability and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries*, OECD Publishing.

¹⁸⁰ Department of Education, Employment and Workplace Relations (2008); *Welfare to Work Evaluation Report*.

¹⁸¹ OECD (2010), *Sickness, Disability and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries*, OECD Publishing.

¹⁸² Department of Work and Pensions (2009), *Employment Support Allowance: Work capability assessment statistical release (October 2009)*, cited in Fletcher (2009) *Addressing the growth in Sickness and Invalid's Benefit receipt: A report prepared for the New Zealand Treasury*. This 69 per cent figure relates to applicants for an incapacity benefit. It is likely that a lesser percentage of those already on an incapacity benefit would be assessed as fit for work.

¹⁸³ OECD (2010), *Sickness, Disability and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries*, OECD Publishing.

In general to date in New Zealand the numbers of sick people and disabled people on welfare has continued to grow strongly over the past 40 years. A number of reform efforts have been attempted but with little impact on the overall increase in numbers. The major differences in the reform processes proposed in this Report from earlier reform efforts are that the new approach provides a greater focus on active work-focused support, a new approach to targeting support to sick people and disabled people, strong signals about the value of paid work for more people, and a clearer and accurate assessment of work ability.

Table 10.2: Estimates of the impact of reform on numbers of sick and disabled people on welfare

	Impacts
<i>The ACC approach to sick and disabled people</i>	The number of long-term ACC claims declined from nearly 30,000 in 1997 to around 14,000 in 2004.
<i>Reforms to sickness and disability benefits across countries</i>	Sickness and disability benefit rates have declined significantly in a few countries, especially Poland, Portugal, Luxembourg and the Netherlands, following policy changes which tightened access to disability benefits. The beginning of a turnaround in the increasing beneficiary trend is also visible more recently in several other countries, including Sweden, Switzerland and the United Kingdom.
<i>2006 Australian Welfare to Work reforms</i>	DEEWR (2008) showed that there was a six per cent increase in the exit rate for people with partial work ability in Australian Welfare to Work initiatives. ¹⁸⁴
<i>Reforms in the Netherlands in the 2000s</i>	Re-assessment of work ability saw 40 per cent classified with less impairment than previously or fit for work (for people under the age of 45 years) and a drop in the numbers on sickness and disability benefits by 13 per cent (albeit from a higher level).
<i>Reforms in the United Kingdom in the 2000s</i>	In the United Kingdom around 69 per cent of applicants for an incapacity benefit were classified as fit for work. After a long period of rapid growth the numbers on sickness and disability benefits stabilised and started to fall in the mid to late 2000s.

Source: Provided in text

The impact of a welfare system focused on paid work

Beyond reforms to welfare for sick and disabled people and for sole parents, there are some lessons that we can learn from more active work-focused system on the numbers on assistance.

In the late 1990s and early 2000s a range of service delivery changes were made to the way that people on the Unemployment Benefit were processed. These changes included the establishment of Work and Income (combining income support and employment support into one agency) and the introduction of a new job search support model that had a greater focus on supporting people before they needed a benefit (see Section 2.1 of the Options Paper).¹⁸⁵ A work-focused benefit combined with a very strong economy (and some migration to non-work focused benefits) resulted in the numbers on the Unemployment Benefit falling from more than 154,000 in the 1990s to 28,000 in early 2008. Moreover inflows to the Unemployment Benefit fell by a quarter and exit rates from benefit increased by a fifth.

¹⁸⁴ DEEWR (2008); Welfare to Work Evaluation Report.

¹⁸⁵ These reforms include the establishment of Work and Income (joining benefit and employment services), emphasis on work from the first engagement, the introduction of pre-benefit activities, increased job search obligations and a strong focus on the needs of employers.

In 2003 New Zealand introduced a Jobs Jolt package of reform that included a variety of elements, one of which was increased expectations and support for older workers. An evaluation showed a subsequent 4.6 per cent increase in the proportion of older unemployment beneficiaries leaving benefit than a comparison group (see section 2.4 of the Options Paper).

Table 10.3: Other estimates of the impact of a welfare system on numbers of recipients

	Impacts
<i>1990s and 2000s reforms to the Unemployment Benefit</i>	Numbers on the Unemployment Benefit fell from more than 154,000 in the 1990s to 28,000 in early 2008, inflows to the Unemployment Benefit fell by a quarter and exit rates from benefit increased by a fifth.
<i>Jobs Jolt</i>	There was a 4.6 per cent increase in the proportion of older unemployment beneficiaries getting off benefit than a control group, resulting from an increase in expectations and supports.

Source: Provided in text

The impact of contracting out and alternative service provision

A key reform outlined in this Report is the change in institutional design of the delivery of the welfare system. The Report proposes greater transparency of the delivery of assistance, more of a focus on outcomes, more contestability in the provision of welfare services and drawing in the capability of delivery agents outside of Government.

There is evidence of large and significant effects of outcome based contracting in New Zealand relative to non-outcome based approaches. In the outcome based funding pilots' evaluation, a group on outcomes based programmes were between 10 and 20 per cent more likely to be off-benefit in the year after participation than a control group who did not participate.¹⁸⁶

The evidence of the cost-effectiveness of the Australian model of employment services has been well-documented. In the Australian model, employment services are delivered by non-Government and private sector employment service delivery agents. Payments for service are based in large part on outcomes delivered and business is allocated to high performing providers. Following the introduction on the Job Network in May 1998, the costs per employment outcome fell by a quarter and programme participants in Australian employment services consistently have off-benefit rates seven to 11 per cent higher than non-participants.^{187,188}

Table 10.4: Service delivery design and numbers on welfare

	Impacts
<i>Outcome based funding pilot in New Zealand</i>	A group on outcomes based programmes were between 10 and 20 per cent more likely to be off-benefit in the year after participation than a control group who did not participate.
<i>Delivery of Australian Employment Services</i>	Following the introduction on the Job Network the costs per employment outcome fell by a quarter and programme participants in Australian employment services consistently have off-benefit seven to 11 per cent higher than non-participants.

Source: Provided in text

¹⁸⁶ Ministry of Social Development (2004), Outcome Based Funding (OBF) Pilots Evaluation Report.

¹⁸⁷ Department of Employment and Workplace Relations (2002), Job Network evaluation— stage 3 evaluation report.

¹⁸⁸ Department of Employment and Workplace Relations (2006), Customised Assistance, Job Search Training, Work for the Dole and Mutual Obligation: A Net Impact Study.

10.4 Modelling a scenario of reform

In this Chapter we have outlined the major elements of reform and the impacts of previous significant reforms. We now present one reform scenario based on the directions outlined in this Report, and outline its fiscal costs and discuss its potential benefits.

We emphasise that what is presented here is not a costing of the proposals in this Report, but a scenario of what could be achieved from a successful reform package. An important stage of the decision making process will be a formal costing of the proposed reforms.

Based on what has been achieved elsewhere, our assessment is that a large scale and successful reform (if well implemented) could yield the outcomes that follow.

Modelling scenario - programme costs

There are a wide range of policy choices that would influence the overall programme costs, including how many people would be targeted for more intensive support, how they would be targeted and what types of services and supports that they would receive.

In order to provide a scenario of potential fiscal costs in Table 10.5 below we broadly assume that around 10 per cent of Unemployment Benefit, Domestic Purposes Benefit –Women Alone and Domestic Purposes Benefit –Caring for the Sick and Infirm, 15 per cent of Domestic Purposes Benefit –Sole Parent and Sickness Beneficiaries, and 25 per cent of certain groups currently categorised to Invalid’s Benefit are directed to intensive support, with the remainder being provided job search support. The detailed modelling specification and results are available on the Working Group website. We assume a cost of around \$1,000 per person that receives job search support and a cost of between \$5,000 and \$20,000 for people receiving intensive support (depending on their level of support needs).^{189,190} These costs are broadly based on the approach used in the Australian model of employment services, as there is no equivalent publicly available costing information for a streaming model in New Zealand.

Table 10.5: Costs of service provision in Australian Employment Services

	Per cent	Service and investment account	Outcome or placement fees
Stream 1 – work ready	53	Up to A\$792	Up to A\$440
Stream 2 – disadvantaged 1	22	Up to A\$1,435	Up to A\$2,800
Stream 3 – disadvantaged 2	10	Up to A\$2,220	Up to A\$6,600
Stream 4 – referral from job capacity assessment	15	Up to A\$4,386	Up to A\$6,600

Source: http://www.deewr.gov.au/Employment/EmploymentServicesProcurement/esc2009_12/Pages/home.aspx#esd.

¹⁸⁹ The figure associated with Job Search Service represents the costs of regular contact with the jobseeker regarding obligations and available work opportunities, the collection of job vacancies and building strong relationships with employers, and access to specific funds to overcome specific issues that some jobseekers may face when applying for specific jobs, for example, transport, short-term training for specific work-related skills, work clothes or other costs associated with employment.

¹⁹⁰ The figure associated with Intensive Services refers to regular one-on-one contact between the delivery agent and the jobseeker for a sustained period (13 weeks, 26 weeks or longer) that involves identifying and addressing labour market related barriers, incentives on the delivery agent to promote a focus on paid work, resources to support larger scale interventions to support jobseekers to prepare for and then move into work (personal support programmes focused on addressing personal barriers that prevent access to employment, training or other work related services). The aim of these services would be to be professional, flexible, and sensitive to the participant’s circumstances and background as well as tailored to the needs of both the participant and local services available in the community.

We assume that the new model of services are provided to new entrants to the system from July 2012, and are gradually rolled out to existing clients between July 2012 and June 2014.

We see from Figure 10.1 below that the proposed reform would be expected to cost between \$215 million and \$285 million per year. This figure is made up of two major components:

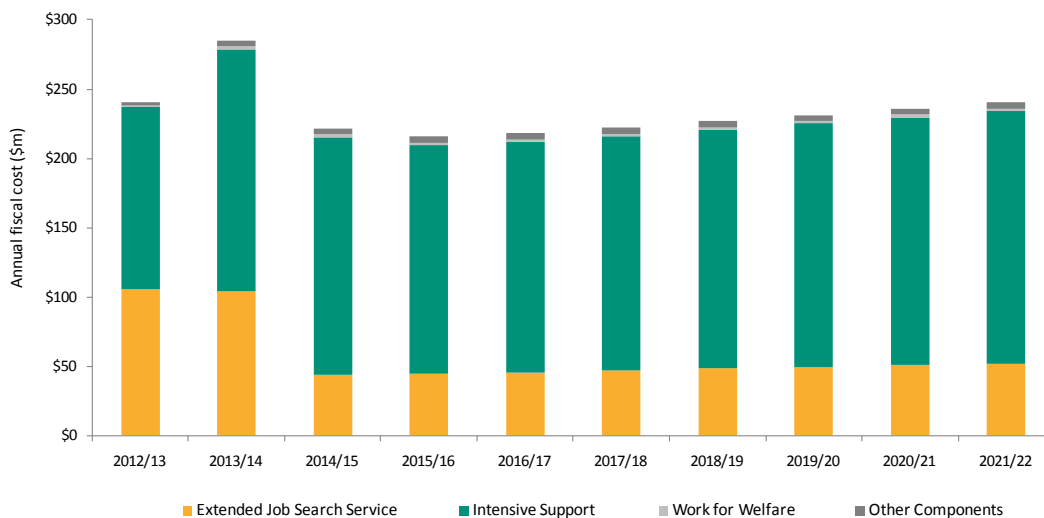
- increased access to the job search service - around \$105 million per annum in the first two years of operation, following by ongoing costs of \$45 to \$50 million per year; and
- a greater level of intensive support to those people at most risk of long periods of welfare dependency - around \$130 million in the first year of operation, followed by an annual cost of \$165 to \$180 million per year after that.

In this modelling we are not including some key costs (and cost savings) of reform that would need to be considered during the implementation phase, because they will be dependent on a wide range of policy and implementation decisions that will need to be made following the agreement to the directions put forward in this Report. These include:

- savings from the consolidation of existing programmes and functions;
- costs involved in changes to the organisations that deliver welfare and building up new capability to deliver employment services;
- new IT infrastructure to meet the new needs of the model; and
- additional costs associated with engaging with medical professionals, developing robust gateways, childcare, specialist support for young people, and transitional support for people to enter employment.

A detailed analysis of these would need to be undertaken during the implementation of reforms in this Report. However, even if the net costs of these elements are significant, the analysis that follows shows that there remains a potentially large and significant fiscal dividend from reform, which sits alongside better social outcomes for those otherwise experiencing avoidable long-term welfare dependency.

Figure 10.1: Programme costs of an indicative scenario of reform



Source: Ministry of Social Development and Welfare Working Group Secretariat.

Modelling scenario - numbers on assistance

The impacts that reform would have on welfare numbers depends heavily on the types of reform, the way the reform is implemented, the level of investment that is undertaken, and how the groups respond. Given some of the diversity in the outcomes of reforms outlined in Section 10.3, we model three scenarios - high impact, medium impact and no impact. The no impact scenario assumes that there are no changes to existing entry and exit rates for beneficiaries to provide a scenario of what could otherwise happen to welfare numbers. The high impact scenario reflects upper estimates of what could be achieved from welfare reform.

High impact scenario

Changes to inflows: We assume that around 10 per cent of the population that currently applies for welfare would no longer do so as a result of the reform. These effects are similar to that observed in the Australian Welfare to Work reforms and well below the estimated impact of reforms to welfare in the United States and comprehensive work ability assessment in the United Kingdom and the Netherlands.¹⁹¹

Changes to exit rates: We assume that around an additional 10 to 15 per cent of people on welfare would exit welfare as a result of the reform. These effects are similar to those observed in Australian Welfare to Work reforms, considerably below the implied effects from ACC reforms in the mid to late 1990s and welfare reform in the United States.

Medium impact scenario

Changes to inflows: We assume that around five per cent of the population that currently applies for welfare would no longer do so as a result of the reform. This is similar to the implied effects of the 1998/99 reforms for sole parents and well below the impacts on inflows in United States welfare reform and Australian Welfare to Work Reforms for sole parents, and reforms to work ability assessment in the United Kingdom and the Netherlands, and changes to the numbers of ACC claims in the late 1990s.

Changes to exit rates: We assume that around an additional five to 10 per cent of people on welfare would exit welfare as a result of the reform. This is similar to the implied effects of the 1998/99 reforms for sole parents and well below the impacts on exit rates in United States welfare reform and Australian Welfare to Work Reforms, and changes to the numbers of ACC claims in the late 1990s.

Results

Figure 10.2 uses the above assumptions relating to how many people may enter and exit as a result of the reform to provide an estimate of the change in the numbers of people on welfare at a point in time.

If no reform is undertaken then the numbers on welfare increase from around 320,000 to 330,000 people over the next decade.¹⁹² This does not include partners of beneficiaries, or beneficiaries under the age of 18 years who are not sole parents and beneficiaries aged 65 years or older.

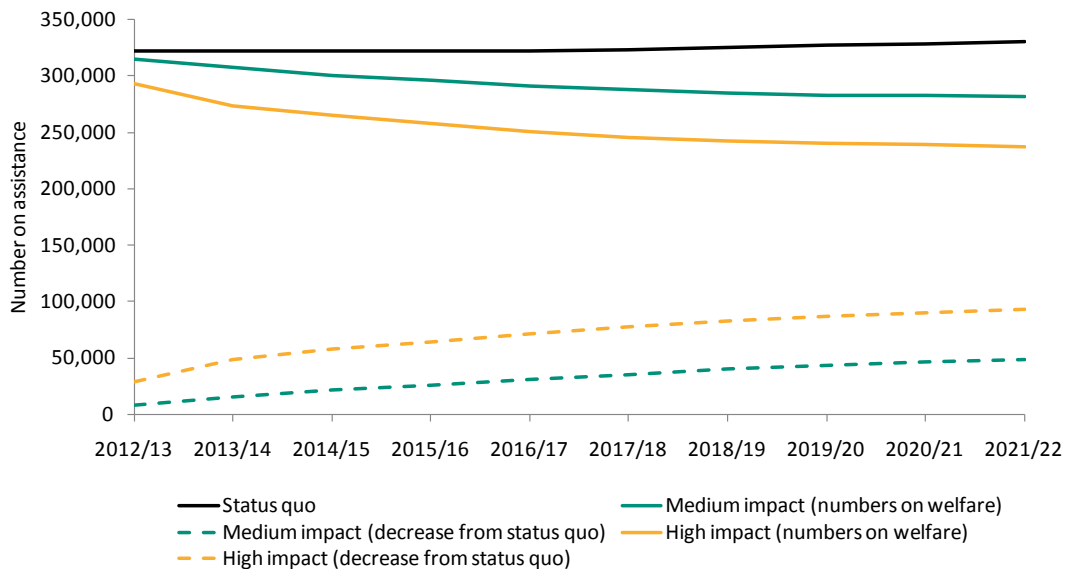
If the reform is as successful as earlier reforms that had a medium impact then numbers would be expected to fall by nearly 50,000 people on welfare in 2021/22 than it would have been without

¹⁹¹ Across both scenarios we assume larger effects for sole parents with children over 3 years and for sick and disabled people, and smaller effects for people currently classified as unemployed, sole parents with children under 3 years old and little change in behaviour of carers of the sick and infirm.

¹⁹² The increase in numbers on welfare over the period is the result of a rising working age population.

reform (see dark green bar in Figure 10.2). If the reform is as successful as earlier reforms that had a high impact then numbers would be expected to fall by around 93,000 people on welfare in 2021/22 than it would have been without reform (see black bar in Figure 10.2).

Figure 10.2: Numbers on welfare, with reform and without reform



Source: Ministry of Social Development and Welfare Working Group Secretariat.

In the modelling we assume that the effects feed through higher exit rates and lower entry rates to welfare gradually over the 10 year period. A key feature that has been observed in earlier reforms is that of an announcement effect.¹⁹³ With an announcement effect, there is an early and rapid change in behaviour to the new policy settings and the observed declines in numbers on assistance and reduced economic and social costs may occur more rapidly.

Modelling scenario - future liability

Under the scenarios presented in this section, the number of people on assistance drops significantly. The numbers on assistance at any point in time are either 49,000 or 93,000 people lower than without the reform in the scenario. Each of these people is associated with a future liability. Further work would need to be done to account for the changes in the forward liability, however drawing on work from the Ministry of Social Development (2010), we can make some observations.¹⁹⁴

At the time of the study, the average future liability costs of a person on welfare was expected to be \$141,000 (2009 NZ\$). If we apply this estimate of the future liability to the numbers on assistance in the absence of reform (331,000 people) then the future liability is \$47 billion.

If we apply this estimate of the future liability to the numbers on assistance with medium impact reform (282,000 people) then the future liability is \$40 billion (a reduction of around 15 per cent or by around \$7 billion).

¹⁹³ Finn, D. and Gloster, R. (2010), *Lone Parent Obligations: A review of recent evidence on work-related requirements within the benefit systems of different countries*, United Kingdom Department of Work and Pensions, London; Kinnear, P., Grant, G. and Oliver, K. (2003), *Welfare Reform in Australia: An Evidence-Based Approach*, paper presented to the National Social Policy Conference, July 9-11, University of New South Wales.

¹⁹⁴ Ministry of Social Development (2010), *Future Liability: Estimating time on benefit and the associated cost*, Centre for Social Research and Evaluation, Ministry of Social Development, Wellington, New Zealand.

Welfare reform that is successful overall would disproportionately lead to better employment and income outcomes.

Māori are over-represented on assistance and have low rates of employment and high rates of poverty. The welfare reform in this Report identifies that if the reform is to work, it needs to work for Māori. Higher employment for Māori would reduce poverty (particularly child poverty), lead to increased autonomy and independence, and greater economic resources.

The new proposals will increase the level of work-related expectations on people who are currently not subject to these expectations. It will be important that during the implementation phase that these expectations can be appropriately tailored for person, family and whānau specific circumstances, while maintaining the intent of the change.

Fiscal cost

A new welfare system would involve a range of start-up and implementation costs, increased investment in job planning and search programmes, and intensive support services. Significant policy and costing work would need to be undertaken to provide a specific cost for reform. The costs of any reform need to be seen against the potential welfare savings from the reform. The scenario outlined above suggests that investment cost may be of the order of \$215 million to \$285 million, but that the welfare savings, including savings from consolidation of existing programmes, could be significantly in excess of these costs.

Economic outcomes

Higher levels of workforce participation lead to better economic outcomes and raises Gross Domestic Product (GDP).²¹⁴ In fact one of the drivers of economic growth over the late 1990s and early 2000s was stronger workforce participation.²¹⁵ Therefore higher employment and workforce participation will lead to significant flow-on effects to GDP.

There is a very close relationship between the difficulty businesses face in finding skilled labour and the number of people looking for work.²¹⁶ In 2008, while one in 10 of the working age population were on a benefit, around one in eight firms were reporting difficulty in filling low skilled and manual vacancies (see Section 4.14 of the Issues Paper). Increased numbers of people looking for work would therefore help to ease skills shortages in firms.

²¹⁴ Treasury (2010), Challenges and Choices: Modelling New Zealand's long-term fiscal position. The other two drivers of GDP growth are population growth and growth in labour productivity.

²¹⁵ Treasury (2004), New Zealand Economic Growth: An Analysis of Performance and Policy.

²¹⁶ Department of Labour (2009), Skills in the Labour Market, available at <http://www.dol.govt.nz/publications/lmr/archive/slm-jul-09/slm.pdf>.

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