



# Report

**Date:** 3 August 2021

**Security Level:** BUDGET SENSITIVE

**To:** Hon Carmel Sepuloni, Minister for Social Development and Employment

## Review of hardship assistance

### Purpose of the report

9(2)(f)(iv)

### Executive summary

- 2 Hardship assistance is the tightly targeted third tier of the welfare system. It consists of Special Needs Grants (SNG), Advance Payments of Benefits (Advances), and Recoverable Assistance Payments (RAPs)<sup>1</sup> and is intended to help people with immediate needs and essential costs that cannot be met from any other income or assets.
- 3 In your 2019 Cabinet paper on the welfare overhaul, you agreed that the three-tiered benefit system is fit-for-purpose, and that there will always be a need for hardship assistance, though you emphasised that reliance on hardship assistance needed to be reduced. You also agreed that the Ministry for Social Development (MSD) continue reviewing hardship assistance in response to the Welfare Expert Advisory Group's (WEAG) recommendation that (in addition to increases to main benefits), hardship assistance be reviewed to ensure it is adequate, appropriately designed, and easy to access [CAB-10-MIN-0578].
- 4 Hardship assistance has existed in the welfare system since 1951 and has been subjected to numerous ad hoc changes over recent decades. However, a comprehensive review and reform of settings has not been undertaken since at least the early 1990s. Outdated policy settings have led to increased pressure on how hardship assistance is operationalised (e.g. needing work arounds to compensate for outdated policy settings), which has led to several issues relating to the eligibility, accessibility, and adequacy of hardship assistance. Some of these issues may have been exacerbated by the impacts of the COVID-19 pandemic.
- 5 Officials' view is that a review of hardship is well overdue. We recommend that the review continue as improvements to hardship assistance would support the dignity of people with no other resources available to them and ease the pressure on how it is operationalised. Reviewing settings<sup>9(2)(f)(iv)</sup>  
9(2)(f)(iv) is also an opportunity to contribute toward the government's child poverty reduction targets and complement the debt to government work programme led by the Minister for Child Poverty Reduction.

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<sup>1</sup> The third tier also includes on-going support in the form of Temporary Additional Support (TAS), but this report focuses on one-off grants only. The review also excludes Emergency Housing Special Needs Grants (EHSNGs) and Housing Support Products (HSPs).

6 The purpose of the review is to ensure that hardship assistance is accurately targeted to those in need and continues to serve its intended purpose of providing one-off assistance with costs to people with little or no other resources available to them. Alongside the review, we are progressing work to improve operational settings with a particular focus on reducing reliance on hardship assistance by providing case management support to clients with high and complex needs. We provided you with an update on this work on 2 July 2021 [REP/21/7/674 refers].

7 The first stage of the review has focused on understanding how hardship assistance is currently functioning within the wider welfare system. We have identified the following issues:

- accessing hardship assistance is a disempowering experience for some clients
- recoverable hardship assistance adds to the debt burden for clients
- grant maxima have diverged from actual costs
- income and asset limits have eroded in value over time
- increasing reliance on discretion contributes to inequities
- ad hoc operational changes made over time have had impacts on how hardship assistance is functioning.

8 s9(2)(f)(iv) OIA

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12 Temporary Additional Support (TAS) is also part of the third tier and provides on-going support paid as a last resort to help clients with their regular essential living costs that cannot be met from their income and other resources. s9(2)(f)(iv) OIA



9 **forward** a copy of this report to the Minister for Child Poverty Reduction.

\_\_\_\_\_  
Bede Hogan  
Policy Manager, Income Support Policy

3-8-2021

Date

\_\_\_\_\_  
Hon Carmel Sepuloni  
Minister for Social Development and  
Employment

9/8/21

Date

## **Government made a manifesto commitment to continue the welfare overhaul towards implementing the WEAG's recommendations**

- 13 In your 2019 Cabinet paper on the welfare overhaul, you agreed that the three-tiered benefit system is fit-for-purpose, though you emphasised that reliance on hardship assistance needed to be reduced. You also agreed that MSD continue work to review hardship assistance in response to WEAG's recommendation that (in addition to increases to main benefits), hardship assistance be reviewed to ensure it is adequate, appropriately designed, and easy to access [CAB-10-MIN-0578].

*The Government has increased first tier assistance to lift the incomes of individuals and families in need*

- 14 Since 2017, the Government has made a number of changes to increase support to individuals and families in need, including increasing main benefit rates by \$25 net, per family as part of the initial COVID-19 response, indexing main benefits to average wage growth in Budget 2019, and increasing the amount people can earn before their benefit begins to reduce in Budget 2020. With the increases to main benefits through Budget 2021, weekly main benefit rates will be between \$67 and \$86 per adult higher from 1 April 2022, as a result of cumulative changes made by Government since 2017. These changes will also impact the Government's child poverty reduction targets<sup>2</sup>.
- 15 Although recent increases to first tier assistance are likely to have an impact on reducing reliance on hardship assistance, some groups, particularly those that have sustained high housing costs and face high levels of private and/or government debt, may still require hardship assistance to meet their immediate and essential needs. At an aggregate level, officials expect that the increases to the first tier are likely to result in a modest reduction in hardship assistance overall [REP/21/3/264].

*As part of the welfare overhaul work programme MSD is leading several reviews of second tier assistance*

- 16 MSD is leading several key reviews of second tier assistance including Working for Families, Childcare Assistance, and the Accommodation Supplement. The outcomes of these reviews are likely to have an impact on hardship assistance and officials are working closely to ensure any changes maintain the overall coherency of the welfare system.

### **A review of third tier hardship assistance is well overdue**

- 17 Hardship assistance has existed in the welfare system since 1951 and has been subjected to numerous ad hoc changes over recent decades. However, a comprehensive review and reform of settings has not been undertaken since at least the early 1990s. Outdated policy settings have led to increased pressure on how hardship assistance is operationalised (e.g. work arounds are used to compensate for outdated policy settings) which has led to several issues relating to eligibility, accessibility, and adequacy of hardship assistance.

- 18 These issues include:

**18.1 Accessing hardship assistance is a disempowering experience for some clients**-multiple sources such as WEAG's consultation document, academic research about the barriers faced by people living in poverty, data from MSD's client survey 'Heartbeat', as well as recent consultation with frontline staff, reveal key themes about accessing assistance, including that clients can feel:

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<sup>2</sup> Child poverty projections estimate that by 2022/23 the number of children in poverty will have reduced by between 31,000 and 85,000 children (a 3.4% to 8.2% point reduction) compared to the 2017/18 baseline year on the after-housing-cost measure.

- *Disempowered*-as clients feel like they have to re-tell stories of despair to access hardship assistance.
- *Stigma*-feeling ashamed due to an inability to provide for their family.
- *Meeting immediate need with debt*-immediate needs are met with recoverable assistance and loans from third party high-interest lenders contributing to ever-growing debt balances.
- *Employment impacts*-accessing employment in the immediate future is challenging for low-income people due to the realities of meeting daily needs.

**18.2 Recoverable hardship assistance adds to the debt burden for clients**-living in a state of poverty makes people particularly vulnerable to incurring debt. The average amount of recoverable assistance debt owed to MSD is \$3,119 per person. High debt levels have been demonstrated to have significant impacts on people's emotional and physical wellbeing, including depression, stress, shame and anxiety, and their social relationships.

**18.3 Grant maxima have diverged from actual costs**-grant maxima are not indexed, and in almost all cases have remained entirely unchanged for over two decades. As a result, the available support for some categories no longer represents the real costs they seek to cover. Data shows that MSD staff are increasingly relying upon their discretion to exceed the current grant maxima to ensure adequate grants for people in routine circumstances.

**18.4 Income and asset limits have eroded in value over time**-current limits are indexed to the Consumer Price Index. Due to wage growth increasing by more than inflation, income and asset limits have eroded in value relative to wages. This means some cohorts who were previously eligible for hardship assistance are no longer able to access it to meet their immediate and essential needs. Currently, a single person can work just under 30 hours a week on the minimum wage before losing access to hardship assistance.

**18.5 Increasing reliance on discretion contributes to inequities**-the discretionary nature of hardship assistance allows MSD to cater to people in a wide range of life circumstances and with little or no other resources available to them. Discretion provides frontline staff with the responsibility of exercising their judgment to determine eligibility and the level of assistance required. However, due to hardship assistance settings being largely unchanged for decades, discretion is increasingly relied upon to meet people's needs. The over-reliance on this form of discretion pushes MSD's operational practice further away from the policy intent of hardship assistance (to apply discretion in exceptional circumstances only) and creates inconsistencies for clients

**18.6 Ad hoc operational changes made over time have impacted how hardship assistance is functioning**-these changes have been primarily focused on streamlining the application and grant processes with the goal of improving client experience and allowing frontline staff more time to dedicate to proactive engagement with clients including supporting people into employment. However, this has given rise to tensions between improving accessibility of support and administering hardship assistance in its intended targeted and discretionary form.

19 Officials' view is that a review of hardship is well overdue. We recommend that the review continue as improvements to hardship assistance would support the dignity of people with no other resources available to them and ease the pressure on how it is operationalised. Reviewing settings <sup>9(2)(f)(iv)</sup> is also an opportunity to contribute toward the government's child poverty reduction targets and complement the debt to government work led by the Minister for Child Poverty Reduction.


## **We are reviewing hardship assistance to ensure it is adequate, appropriately designed and accessible**

20 The purpose of the review is to ensure that hardship assistance is accurately targeted to those in need and continues to serve its intended purpose of providing one-off assistance with costs to people with little or no other resources available to them.

*We have identified some overarching objectives to guide the review of hardship assistance*

- **Dignity of the client**—This objective considers the impact the change will have on those it is intended to serve. It raises the questions: do people feel empowered to access hardship assistance? And are they treated with dignity? Does hardship assistance reduce the burden of debt on clients?
- **Te Tiriti o Waitangi/The Treaty of Waitangi**- This objective considers the implications of policy change on Māori and asks the questions: does hardship assistance uphold the Crown's obligations under Te Tiriti O Waitangi/The Treaty of Waitangi?
- **Coherence and behavioural impacts**-This objective considers the way in which hardship assistance functions within the wider welfare system. It raises the questions: do hardship assistance settings maintain the overall coherency of the welfare system? Does hardship assistance cover essential costs? Does hardship assistance function with integrity by creating appropriate incentives and ensuring it is applied/delivered with consistency? And, is it future proofed?
- **Administrative ease**-This objective considers the way in which MSD's systems can support the policy intent of hardship assistance. It raises the questions: is hardship assistance simple to understand for clients to access and staff to administer? Is hardship assistance flexible to ensure we can cater to the complexities of people's lives?
- **Cost to government**-This objective considers the fiscal constraints faced by the government and raises the question: is hardship assistance appropriately targeted?

s9(2)(f)(iv) OIA



25 We recognise that the welfare overhaul is taking place in the context of significant fiscal constraints. The recent increase to main benefit rates alone involved funding of \$3.3b over four years across both the Budget 2021 and Budget 2022 allowances.

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*The Government has a manifesto commitment to increase the grant maxima for emergency dental treatment Special Needs Grants (SNGs)*

- 26 The Government made a manifesto commitment to increase the maximum emergency dental treatment SNGs rate from \$300 to \$1,000 every 52-weeks (non-recoverable).<sup>9(2)(f)(iv)</sup>

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s9(2)(f)(iv) OIA

*Grant maxima are not indexed and have diverged from the actual costs they seek to cover*

- 28 This manifesto commitment acknowledges that the current grant maxima for emergency dental SNGs is inadequate and no longer represents the actual cost of dental treatment for adults in New Zealand. This is true for many other hardship categories.
- 29 There are currently 43 different cost categories covering a wide range of essential needs such as food, bedding, clothing, essential home repairs, school costs and emergency medical treatment. Each category has a grant maxima applied to it however, it is unclear what rationale is behind the current maxima. Staff are able to use their discretion to exceed grant maxima in 'exceptional circumstances' allowing MSD sufficient flexibility to respond to people's wide range of life circumstances.
- 30 Where the maxima and discretion within hardship assistance are operating as the policy intends, the maxima should provide an indication to staff as to the value of most grants. As discretion is intended to cover 'exceptional circumstances' only, it should be that in most cases, needs are being met by grants that are within the grant maxima.
- 31 However, as outlined in paragraph 18.3, grant maxima are not indexed and have diverged from the actual costs they seek to cover<sup>3</sup>. Data shows that MSD staff are increasingly relying upon their discretion to exceed the current grant maxima to ensure adequate grants for people in routine circumstances. The over-reliance on this form of discretion pushes MSD's operational practice further away from the policy intent of hardship assistance (to apply discretion in exceptional circumstances only) and creates inconsistencies for clients.
- 32 The below table shows some of the categories with the biggest discrepancies between the current grant maxima and the average payment amount. The table also shows the proportion of grants where staff are exercising discretion to exceed the maxima:

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<sup>3</sup> The maximum grant size for food was effectively doubled in 2008 when the frequency at which the limit could be granted increased from annually to every 6 months. The limit was also temporarily increased by \$400 in response to COVID-19. These have been the only changes to these rates over time.

<b>Payment category</b>	<b>Maximum grant amount</b>	<b>Average grant amounts</b>	<b>Proportion granted above maximum (December 2019)</b>
Beds, chairs, tables	\$200	\$722	94%, up from 86% in December 2016
Car repairs	\$400	\$924	79%, up from 71% in December 2016
Electricity assistance	\$200	\$602	83%, up from 74% in December 2016
School uniforms	\$300 (per dependent child)	\$415 (per dependent child)	28%, up from 22% in December 2016

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- 41 There are currently 43 different cost categories covering a wide range of essential needs as outlined in paragraph 29. Cost categories have been added into hardship assistance over time in an ad hoc way and there is no clear rationale for why some categories have been established.
- 42 We have completed a review that considers whether the current cost categories are meeting people's immediate and essential needs and identified several key issues including:
- **Some cost categories are out of date and may no longer be required**-for example, between September 2017 and June 2020, 107 grants were made under the 'telephone installation' category and 18 grants were made under the 'laser therapy for birthmark removal' category indicating a reducing need for such assistance over time.
  - **The generic 'other' category<sup>4</sup> is heavily relied on to cover a range of essential needs/costs that current main categories do not cover**-for example, petrol, cell phones, public transport, and storage costs are commonly granted under the 'other' category. For the 12-month period ending May 2021, 'other emergency situations' payments made up the majority of expenditure on hardship assistance (approximately \$316m) representing 55 per cent of overall expenditure on hardship assistance<sup>5</sup>.
  - **The use of the 'other' category leads to inconsistent practice**-the 'other' category is discretionary, which means essential costs might be covered for some clients, but not for others-depending on the varying use of judgment by individual staff. Use of the 'other' category is usually because there is not an existing category to capture a person's costs. This can result in a lack of transparency for both clients and staff around what costs are covered by hardship assistance and means staff are having to exercise their discretion frequently in order to meet people's needs.

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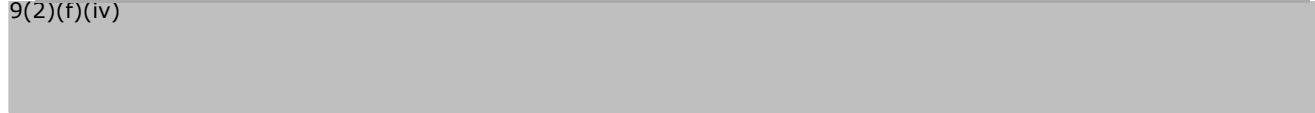
9(2)(f)(iv)

Over a 12-month period (1 May 2020 to 30 April 2021) MSD provided 57,294 hardship assistance grants for the cost of a cell phone under the 'other' category. <sup>s9(2)(f)(iv) OIA</sup>

s9(2)(f)(iv) OIA



9(2)(f)(iv)



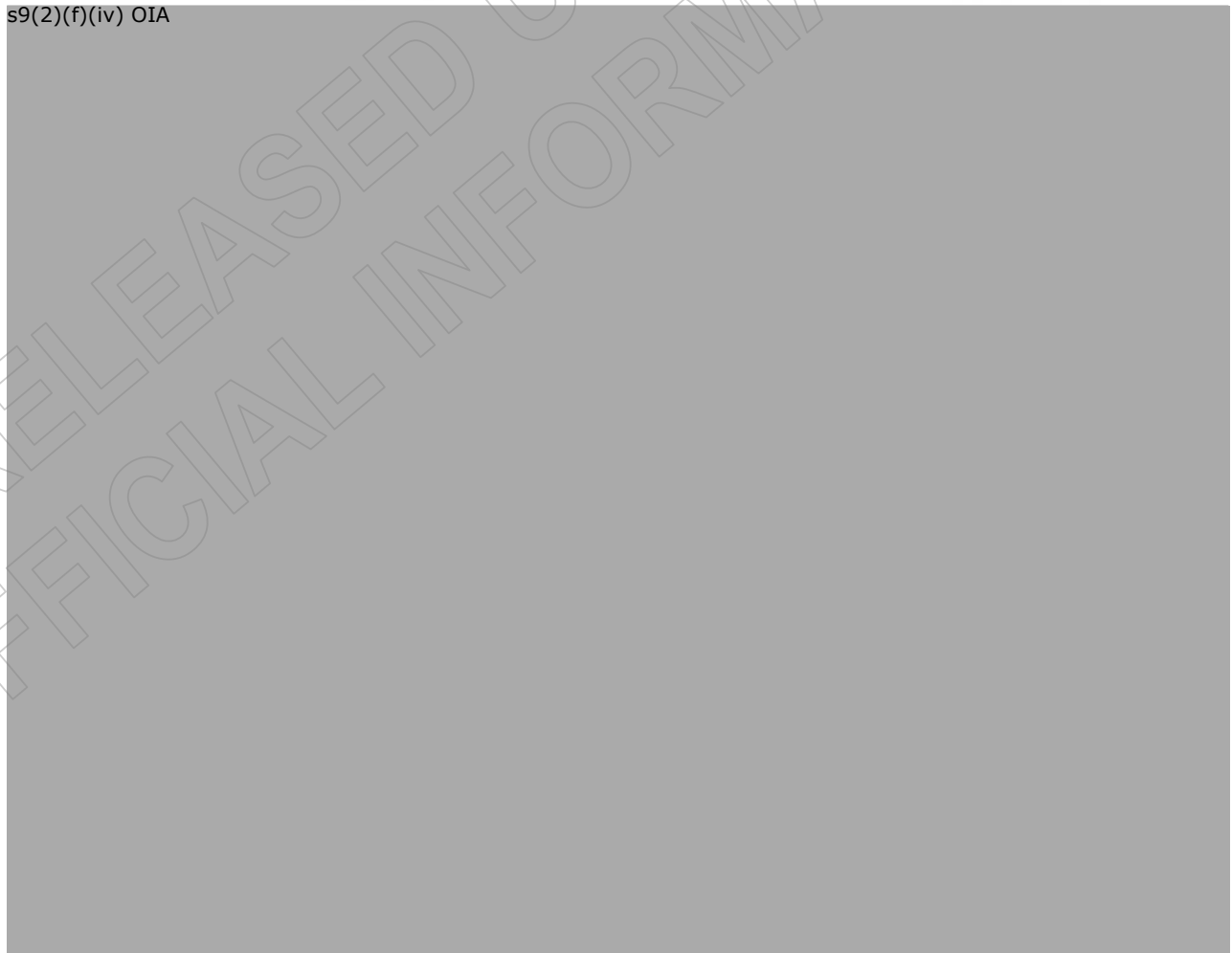
*Recoverable assistance contributes to the debt burden for clients*

- 50 As at March 2021, recoverable hardship assistance debt was at \$793 million which represents around 41% of all debt owed to MSD<sup>8</sup>. In the quarter to March 2021, total recoverable assistance debt grew by \$41 million (or 2.1% of all debt to MSD) and is still the main driver of growth in the overall debt balance, accounting for around 96% of the growth in total debt in the quarter to March 2021. The average amount of recoverable assistance debt owed to MSD is \$3,119 per person. Approximately 64% of recoverable assistance debt to MSD is owed by households with children.
- 51 Debt and poverty are inextricably linked, as living in a state of poverty makes people particularly vulnerable to incurring bad or avoidable debt. Debt has significant impacts on families suffering under its burden. High debt levels have been demonstrated to have significant impacts on people's emotional and physical wellbeing, including depression, stress, shame and anxiety, and their social relationships.

*There is no coherent rationale behind the current recoverability settings*

- 52 Currently, Advances and RAPs and some SNGs are recoverable (have to be paid back by the client) and some SNGs are non-recoverable (do not have to be paid back). There is no clear rationale as to why some hardship assistance is recoverable and why some is non-recoverable. However, non-recoverable hardship assistance generally covers costs that are not intended to be covered by the first and second tiers of the welfare system, as well as additional health costs.

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<sup>8</sup> The remaining debt is made up of overpayment debt (52%) and fraud debt (7%).

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### **We are progressing work to improve operational settings**

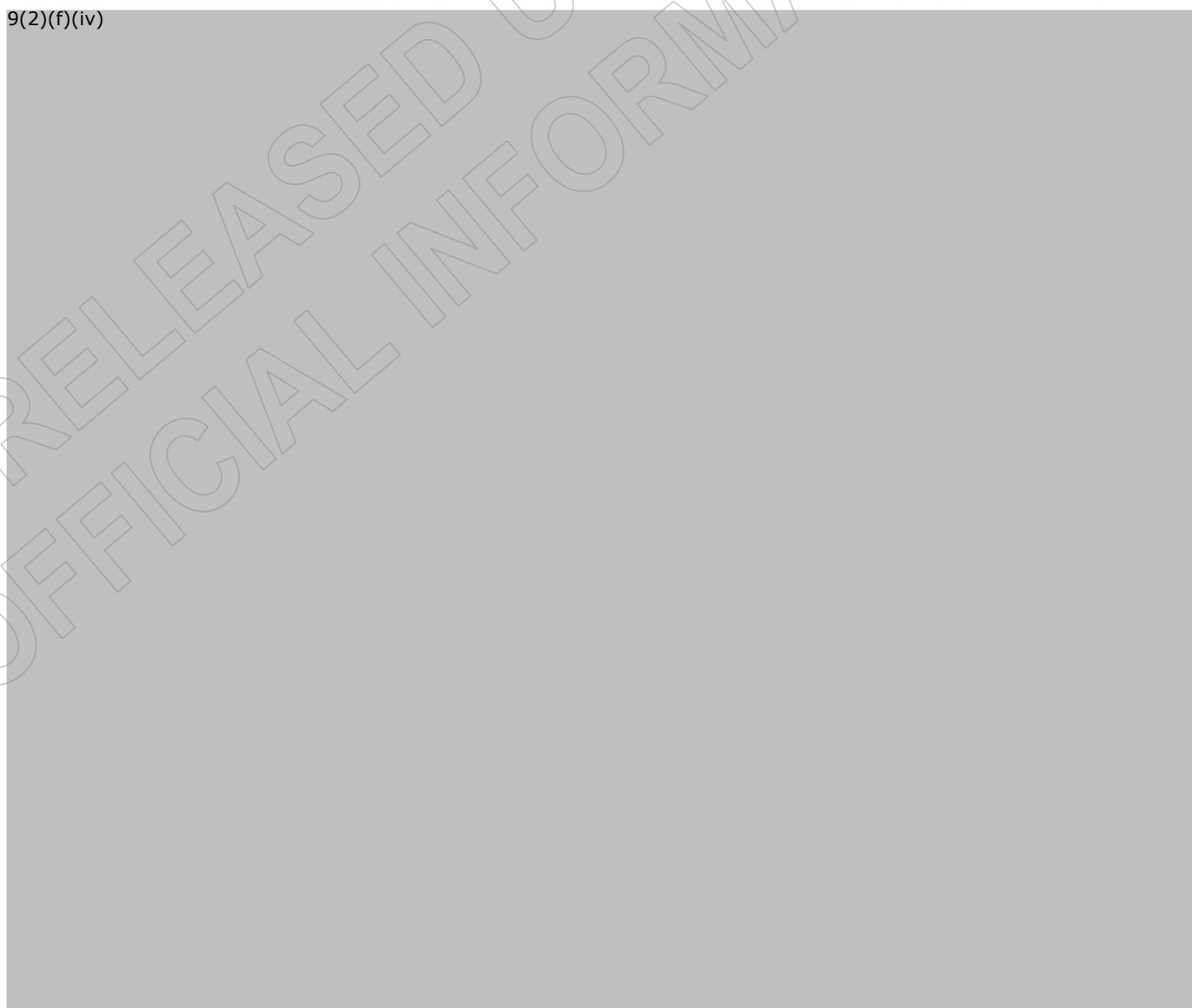
80 Alongside the review of hardship, we are continuing to progress work to improve the operational settings for hardship assistance. This work aligns with the objectives of the review outlined in paragraph 18 and has particular focus on reducing reliance on hardship assistance by providing case management support to clients with high and complex needs. This work includes:

- extending case management for high hardship assistance users to support the client's end-to-end needs and taking all of their circumstances into consideration

- developing a new service response for specific need types to triage some clients (who are not already in case management) to a dedicated team of experienced customer service representatives to have a more intensive conversation about their circumstances
- embedding best practice around manager sign off and client conversations
- building staff capability in processing hardship assistance to ensure consistency in practice and confidence in exercising discretion
- promoting Building Financial Capability services and redesigning the referral process to make it easier for clients and staff
- producing regular reporting on hardship assistance to monitor client outcomes for those in integrated case management
- exploring future improvements to our system to support staff with better access to information and to guide decision making
- conducting monthly sample quality checks for specific need types to inform future service response and guidance to staff
- strengthening supplier management processes, and building on these relationships, to support hardship assistance improvements
- strengthening operational linkages between frontline and staff to support capability and practice improvements.

81 We provided you with an update on this work on 2 July 2021 [REP/21/7/674 refers].

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9(2)(f)(iv)

## Appendices

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89 **Appendix Two:** Status quo recoverability settings

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File ref: REP/21/7/703

Author: Out of scope Senior Policy Analyst, Income Support Policy

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## Appendix Two: Status Quo recoverability settings

Status Quo		
Summary		
Currently there are 43 categories (excluding EHSNGs, and food). 23 categories are recoverable, 16 categories are non-recoverable and 4 categories are part recoverable and part non-recoverable.		
Recoverable	Non-recoverable	Part recoverable and part non-recoverable
<ul style="list-style-type: none"> <li>• Driver licence</li> <li>• Assistance during initial stand-down and/or benefit application</li> <li>• Assistance when client is on strike for partners of people on strike with dependent children</li> <li>• Appliances and furniture (excluding whiteware)</li> <li>• Attendance at funerals and tangihanga</li> <li>• Beds (including cots, bassinets, and pepi-pods), chairs, and tables</li> <li>• Child restraints for motor vehicles and safety helmets</li> <li>• Electricity, gas, water</li> <li>• School costs</li> <li>• School stationary</li> <li>• Telephone installation</li> <li>• Travel for stranded clients</li> <li>• Bonds and rent</li> <li>• Car repairs</li> <li>• Clothing</li> <li>• Dentures and hearing aids</li> <li>• Essential home repairs</li> <li>• Fire loss and burglary (replacing essential items)</li> <li>• Glasses</li> <li>• Safety footwear</li> <li>• School uniforms</li> <li>• Tenancy tribunal fees</li> <li>• Fridges, freezers and washing machines (whiteware)</li> </ul>	<ul style="list-style-type: none"> <li>• Bedding (if there is an illness that causes extraordinary wear and tear) or (an additional child has been incorporated into the family by way of birth or adoption)</li> <li>• Designated health practitioner assessment travel</li> <li>• Health travel costs (travel costs to a secondary health service recommended by a health practitioner)</li> <li>• Laser therapy for the removal of birthmarks</li> <li>• Vasectomies and abortions (travel, accommodation and surgery costs)</li> <li>• Wigs and hairpieces</li> <li>• Effluent treatment system maintenance and repair</li> <li>• Emergency dental treatment</li> <li>• Emergency medical treatment</li> <li>• Accompanying medical treatment overseas</li> <li>• Assistance for people who become sick or injured during a non-entitlement period</li> <li>• Civil defence payment for any person who is affected by a civil defence emergency or an adverse event to meet the cost of immediate needs</li> <li>• Clients transferring from a main benefit to NZS</li> <li>• Domestic violence programme for victims of domestic violence with a work visa who are applying or intending to apply for a residence class visa</li> <li>• International custody dispute payment for parents awaiting the outcome of an international custody dispute who have no other means of support and are in hardship</li> <li>• Water tank refills</li> </ul>	<ul style="list-style-type: none"> <li>• Other emergency grants</li> <li>• Domestic violence-sole parents for sole parents who are victims of family violence and need to relocate</li> <li>• Long term patients (for people leaving hospital or residential care after 6months and re-establishing themselves in the community)</li> <li>• Ambulance subscription fees (both and SNG and a RAP/ADV)</li> </ul>

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<sup>9</sup> One off big costs of approximately \$500 or more.