

Budget Sensitive

Chair

Ad Hoc Cabinet Committee on COVID-19 Response

INITIAL INCOME STAND-DOWNS - POLICY SETTINGS AND OPTIONS FOR CHANGE

Proposal

- 1 This paper provides options on changing stand-down periods as part of a broader response to the potential impacts of COVID-19 (Novel Coronavirus), in response to Cabinet on 2 March 2020 where I was invited to provide further advice on stand-downs [CAB-20-MIN-0068]. It includes financial, operational and legislative implications of the respective options.

Changes to stand-downs could be made to ensure that those who lose their job due to COVID-19 have faster access to assistance from the Ministry of Social Development (MSD)

- 2 COVID-19 is having a significant impact on local economies, though the overall economic situation remains highly uncertain. The Minister of Finance and the Minister for Economic Development are due to receive advice on 4 March 2020 on an intervention strategy for the economic impacts of COVID-19 and the 'Economic Pillar', one of the five pillars that form part of the Government's wider response to COVID-19.
- 3 The benefit system remains available for those requiring financial assistance during this period of uncertainty, but as more evidence becomes available on the impacts of COVID-19, certain changes to policy settings in the benefit system may need to be made to ensure it continues to support those in need.
- 4 I understand that there has been some interest in making changes to stand-downs to ensure that those who lose their job due to COVID-19 have earlier access to MSD assistance and are not placed under unnecessary hardship.
- 5 I consider that there are three broad options for removing stand-downs:
 - Removing the stand-down period permanently for everyone
 - Removing the stand-down period temporarily for everyone
 - Removing the stand-down period for a defined group of people, a particular sector, and/or a particular region.

Initial income stand-downs exist for those applying for main benefits

- 6 People applying for a main benefit¹ can have an initial income stand-down² for one or two weeks before their benefit commences depending on their previous income and family circumstances. The stand-down starts on the date they become entitled to a benefit, unless an exemption applies. There is no main benefit payable during a stand-down period. For example, a single person receiving an average income of between \$0 and \$1,164.20 per week prior to applying for the benefit will face an initial stand-down period of one week. If they earn \$1,164.21 or more and are eligible for main benefit they will receive a two-week stand-down. These thresholds change for different groups of people, for example couples with no children, couples with children, and sole parents.
- 7 Generally, other supplementary assistance such as Accommodation Supplement is also not paid during a stand-down and begins being paid along with the main benefit following a stand-down period.
- 8 The stand-down period can be waived for the Emergency Benefit (through staff discretion), which is granted to those in hardship who are not eligible for a main benefit.
- 9 Hardship assistance, such as Special Needs Grants, is still available to people during a stand-down period.
- 10 Approximately 130,000 stand-downs are applied annually – 97 percent of these are one-week stand-downs.
- 11 It is important to differentiate the initial income-stand down with the 13-week non-entitlement period. The 13-week non-entitlement period can occur where a person:
 - has become voluntarily unemployed without a good and sufficient reason
 - is applying for a benefit because they were dismissed by their employer for misconduct
 - has failed their obligations for a third time in the last 12 months of continuous benefit receipt (as a grade 3 sanction)
 - has refused an offer of suitable employment (if they have work obligations) without a good and sufficient reason.
- 12 For clarity, this paper does not seek to remove the 13-week non-entitlement period.

A permanent removal of stand-down periods progresses both the welfare overhaul and the work to respond to the economic impacts of COVID-19

- 13 A permanent removal of stand-down periods would both progress the welfare overhaul and contribute to the response to the economic impacts of COVID-19. Removing stand-downs permanently would help to reduce financial hardship for low-income individuals and families

¹ Section 313 of the Social Security Act 2018 provides that work tested benefits, Youth Payment and Young Parent Payment, Sole Parent Support, Jobseeker on grounds of sickness, injury, or disability, or a Supported Living Payment are subject to a stand-down. The commencement date for Emergency Benefit and Emergency Maintenance Allowance is at the Chief Executive's discretion and is consistent with the main benefit that most closely fits their circumstances. Stand-downs cannot be imposed for Orphan's Benefit and Unsupported Child's Benefit.

² There are existing exemptions from stand-downs, including when a person has entered a refuge following a relationship breakdown.

entering the welfare system (including those who lose their jobs due to COVID-19). About 97 percent of stand-downs are one-week stand-downs - meaning that most people applying for a benefit have had previous incomes that are at, or less than, the average weekly wage of \$1,223.71³. This is an indication that people who currently receive stand-downs are likely to have had lower than average incomes and have come from low wage employment. People in such employment are unlikely to have significant savings to draw on when they lose their jobs.

- 14 Removing initial income stand-downs is expected to reduce the amount of hardship assistance that is granted during stand-down periods. MSD grants (among other assistance) a recoverable Special Needs Grant, Assistance During Stand-Down (ADSD) to help support people in financial hardship during stand-down periods. As ADSD is recoverable, removing the need for this grant during periods of stand-down will also reduce the accumulation of debt for clients receiving a benefit.
- 15 Removing stand-downs is predicted to reduce hardship assistance expenditure by \$5-8 million per year, or by around 50,000 grants per year. This will also reduce the operational costs to MSD associated with processing ADSDs.

16 s 9(2)(f)(iv)

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- 18 The operational changes needed to implement a permanent removal of stand-down periods include changes to IT systems and communications to both MSD staff and the public. The operational cost of removing stand-downs completely is approximately \$0.556 million (the total cost of the Budget bid includes this). If this work was prioritised and sufficient resource was provided, a permanent removal could be implemented in three months. Legislative change and operational changes could begin concurrently, giving a total of three months required to permanently remove stand-down periods.

A temporary removal⁴ of stand-downs also has significant financial, legislative and operational implications, some of which differ to a permanent removal

- 19 Should a narrower approach to changing stand-down periods be desired, the Committee may wish to consider only removing stand-down periods temporarily.
- 20 The benefits of a permanent removal of stand-downs also apply to a temporary removal of stand-downs, albeit only in the short-term given the nature of a temporary removal. However, there are also distinct implications of removing stand-down periods temporarily, some of which are quite different to what would be required to enact a permanent removal of stand-down periods.

³ This figure is based on the most recent gross average weekly wage at the time the data was collected. As at 5 February 2020, the gross average weekly wage is \$1,244.21.

⁴ For the purposes of this paper, the period of a temporary removal is assumed to be 12 months. There could be different implications if this period is significantly longer or shorter.

- 21 MSD considers that a temporary removal of stand-downs could be done through amending the Social Security Regulations 2018 (the Regulations) only. The current Regulations can set the duration of the stand-down period, as well as exempt benefits, grounds or circumstances from a stand-down period. Before recommending that exemption regulations be made to exempt benefits from stand down periods, I must be satisfied that each exemption is not broader than is reasonably necessary to address the matters that gave rise to the regulations.
- 22 However, there are risks to making such changes to the Regulations. Any amendments to the Regulations must not be against the intent of the Social Security Act (ie the primary legislation). As stand-downs exist in the Act, there is a low risk that someone could argue that temporarily removing them for all benefits would circumvent the purpose of the Act. ...
- 23 If a decision was made to remove the temporary stand-down removal, amendments to the Regulations would be required. If there was a subsequent decision to remove stand-down periods permanently, this would have to be done via amending the Act. That is, the existing exemption for stand-downs in the Regulations could not continue to be relied upon.
- 24 If a decision was made to extend the temporary removal of stand-downs, this could also be done by amending the Regulations. However, the risk of someone arguing that this circumvented the purpose of the Act would be increased.
- 25 The operational steps needed to implement a temporary removal of stand-downs are similar to those needed for a permanent one, with the addition of extra processes at the end of the temporary period to put stand-downs back in place.
- 26 In terms of benefit expenditure, removing stand-down periods temporarily would have similar costs to the yearly benefit expenditure costs of the permanent removal option – \$26.153 million. Therefore, this temporary removal is only cheaper by virtue of the fact that it will only last for 12 months.
- 27 In terms of operational costs, temporarily removing stand-downs is more expensive than a permanent removal. This is because a temporary removal would have costs associated with putting stand-downs back into IT systems in addition to the costs associated with their removal. The operational cost of temporarily removing stand-downs is about \$1.081 million⁵ (this is included in the overall cost of this option of \$26.153m).
- 28 The timeframes to implement a temporary removal of stand-down periods would be roughly similar to those required for a permanent removal – ie about three months. This timeframe assumes a truncated process for amending Regulations, and sufficient resource within MSD.
- 29 My officials are continuing to refine the operational implications, timeframes and costs of a temporary removal of the stand-down period, so there could be alternative methods to temporarily removing stand-down periods established in the upcoming weeks.

Only removing stand-downs for a particular group of people, sector or region is not recommended due to the significant issues associated with this approach

- 30 Another approach to removing stand-downs would be to target a stand-down removal based on who has been more heavily impacted. A stand-down removal could be targeted to:
- a particular group of people (eg those who lose their job due to COVID-19)

⁵ roughly double the operational cost of removing stand-downs permanently

- a particular sector (eg forestry)
 - a particular region (eg East Coast).
- 31 This approach is not recommended due to the significant issues associated with any form of targeting. These issues include, but are not limited to:
- Any form of targeting would create significant inequities between those who are eligible for a removal of the stand-down period, and those who are not. For example, if a temporary removal of stand-downs only applied to those who lost their jobs due to COVID-19, this would be inequitable to those who lose their jobs for other reasons. In a similar vein, limiting a stand-down removal to one or two particular regions could be seen as inequitable.
 - There is the risk of setting a precedent, especially given how the broader impacts of COVID-19 are being understood across different sectors and regions. Limiting the removal of stand-downs to regions who have been particularly affected by the economic impacts of COVID-19 would mean that as soon as other regions/sectors are affected by a similar magnitude, a temporary removal of stand-downs would also have to be extended to these groupings.
 - While further legislative amendments are possible to extend the group of people or regions covered by a temporary removal of stand-downs, this would require Cabinet approval every time, and would require significant time and resource.
 - There is significantly more administrative complexity involved with a targeted removal of stand-downs. For example, MSD would have to determine how to define the group of people who lose their jobs due to COVID-19 and provide sufficient communications and guidelines to ensure staff are taking a consistent approach to the eligibility criteria for the targeted group. It would be difficult to determine and verify whether a redundancy occurred completely due to COVID-19, or whether COVID-19 was only one of multiple factors that caused a job loss. Similarly, there are also difficulties with defining a sector. For example, the definition of the forestry industry could also include the accountants and lawyers that work in a company that primarily serves the forestry industry.
 - A more targeted approach does not necessarily avoid the risk of an initiative being too broad or covering people that are not in the expected target group. For example, limiting a stand-down removal to a particular region will also mean that those from that region who come onto benefit due to reasons other than losing their job will also not be subject to stand-down.
- 32 In terms of benefit expenditure, the cost of this option is unknown at this stage (and will depend on the type of targeting). However, it will likely be less than the cost for a temporary removal for 12 months (\$26.153 million).
- 33 The operational costs of this option are also unknown and dependent on the type of targeting, but it is likely that a special process will need to be established to ensure a stand-down removal can be limited to a particular group, sector or region.
- 34 If a decision is made to have a targeted approach to removing stand-down periods, I recommend seeking guidance from the Ministry of Business, Innovation and Employment on which regions and sectors have been most heavily impacted by COVID-19.

Financial implications

- 35 There are no immediate financial implications from this paper, but there will be financial implications if any of the options to change stand-downs are implemented. Where possible, I have provided indicative costings of the three options to remove stand-down periods.

Legislative implications

- 36 There are no immediate legislative implications from this paper, but there will be legislative implications if any of the options to change stand-downs are implemented.

Consultation

- 37 The Department of the Prime Minister and Cabinet has been informed.

Proactive release

- 38 This Cabinet paper will be proactively released, with redactions made consistent with the Official Information Act.

Recommendations

It is recommended that the Committee:

- 1 **note** that COVID-19 (Novel Coronavirus) is having a significant impact on local economies, though the overall economic situation remains highly uncertain
- 2 **note** that the Minister of Finance and the Minister for Economic Development are due to receive advice on 4 March 2020 on an intervention strategy for the economic impacts of COVID-19 and the 'Economic Pillar', one of the five pillars that form part of the Government's wider response to COVID-19.
- 3 s 9(2)(f)(iv)
- 4 **note** that in response to the economic impacts of COVID-19 (Novel Coronavirus), there are three possible ways the stand-down period could be removed – permanently for all main benefits, temporarily for all main benefits, or a targeted approach to a particular group, sector and/or region
- 5 **agree** in principle to:
EITHER
option one: remove initial income stand-downs permanently
OR
option two: remove initial income stand-downs temporarily for 12 months
OR
option three: remove initial income stand-downs for a defined group of people, a particular sector, and/or a particular region
- 6 **agree** that if the Committee decides to only remove stand-downs for a defined group of people and/or regions, to seek advice from the Ministry of Business, Innovation and

Employment on which regions and/or industries have been most heavily impacted by COVID-19

- 7 **invite** the Minister for Social Development to report back with further detailed advice on the Committee's preferred option to remove stand-downs at the next Ad Hoc Cabinet Committee on COVID-19 Response meeting. This advice will include further detail on the financial, legislative and operational implications of the preferred option.

Authorised for lodgement

Hon Carmel Sepuloni
Minister for Social Development

Proactively Released