

Departmental Disclosure Statement

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| Support for Children in Hardship Bill |
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The departmental disclosure statement for a government Bill seeks to bring together in one place a range of information to support and enhance the Parliamentary and public scrutiny of that Bill.

It identifies:

- the general policy intent of the Bill and other background policy material;
- some of the key quality assurance products and processes used to develop and test the content of the Bill;
- the presence of certain significant powers or features in the Bill that might be of particular Parliamentary or public interest and warrant an explanation.

This disclosure statement was prepared by the Ministry of Social Development.

The Ministry of Social Development certifies that, to the best of its knowledge and understanding, the information provided is complete and accurate at the date of finalisation below.

6 May 2015

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Part One: General Policy Statement

The Government believes all New Zealand families and children should have the opportunity to live fulfilling lives. While most families do well, some struggle and their children may face a higher risk of poor outcomes.

In Budget 2015 the Government introduced a package of initiatives to further assist children in more severe material hardship. The package encourages employment by strengthening work expectations for parents on a benefit, provides more childcare support for low-income working families, and increases financial support for both beneficiary parents and working parents on low incomes.

The amendments in the Support for Children in Hardship omnibus Bill are required to deliver several key components of that package, while others, such as childcare assistance, are addressed through regulations or by Order in Council.

The policy objectives of the package and Bill are targeted at a group of 60,000-100,000 children identified as living in more severe or more persistent levels of material hardship who may be at a higher risk of poor outcomes.

The wellbeing of New Zealand's children across multiple domains is a goal and on-going commitment for parents, wider family members, communities, NGOs and governments alike. Society as a whole invests considerable resources into promoting the healthy development of each new generation both as a valued outcome in itself and also to "lay the groundwork for responsible citizenship, economic prosperity, healthy communities and successful parenting of the next generation"¹.

There are many factors that lead to a household with children being "poor" or "experiencing material hardship". Causes of poverty and material hardship can be grouped in various ways. For example, looking at an individual household and its immediate circumstances three types of cause can be identified:

- the household income is too low, even with good budgeting and discipline
- the special demands on its budget are too high, from things such as: high levels of debt servicing; high net accommodation costs for renters; unusually high health-related costs; trying to fill major gaps in the stock of basic household furniture and appliances; high work-related costs (eg child-care and transport); and so on
- the household's ability to use its income and other resources efficiently is compromised by family dysfunction, poor choices, poor mental health or limited skill sets.

A primary driver of child poverty for households with adults on lower wages is too few paid employment hours in the household to ensure that resources are sufficient to meet needs. Having the equivalent of one minimum-waged adult in full-time employment is not an absolute guarantee that a household will have sufficient income, even with Working for Families tax credits and the Accommodation Supplement.

The Bill aims to reduce financial pressure for families who are struggling and experience more severe or more persistent material hardship, while retaining a strong emphasis on paid work as the best route out of poverty. The Bill seeks to achieve these

¹ Shonkoff (2011), "Building a Foundation for Prosperity on the Science of Early Child Development ", *Pathways*, Stanford University

objectives through increased benefit rates, and tax credit financial assistance, and stronger provisions that encourage parental employment to better support children in material hardship.

Part time work seeking and availability obligations

Participation in paid work provides the best and most sustainable pathway out of hardship for most families. In recognising these benefits, the Bill aligns when part-time work availability obligations begin for beneficiaries with dependent children with the age beneficiaries are expected to take all reasonable steps to have their children enrolled in Early Childhood Education. This means part-time work-test obligations would take effect when the youngest dependent child turns 3, rather than the current age which is 5. The net effect of this will be to accelerate movement into employment.

The definition of part-time work for the purposes of the Social Security Act 1964 will also be changed from work that averages not less than 15 hours a week to work that averages not less than 20 hours a week. At 20 hours, sole parents can go off benefit altogether and instead increase their household income through wages and Working for Families tax credits.

The Bill seeks to correct an anomaly where part-time work availability obligations apply for partners of Emergency Benefit recipients until their youngest child reaches 18 years of age, whereas other beneficiary parents are expected to seek full-time work from when their youngest child reaches 14 years of age.

This amendment increases consistency of treatment across benefits and aligns with the requirement that parents make reasonable provision for the supervision of their children up to the age of 14 years.

Increase in certain main working age benefit rates for families with dependent children

Income is an important factor in determining a household's level of material wellbeing – especially for those with a minimal stock of basic household goods and appliances and low or zero cash reserves. Generally households with lower incomes are less able to purchase the goods and services that are necessary to maintain an adequate standard of living. Nearly two-thirds of children in more severe or more persistent material hardship are in families supported by a benefit or in families moving between benefit and work.

The Bill introduces an increase in the rates of certain main benefits for each beneficiary household with one or more dependent children by a total of \$25 per week, immediately after the annual general CPI adjustment is applied on 1 April 2016. It is not intended that the \$25 increase be adjusted upwards by the CPI on the 1 April 2016 date of introduction, but it is intended to be included in the rate that is adjusted for CPI on each subsequent 1 April.

The changes to main benefit rates through the Bill will provide an increase in the amount that beneficiary families receive and will help to ensure they can pay for family necessities critical to the wellbeing of their children.

Increases to the following benefit and allowances rates for recipients with one or more dependent children are achieved through amendments to schedules under the Social Security Act and the Education Act:

1.1 Jobseeker Support and Emergency Benefit

1.2 Supported Living Payment

1.3 Sole Parent Support

1.4 Young Parent Payment

1.5 Student Allowances.

Extra support for low income working families

Hardship is not just an issue specific to households in the benefit system. Children in low income working families can also experience material hardship.

To provide more support to low income working families, in addition to the Childcare Assistance increase, the Bill and associated regulations will lift the base rate of the In Work Tax Credit (IWTC) by \$12.50, from \$60 to \$72.50 a week, while also raising the abatement rate for Working for Families payments from 21.25 cents to 22.5 cents in the dollar. This provides additional targeted support to low income working families, and also helps to balance financial incentives to work.

As a consequence of the package, there will also be an increase to the Minimum Family Tax Credit (MFTC) by \$12 per week (achieved by Order in Council). The MFTC is a guaranteed minimum income tax credit for working people with dependent children on the lowest incomes, which is adjusted to retain the margin between benefit and work.

Payment to address unintended financial impacts for those in exceptional circumstances

The social welfare system is complex and the component parts are often interdependent. Changes in one type of assistance often cause a change in entitlement to other assistance. While these “flow-on” impacts are most often appropriate, in exceptional circumstances they can create unintended financial impacts.

In previous major reforms such as the 2010 tax package and Working for Families, the government included a small fiscal provision for a payment which could be paid to beneficiaries who are negatively impacted as an unintended consequence of the package.

The Bill introduces a regulation making power that will sit in the Social Security Act to allow the payment of financial assistance to beneficiaries in exceptional circumstances who are financially disadvantaged as an unintended consequence of the net effects of this Package.

Policy decisions implemented by regulations

The Package contains some key policy decisions that are not included in the Bill, but introduced through amendments to existing regulations. These changes include the introduction of:

- a new lower income threshold for Childcare Assistance combined with a higher assistance rate of \$5 per hour - the new rates will apply to both the Childcare

Subsidy for pre-schoolers and the OSCAR subsidy for after-school and school holiday programmes. The changes aim to reduce the financial pressure of childcare costs on the household budget.

- an annual benefit expiry and reapplication process for people getting Sole Parent Support, replacing the current annual renewal process. This reapplication provision will provide a prompt to ensure everything possible is being done to achieve a move to independence, check circumstances are updated, and confirm the person is still eligible and receiving the correct entitlement.

Consequential amendments

The Bill also makes a number of consequential amendments that result from the increased benefit and tax credit financial assistance and extended work availability obligations. These changes include:

- an amendment to the Education Act is required to provide that the Student Allowance CPI adjustment is applied to 31 March 2016 allowance rates before the Package increases to those rates are made on 1 April 2016
- an amendment to the Social Security Act is required to provide that the main benefit CPI adjustment is applied to 31 March 2016 benefit rates before the Package increases to those rates are made on 1 April 2016
- consequential amendments are also required to be made to other parts of the Social Security Act 1964 and the Social Security (Exemptions under Section 105) Regulations 1998 to align the age of child at which current exemptions from work-testing apply with the age at which the newly extended part-time work-test obligations apply (youngest child 3 rather than 5 years).
- a consequential amendment to section 61A(1A)(a) of the Social Security Act 1964 that was omitted from the Social Security (Benefit Categories and Work Focus) Amendment Act 2013 is also included to align the age of the youngest dependent child at which certain beneficiaries (Emergency Benefit work-tested partners) may have full-time employment work-test obligations applied to them, with the rest of the Act (from 14 instead of 18 years).

Part Two: Background Material and Policy Information

Published reviews or evaluations

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| 2.1. Are there any publicly available inquiry, review or evaluation reports that have informed, or are relevant to, the policy to be given effect by this Bill? | YES |
| <p>Household Incomes in New Zealand: Trends in indicators of inequality and hardship 1982 to 2013. Bryan Perry. 2014.</p> <p>A copy of the report can be accessed through the following link: https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/index.html</p> | |

Relevant international treaties

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| 2.2. Does this Bill seek to give effect to New Zealand action in relation to an international treaty? | NO |
| 2.2.1. If so, was a National Interest Analysis report prepared to inform a Parliamentary examination of the proposed New Zealand action in relation to the treaty? | Not Applicable |

Regulatory impact analysis

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| 2.3. Were any regulatory impact statements provided to inform the policy decisions that led to this Bill? | YES |
| <p>Budget 2015 package to address child material hardship in New Zealand, April 2015. A copy of the RIS is available at: http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/regulatory-impact-statements/index.html</p> | |

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| 2.3.1. If so, did the RIA Team in the Treasury provide an independent opinion on the quality of any of these regulatory impact statements? | YES |
| <p>The Regulatory Impact Assessment Team provided feedback on the Regulatory Impact Statement on 8 April 2015. The feedback is set out below.</p> <p>“The Regulatory Impact Analysis (RIA) requirements apply to the proposal in this paper and a Regulatory Impact Statement (RIS) has been prepared and is attached.</p> <p>The Regulatory Impact Analysis Team (RIAT) has reviewed the RIS prepared by the Department of the Prime Minister and Cabinet and considers that the information and analysis summarised in the RIS meets the quality assurance criteria.</p> <p>As the analysis makes clear, it is impossible to be certain in advance about the exact impact that the changed combination of benefits, incentives and obligations will have on the motives and behaviours of different individuals and groups of people. It will therefore be important to carefully monitor developments in hardship outcomes and, as far as possible, how far these are driven by the changes proposed here.”</p> | |

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| 2.3.2. Are there aspects of the policy to be given effect by this Bill that were not addressed by, or that now vary materially from, the policy options analysed in these regulatory impact statements? | NO |
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Extent of impact analysis available

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| 2.4. Has further impact analysis become available for any aspects of the policy to be given effect by this Bill? | NO |
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| 2.5. For the policy to be given effect by this Bill, is there analysis available on: | |
| (a) the size of the potential costs and benefits? | YES |
| (b) the potential for any group of persons to suffer a substantial unavoidable loss of income or wealth? | YES |
| This information is set out in the Regulatory Impact Statement (Budget 2015 package to address child material hardship in New Zealand) and is available on the Ministry of Social Development website - http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/regulatory-impact-statements/index.html | |

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| 2.6. For the policy to be given effect by this Bill, are the potential costs or benefits likely to be impacted by: | |
| (a) the level of effective compliance or non-compliance with applicable obligations or standards? | NO |
| (b) the nature and level of regulator effort put into encouraging or securing compliance? | NO |

Part Three: Testing of Legislative Content

Consistency with New Zealand's international obligations

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| 3.1. What steps have been taken to determine whether the policy to be given effect by this Bill is consistent with New Zealand's international obligations? |
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| The Ministry's scan of international obligations has not identified any obligations that conflict with the policies contained in the Bill. |
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Consistency with the government's Treaty of Waitangi obligations

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| 3.2. What steps have been taken to determine whether the policy to be given effect by this Bill is consistent with the principles of the Treaty of Waitangi? |
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| The provisions of the Bill apply generally to the New Zealand public and do not impact on the principles of the Treaty of Waitangi. |
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Consistency with the New Zealand Bill of Rights Act 1990

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| 3.3. Has advice been provided to the Attorney-General on whether any provisions of this Bill appear to limit any of the rights and freedoms affirmed in the New Zealand Bill of Rights Act 1990? |
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| YES |
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Offences, penalties and court jurisdictions

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| 3.4. Does this Bill create, amend, or remove: |
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| (a) offences or penalties (including infringement offences or penalties and civil pecuniary penalty regimes)? |
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| NO |
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| (b) the jurisdiction of a court or tribunal (including rights to judicial review or rights of appeal)? |
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| NO |
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| 3.4.1. Was the Ministry of Justice consulted about these provisions? |
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| Not applicable |
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Privacy issues

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| 3.5. Does this Bill create, amend or remove any provisions relating to the collection, storage, access to, correction of, use or disclosure of personal information? |
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| NO |
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| 3.5.1. Was the Privacy Commissioner consulted about these provisions? |
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| Not applicable |
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External consultation

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| 3.6. Has there been any external consultation on the policy to be given effect by this Bill, or on a draft of this Bill? | NO |
| Restricted consultation was carried out due to the Budget sensitivity of the policy proposals in the Bill. Consultation was limited to named officials in Department of Prime Minister and Cabinet, the Ministry of Education, the Treasury, the Ministry of Social Development, and Inland Revenue. | |

Other testing of proposals

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| 3.7. Have the policy details to be given effect by this Bill been otherwise tested or assessed in any way to ensure the Bill's provisions are workable and complete? | YES |
| <p>The Treasury, Department of Prime Minister and Cabinet, the Ministry of Education, Inland Revenue and the Ministry of Social Development contributed to the development of the policy through their membership of a Interdepartmental Working Party.</p> <p>Regular feedback from named officials in Work and Income (MSD) and Inland Revenue, as the key operational agencies, was incorporated into the design and development of the policies set out in the Bill.</p> | |

Part Four: Significant Legislative Features

Compulsory acquisition of private property

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| 4.1. Does this Bill contain any provisions that could result in the compulsory acquisition of private property? | NO |
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Charges in the nature of a tax

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| 4.2. Does this Bill create or amend a power to impose a fee, levy or charge in the nature of a tax? | NO |
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Retrospective effect

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| 4.3. Does this Bill affect rights, freedoms, or impose obligations, retrospectively? | NO |
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Strict liability or reversal of the usual burden of proof for offences

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| 4.4. Does this Bill: | |
| (a) create or amend a strict or absolute liability offence? | NO |
| (b) reverse or modify the usual burden of proof for an offence or a civil pecuniary penalty proceeding? | NO |

Civil or criminal immunity

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| 4.5. Does this Bill create or amend a civil or criminal immunity for any person? | NO |
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Significant decision-making powers

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| 4.6. Does this Bill create or amend a decision-making power to make a determination about a person's rights, obligations, or interests protected or recognised by law, and that could have a significant impact on those rights, obligations, or interests? | YES |
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The Bill extends part-time work-test obligations for work-tested beneficiary parents. The changes will require:

- sole parents and partners of beneficiaries to be available for part-time work, and to take reasonable steps to find that work, from when their youngest dependent child turns three. At the moment, these obligations start when their youngest dependent child turns five
- all beneficiaries with part-time work obligations to seek and accept work of 20 hours a week, rather than the current 15 hours. At 20 hours part-time work per week, sole parents can go off benefit altogether with most increasing their income through earned income and Working for Families tax credits.

There are a number of existing safeguards built into work availability obligations that include:

- discretion regarding part-time work hours (ie, discretion about the hours of work a person can be required to accept. This allows case managers to take into account individual circumstances and specific job opportunities.)
- a definition of suitable employment that accommodates a person's individual circumstances (ie, factors considered include the availability of childcare, the location of the job; whether the hours are anti-social, access to affordable transportation)
- exemptions that recognise that there are a number of reasons why it is unreasonable to expect a client to meet their obligations for a specified period (ie, reasons considered include recent bereavement of a partner or spouse, being over 27 weeks pregnant or earlier if there are complications, caring for a child with special needs)
- good and sufficient reasons for failing to meet an obligation (ie, examples of good and sufficient reasons include being temporarily medically unfit; a death or illness in the immediate family; childcare arrangements fell through due to unforeseen circumstances)
- a graduated sanctions regime that ensures clients with children are protected to ensure that they do not lose more than 50% of their main benefit income.

Powers to make delegated legislation

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| 4.7. Does this Bill create or amend a power to make delegated legislation that could amend an Act, define the meaning of a term in an Act, or grant an exemption from an Act or delegated legislation? | NO |
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| 4.8. Does this Bill create or amend any other powers to make delegated legislation? | YES |
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The Bill includes a regulation making power under the Social Security Act empowering the development a financial assistance payment for people who are financially disadvantaged as an unintended consequence of the net effects of the provisions / Budget package. There is a safeguard over this power in the Bill to ensure that any financial assistance is restricted only to families that are financially disadvantaged as a direct net result of the Package. There are likely to be very few such families.

Any other unusual provisions or features

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| 4.9. Does this Bill contain any provisions (other than those noted above) that are unusual or call for special comment? | NO |
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