Regulatory Impact Statement: Child support pass-on

Coversheet

Purpose of Document	
Decision sought:	Analysis produced for the purpose of informing the Cabinet pre-budget decision on regulatory changes to give effect to child support pass-on
Advising agencies:	Ministry of Social Development and Inland Revenue
Proposing Ministers:	Hon Carmel Sepuloni, Minister for Social Development and Employment Hon David Parker, Minister of Revenue
Date finalised:	17 November 2022

Summary: RIS Update 17 November 2022

The first version of this RIS was finalised on 16 March 2022 and was considered at the Cabinet Business Committee on 21 March 2022. On 28 March 2022, Cabinet agreed [CAB-22-MIN-0091 refers] to pass on child support payments paid via Inland Revenue to sole parent beneficiaries, and to treat these payments as income for determining the amount of financial assistance payable by the Ministry of Social Development (MSD) from 1 July 2023 (Option 2).

Since Cabinet's agreement, the Minister of Housing, the Minister for Social Development and Employment and the Minister of Revenue have made minor and technical policy decisions to make child support pass-on fairer.

Reconciling these new issues has been difficult due to the differences between how child support and the welfare systems are administered and their respective purposes. This additional complexity in design has flowed through to the drafting process, extending the length of time required to draft well beyond what would be necessary to implement for 1 July 2023.

Further options have been discussed with Ministers that have been assessed against the status quo. Ministers have a strong preference for child support pass-on to be delivered for 1 July 2023, and without a significant increase in costs. A phased approach could deliver most features of child support pass-on in a first phase, meeting both of these conditions, with the remaining features agreed to by Cabinet in the design in a second phase. Ministers agreed to this phased approach.

Due to issues with delivery, the following amendments have been made to this RIS:

1. We originally advised on four options. We have added four new options to this RIS. These are reflected throughout the RIS on pages [3] to [43] as options 2(a), 4(a), 5 and 6.

2. Originally, officials recommended Option 2, in which child support would be passed on and all types of payments would be treated as income for financial assistance purposes from 1 July 2023. Officials now recommend Option 6 which is a two phased approach.

    a. Phase one would see child support passed on and most child support treated as income for financial assistance purposes for 1 July 2023.

    b. Phase two would see all child support charged as income, with the more complex income charging rules implemented in this phase.

3. s 9(2)(f)(iv) [redacted] This phased approach would ensure that the full design (Option 2) is delivered, just over a longer period. s 9(2)(f)(iv) [redacted]

4. The original content did not take account of operational impacts on some of the housing supports. The effect of child support pass-on for the Emergency Housing Special Needs Grant, and the public housing register, have been reflected on page [31].

5. While included in the policy design, the original costing did not account for an increase to emergency housing contribution rates (25% of a client's income from their 8th night in emergency housing) once sole parent incomes increase as a result of child support pass-on. This has now been reflected throughout the RIS.

6. Previously the gains of clients modelled were only reflective of child support income that those sole parent beneficiaries would receive. The overall gain, following abatement of clients' income-tested financial assistance, has now been included. Clearer wording to make the distinction between these two gains has been included. These changes are reflected throughout the RIS.

7. The Budget child poverty projections have been updated by Treasury to incorporate the economic forecasts for the Budget Economic and Fiscal Update 2022 (BEFU) data from Statistics New Zealand – includes changes to the cost of living – and Government policy interventions announced since the BEFU. The original child poverty impact projections and the updated figures are provided throughout the RIS.

Problem Definition

Sole parent beneficiaries are treated differently on the basis of marital status[1], because child support[2] paid by the other parent (liable parent) is not passed on to them, the carer of that child (receiving carer). Instead, child support payments are made to Inland Revenue and are retained by the Government to offset the cost of paying benefits. Child support is

[1] Marital status means being single; married in a civil union or in a de facto relationship; or a surviving spouse or partner; or separated; or divorced (section 21(1)(b) – Human Rights Act 1993).

[2] Except when a child support payment exceeds the total main benefit a sole parent beneficiary is paid, where the excess is passed on. However, it is uncommon for child support payment to exceed the sole parent rate of benefit is $406.78 a week.

passed on to other recipients of benefits, for example, re-partnered parents or clients only receiving supplementary assistance (who may also be working).

There is a high incidence of material hardship amongst beneficiaries with dependent children and passing on child support payments would increase the incomes of many sole parent beneficiaries and contribute to the Government's Child Poverty targets to reduce the number of children in poverty.

For parents in hardship with an obligation to pay child support, this obligation is not recognised when applying for Temporary Additional Support (income- and asset-tested hardship assistance). This can limit the support they receive.

Executive Summary

Currently, parents and carers who are social security beneficiaries under the Child Support Act 1991[3] must apply for child support using a formula assessment unless they have grounds for exemption[4] or were not required to do so for other reasons[5].[6] The child support payments made to Inland Revenue for sole parent beneficiaries are retained by the Government to offset the cost of paying benefits.[7] This aligns with one of the objects of the Child Support Act 1991, which is to ensure that the costs to the State of providing an adequate level of financial support for children and their carers is offset by the collection of a fair contribution from liable parents.

However, other beneficiaries, such as parents on a couple's rate of benefit are not required to apply for a formula assessment[8] (although they may choose to). Any child support payments made by liable parents to Inland Revenue are passed on to them and treated as income for welfare purposes.

The policy objectives of passing on child support are to:

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[3] A social security beneficiary is defined in section 2 of the Child Support Act 1991 as a person in receipt of a social security benefit and a social security benefit is defined as including Sole Parent Support, Unsupported Child's Benefit and single rates of Supported Living Payment, Jobseeker Support and Young Parent Payment.

[4] Grounds for exemption include:

- insufficient evidence available to establish who the other parent is,
- the sole parent is taking active steps to identify who the other parent is,
- there is a risk of violence if the sole parent complies with the requirements,
- there are other compelling circumstances and no real likelihood of child support being collected, or
- the child was conceived as a result of incest or sexual violation.

[5] Except, when the sole parent rate of benefit is:

- a Supported Living Payment on the grounds of caring for a person who has a health condition or a disability that requires full-time care or
- Jobseeker Support on the grounds of hardship payable to full-time students between academic years.

[6] Section 9 of the Child Support Act 1991 states that a person must apply for child support at the same time as a benefit application is made, unless they meet specific criteria in section 9(5B), and they are not required to apply. These applicants may only apply for a formula assessment via Inland Revenue.

[7] If the child support paid is greater than the benefit, the difference is paid to the beneficiary and is not treated as income for main benefit purposes (it is still considered as income for Temporary Additional Support, Special Benefit and Childcare Assistance purposes).

[8] Formula assessments are an assessment by Inland Revenue of the amount of child support payable using the child support formula set out in the Child Support Act 1991. Inland Revenue collects payments from parents who are liable to pay child support (liable parents) and distributes them to the carers of children for whom the payments are made (receiving carers).

- treat sole parents more fairly with respect to how marital status impacts child support, and minimise the creation of new inequities,
- increase the adequacy of financial resources for sole parents to support children,
- reduce the number of children in poverty, and
- reduce barriers for liable parents to pay child support.

Options not considered for assessment

The following two options were not considered for the following reasons:

- Retaining child support payments of all beneficiaries – overall outcomes not an improvement over the status quo.
- Not treating child support as income for benefit abatement purposes – would operate similarly and effectively have the same outcomes as Option 3.

To address problems with the current system, three options were originally considered alongside the status quo (Option 1). These are options 2, 3 and 4, which assumed an implementation date of 1 July 2023.

Additional options have been considered because officials have determined that more time is needed to draft the Child Support (Pass On) Acts Amendment Bill in line with Cabinet's decisions and subsequent decisions made by Ministers under their delegated authority. The additional options are: 2(a), 4(a), 5 and 6.

Option 1: Status quo – no legislative or policy change

Option 2: Full child support pass-on – treating child support as income for the sole parent beneficiary from 1 July 2023

Child support payments would be passed on to sole parent beneficiaries instead of being retained by the Government to offset the cost of benefit payments. If a client's income (including child support) reaches the abatement threshold, the amount of benefit paid will reduce. Option 2 will increase the incomes of many sole parent beneficiaries and their families and will remove the inequity faced by sole parent beneficiaries. It is MSD's preferred option because it provides the best overall outcomes without creating any further equity issues (i.e., treating child support differently from other forms of income or sole parent beneficiaries differently than others).

This option cannot be implemented for 1 July 2023, because the following features of the full design cannot be legislated in time:

- Reducing the client's income charge when they repay overpaid child support using personal resources, such as savings.
- Ensuring debt repayments are only taken into account for a debt that relates to a child support period after 1 July 2023.
- Ensuring that child support relating to a period when the client was not receiving a benefit will not impact the client's income for financial assistance purposes.
- Treating offset amounts of child support as income.

Option 2(a): Delay implementation of full child support pass-on – treating child support as income for the sole parent beneficiary from 1 November 2024

As in Option 2, Inland Revenue will pass on child support payments to sole parent beneficiaries and all child support will be treated as income for determining the amount of financial assistance payable by MSD. However, the implementation would be deferred to 1 November 2024. This would provide the necessary time to legislate for the complexities of the child support income charging rules. Option 2(a) would require additional implementation costs than originally forecast for Option 2 due to running the project over a longer period of time.

Option 2(a) will deliver the full design in one legislative vehicle but cannot be delivered for 1 July 2023. This is distinct from Option 6, which passes on child support from 1 July 2023, but will not be able to deliver the full design until mid-2025. This further delay is due to the phasing introducing additional complexity to the legislative process.

Option 3: Full child support pass-on – treating child support as income for the child

Child support payments would be disregarded as income for the parent or the carer and considered as income for the child under the benefit system. Child support would continue to be treated as income for Working for Families tax credit purposes.

Treating child support as income for the child would be in line with the general purpose of child support payments, which is intended to support the child, not the parent or the carer of the child. It would have a greater impact on child poverty reduction levels.

However, Option 3 is a significant policy shift from the general purpose of the welfare assistance for clients to use all available resources before they seek financial assistance. It would also raise wider questions around what is considered income in the welfare system and would require significant work and careful consideration of the flow-on implications.

Option 4: Partial child support pass-on – treating child support as income for the sole parent beneficiary

Partial pass-on would mean that instead of the full amount of child support being passed on to receiving carers, a maximum amount (for example, $20 per week) would be passed on, and any remainder would be retained by the Government to offset the cost of these benefits. The passed on child support would still be treated as income of the sole parent beneficiary.

This would mean sole parent beneficiaries are still not treated fairly compared to re-partnered beneficiaries (who receive full pass-on of their child support).

Option 4(a): Partial child support pass-on – treating child support as income for the child

As in Option 4, partial pass-on would mean that instead of the full amount of child support being passed on to receiving carers, a maximum amount would be passed on, and any remainder would be retained by the Government to offset the cost of these benefits. However, child support payments would be considered as income for the child under the benefit system and would not affect a receiving carer's financial assistance from MSD.

This option was discounted because it did not achieve the policy objectives and it would not be possible for Inland Revenue to implement by 1 July 2023. It would also be difficult to justify the Government retaining child support payments in excess of the cost of the person's benefit.

Option 5: Simplified version - full child support pass-on – treating child support as income for the sole parent beneficiary

Child support payments would be passed on to sole parent beneficiaries. However, only the child support payments paid to the person's bank account and included in the information share from Inland Revenue would be treated as income for financial assistance purposes, while offsetting amounts and some debt repayments would be excluded. Under this option, child support arrears payments a person received would be treated as income for financial assistance purposes even if they relate to a period the person was not on a benefit.

Option 5 would mean that the welfare system would not be taking into account all child support amounts as income. This is contrary to one of the purposes of the Social Security Act 2018 which is to consider all financial resources available to clients when determining the rate of financial assistance payable. It creates inequity between clients depending on the type of payment received. s 9(2)(h) [redacted]

Option 6: Phased implementation (officials preferred option)

Option 6 is a two phased approach. Phase one would see child support passed on and most child support treated as income for financial assistance purposes from 1 July 2023. Phase two would see all child support charged as income with the more complex income charging rules implemented in this phase. At this stage it is not possible to cost phase two until there is more certainty about timing. This phased approach would ensure that the full design (Option 2) is delivered, just over a longer period.

s 9(2)(h) [redacted]
However, the vast majority of the benefits of the policy would be realised from the implementation of phase one - for example, passing on child support to sole parent beneficiaries and charging most child support as income for financial assistance purposes.

Options 2-6 share these same policy requirements[9]	*Options 2, 2(a), 4,5 and 6 have these similar IT infrastructure and business process requirements*
• Removing the obligation for social security beneficiaries to apply for child support. • Retaining child support for recipients of the Unsupported Child's Benefit and Foster Care Allowance.[10] • Making formula assessed child support an allowable cost for liable parents applying for Temporary Additional Support.	• Automation of information sharing and business processes to support passing on child support. This is dependent on changes to information sharing agreements and other legislation. • Child support being charged forward, as income, over the following four or five weeks of benefit payments, from when the payment is made.

Consultation has shown general support for full child support pass-on

In 2018, the Minister for Social Development commissioned the Welfare Expert Advisory Group (WEAG) to undertake a broad-ranging review of the welfare system and advise Government on the future of New Zealand's welfare system. WEAG consulted extensively, hearing from 3,000 New Zealanders from across the welfare system, including recipients of benefits, beneficiary advocates, and MSD staff. Many respondents thought that child

[9] Based on the previous decisions by the Minister for Social Development, and the Minister of Revenue (Hon Stuart Nash at the time).

[10] Oranga Tamariki—Ministry for Children is currently undertaking work to reform the system of financial assistance and support for caregivers, which includes consideration of these two forms of support.

support payments from the liable parent should be passed on to the receiving carer, which is what WEAG recommended[11] and is achieved via the Options 2 and 3. Further consultation is expected via the select committee process as part of the consideration of the Bill required to implement the proposal.

Welfare advocacy groups, commissioned expert panels, and academics have all expressed the need for child support to be passed on in full (Options 2, 2(a), 3, 5 and 6) or partially (Option 4 and 4(a)) as they expect it will reduce child poverty rates and prioritise the child's wellbeing.

The potential impacts of Option 2

The impacts of Option 2 are provided in further detail here as this was MSD's original preferred option and reflects the implementation of Option 6 following phase two. The benefits associated with child poverty reduction will also be realised during phase one of Option 6, when child support is passed on.

There will be increased financial resources for sole parent families

Under Option 2[12]:

- Approximately 41,550 sole parent families will receive on average $65 per week of child support income, with a median of $24 per week. Following the benefit abatement of income-tested financial assistance, these families will gain overall by an average of $47 per week, and a median gain of $20 per week.
- 5,200 sole parent families will see no immediate gain due to the child support payments abating their financial assistance,
- 4,000 sole parent families will see no immediate gain because the liable parent does not pay child support, despite the obligation to do so, and
- 50 sole parent families are expected to lose financially from child support pass-on due to a combination of factors largely related to supplementary or hardship assistance.

The following population groups stand to benefit:

- women, as they make up 88 percent of all sole parent beneficiaries,
- Māori families on average by $52 per week of child support income, with a median of $20 per week. Following the benefit abatement of income-tested financial assistance, these families gain by an average of $40 per week and a median of $20 per week,
- Pacific families on average by $69 per week of child support income, with a median of $33 per week. Following the benefit abatement of income-tested financial assistance, these families gain by an average of $51 per week, with a median of $21 per week, and

[11] Implementing child support pass-on was recommendation 27, one of the 42 recommendations of WEAG in its 2019 report '*Whakamana Tāngata – Restoring Dignity to Social Security in New Zealand*'. WEAG recommended that child support collected be passed on to receiving carers including recipients of the Unsupported Child's Benefit. As per footnote [13], child support pass-on for caregivers receiving the Unsupported Child's Benefit is being considered as part the long-term work to reform the system of financial assistance and support for caregivers.

[12] The impacts of Option 2 were modelled by matching MSD client data with recipients of child support in the Inland Revenue system as at September 2021.

- disabled people (receiving Supplementary Living Support[13]) on average by $76 per week of child support income, with a median of $30 per week. Following the benefit abatement of income-tested financial assistance, these families gain by an average of $55 and a median of $23 per week.

There will be a reduction in child poverty levels

It is estimated that child support pass-on will reduce child poverty by around 7,000 (+/-2,000) children on the fixed-line AHC50 measure,[14] and by around 5,000 (+/-2,000) children on the BHC50 measure[15] in the 2023/24 financial year.[16]

The Budget child poverty projections have been updated by Treasury and it is now estimated that child support pass-on will reduce child poverty by around 10,000 (+/-4,000) children on the fixed-line AHC50 measure, and by around 6,000 (+/-3,000) children on the BHC50 measure in the 2023/24 financial year.[17]

Liable parents have an increased incentive to make child support payments

Research suggests[18] that when child support is passed on there is an increased incentive, and therefore increased likelihood, of liable parents to pay child support payments. It can be inferred that this is likely due to the increased willingness of liable parents to pay child support when they can see that their child will receive the benefit of their financial support.

In addition to the outcomes already mentioned, we anticipate that the following outcomes will result from the proposal based on international research

Additional outcomes, include, improved:

- health and wellbeing outcomes for sole parent beneficiaries and their families,
- cognitive development and school achievement in childhood,
- education in adulthood, and
- relationships between liable parents and their children.

s 9(2)(h)

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[13] Supported Living Payment is the main benefit type for people who have a long-term health condition or disability.

[14] AHC50 measures the number of children in households with incomes much lower than a typical 2018 household, after they pay for housing costs, and is measured by the threshold line set at 50 percent of the median income in 2017/2018 (base financial year), after housing costs are removed.

[15] BHC50 is a moving-line income measure, with the poverty threshold taken the year the data is gathered (low income before housing costs – moving-line measure). BHC50 measures the number of children in households with much lower incomes than a typical household, and is measured by the threshold line set at 50 percent of the median household income in the year measured.

[16] These figures are based on Treasury's tax and welfare analysis modelling.

[17] The Budget child poverty projections have been updated by Treasury to incorporate the economic forecasts for the Budget Economic and Fiscal Update 2022 (BEFU) data from Statistics New Zealand – includes changes to the cost of living – and Government policy interventions announced since the BEFU. These child poverty impact projections are based on the updated figures.

[18] Cancian, M., Meyer, D. R. & Caspar, E. (2008). *Welfare and child support: Complements, Not Substitutes*. Journal of Policy Analysis and Management, 27(2), 354-375.)

s 9(2)(h)

[redacted]

The overall cost to the Government of the preferred option is estimated to be $354.27 million over the forecast period 2021/2022 to 2025/2026:

<table>
<tr>
<td><u>Costs</u>
• $458.63 million to the Government for no longer retaining child support, and
• $25.42 million to enable child support liability to be considered an allowable cost for Temporary Additional Support (and Special Benefit) purposes.</td>
<td rowspan="2"><u>Government investment</u>
• $3.65 million in one-off costs (business design and IT requirements, monitoring and evaluation, FTEs for implementation),
• $42.10 million in ongoing costs (communication, depreciation, capital charge, FTEs for contact centres, processing staff and other support staff), and
• $20.20 million for the IT build.</td>
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<tr>
<td><u>Savings</u>
• ($174.15) million of benefit abatement, and
• ($21.58) million due to child support being treated as income for the Income-Related Rent Subsidy (Vote Housing and Urban Development)</td>
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The potential impacts of Option 6

s 9(2)(h)

[redacted]

s (9)(2)(g)(i)

[redacted]

s 9(2)(h)

[redacted]

s 9(2)(h)

[redacted]

s 9(2)(h) [redacted]

Impact on costs

The cost of implementing phase one of child support pass-on is within the existing Budget allocation. s 9(2)(f)(iv) [redacted]

Impact on child poverty levels

The difference in impact on child poverty between phase one and phase two of Option 6 would be statistically insignificant.

View of the officials

Inland Revenue supports the proposal to pass child support payments on to sole parent beneficiaries in full. This will ensure that money collected by Inland Revenue for the support of children goes to the caregiver regardless of their employment or marital status. The treatment of the payment in the benefit system is primarily the responsibility of the MSD to advise on.

MSD prefers Option 2 because it meets all of the policy objectives and delivers the highest criteria of all options assessed.

However, as the original timeframe to legislate for child support pass-on under Option 2 cannot be met, officials' preferred option is now Option 6. This is because it delivers the main aspects of the child support pass-on proposal for 1 July 2023 which is a preference of Ministers. Additionally, it has the least inequity and fiscal impact of the additional options. Most inequities are temporary and will be mitigated when the remaining policies are implemented over time, which achieves what was originally intended under Option 2.

Limitations and Constraints on Analysis

MSD and Inland Revenue are responsible for the analysis and advice set out in this Regulatory Impact Statement, except as otherwise explicitly indicated. The analysis and advice have been produced for the purpose of informing key policy decisions to be taken by Cabinet.

Based on the advice of officials, previous decisions by the Minister for Social Development, and the Minister of Revenue have limited the scope of the options considered. These are decisions that:

- the obligation for sole security beneficiaries to apply for child support would be removed (under section 9 of the Child Support Act 1991), enabling them to choose not to apply for or to revoke child support, and
- recipients of the Unsupported Child's Benefit[19] are not included due to other work being led by Oranga Tamariki—Ministry for Children to reform the system of financial assistance and support for caregivers.

These decisions are therefore reflected in all options except the status quo (Option 1).

[19] The review also involves the Foster Care Allowance, which Inland Revenue does not retain child support for.

The decision to remove the obligation for these beneficiaries to apply and undergo a formula assessment was made to give parents more flexibility to make child support arrangements that suit their circumstances (formula assessment, voluntary agreement, or private agreement). This decision reinforces the inherent mana of clients through preserving their right to exercise greater choice and control over solutions that work best for them. It also aligns the treatment of sole parent beneficiaries with re-partnered beneficiaries. Previously, a client's decision not to apply for child support or to revoke an existing arrangement could impact the financial assistance they received. In 2020, the Government removed the sanction (reduction of benefit rate) imposed on sole parents receiving a benefit who did not have grounds for exemption[20] or were not required for other reasons[21] so were required to apply for child support but had not done so.

For the Unsupported Child's Benefit and the Foster Care Allowance[22], child support is also currently retained by the Government to offset the cost of financial assistance. Ministers agreed not to pass-on child support to these recipients as part of this project, due to other work being led by Oranga Tamariki—Ministry for Children to reform the system of financial assistance and support for caregivers.

Changes to the policy settings and rules for assessing child support payment obligations (using a formula assessment or voluntary agreement) are not in scope for any of the proposed options.

Based on the advice provided by officials, previous decisions were made by the Minister for Social Development[23] and the Minister of Revenue, which limited the analysis of particular options. These Ministers indicated the following preferences:

- in December 2018, for child support to be passed on, and charged as income (Options 2 and 4) in preparation for the 2020 budget process [REP/18/10/1438 and IR2018/697 refer], and
- in June 2021, the Minister for Social Development and Employment agreed that child support be passed on in full and charged as income (Option 2), however the Minister of Revenue supported an exploration of options to simplify the design (included Option 3). Due to time constraints, options to simplify the proposal were not provided at the time to Ministers [REP/21/5/559 and IR2021/260 refer].

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[20] Grounds for exemption include:

- insufficient evidence available to establish who the other parent is,
- the sole parent is taking active steps to identify who the other parent is,
- there is a risk of violence if the sole parent complies with the requirements,
- there are other compelling circumstances and no real likelihood of child support being collected, or
- the child was conceived as a result of incest or sexual violation.

[21] Except, when the sole parent rate of benefit is:

- a Supported Living Payment on the grounds of caring for a person who has a health condition or a disability that requires full-time care or
- Jobseeker Support on the grounds of hardship payable to full-time students between academic years.

[22] Caregivers receiving the Foster Care Allowance are not eligible to apply for child support directly. Oranga Tamariki—Ministry for Children may apply for child support for a child or young person in its care, and any payment is passed on from Inland Revenue to Oranga Tamariki—Ministry for Children.

[23] Hon Carmel Sepuloni was the Minister for both decisions but initially held the portfolio Minister of Social Development, and subsequently (also currently) Minister of Social Development and Employment.

In relation to the June 2021 advice, the costings of the proposed alternatives were not undertaken and have not been provided for this assessment. This significantly limits the depth of comparison of costs of delivery and impact analysis between the preferred option (Option 2) and Options 3 and 4. However, it does not limit the comparison between Option 2 and Option 1 (the status quo).

In early September 2022, Ministers were informed of the difficulty associated with delivering Option 2 for 1 July 2023. s (9)(2)(g)(i) [redacted] This is because of the requirement to charge child support income forward and the complex interaction between the child support and welfare systems.

The most significant constraint on the options considered was that delivery must be achievable for 1 July 2023. This would ensure child support could be passed on at the earliest opportunity, and the existing inequity between sole parent beneficiaries and other beneficiaries could be removed. Additionally, Ministers advised there should not be a significant increase in costs. Options not meeting these two key objectives did not receive more in-depth consideration.

Options to simplify the design have been discussed with the Minister for Social Development and Employment and the Minister of Revenue. These include Options 2(a), 4(a), 5 and 6. These were not originally considered alongside the preferred option, and the comparison is therefore more limited.

Assumptions underpinning the impact analysis

A number of assumptions used for the modelling analysis have also been used to cost the operational and implementation impacts for both MSD and Inland Revenue. There is likely to be a high level of complexity given the need to work across MSD and Inland Revenue's systems.

There are assumptions made with respect to the data and modelling

We have high confidence in the number of sole parent beneficiaries affected, as child support is currently withheld by Inland Revenue for these parents. The analysis is based on snapshot data from September 2021 shared between Inland Revenue and MSD, matching those receiving or paying child support in the Inland Revenue system with sole parent beneficiaries in the MSD system. The data captured has been used to project the impacts of Option 2 (the preferred option) and:

- uses the last year of payment data to establish 'real' payment/collection percentages,
- uses 2021 payment rate percentage where client data does not exist,
- assumes implementation on 1 July 2023,
- assumes child support will be passed on in full (not partial),
- assumes child support passed on will be treated as income for assessing benefit payments and Working for Families tax credits (when assessed by Inland Revenue), and that an expanded information exchange will be required between Inland Revenue and MSD to support this,
- assumes child support payments made in relation to recipients of Unsupported Child's Benefit or the Foster Care Allowance will continue to be retained by the Government,

- assumes no change to other child support settings (such as formula assessments or voluntary agreements),
- assumes MSD and Inland Revenue will work together on implementation planning to fully understand the impacts and interactions between their respective systems in respect of child support payments passed on from Inland Revenue,
- does not anticipate any change in collection percentages, and
- assumes child support payments increase alongside average wage increases.

Risks and challenges around child support pass-on primarily relate to the assumptions that have been built into the modelling and breakdown of costs for each agency. Changes to these underlying assumptions may have differing impacts on Inland Revenue and MSD.

The method used to estimate the reduction in child poverty is non-standard. It used the characteristics of potential recipients of child support pass-on as derived from administrative data to estimate recipients in Treasury's Tax And Welfare Analysis model. Child poverty estimates are subject to significant uncertainties and this non-standard method increases the uncertainty.

The behavioural changes of sole parents who may be eligible to receive child support pass-on cannot be accurately modelled, for example, if there is an increase in private agreements[24].

This modelling cannot fully account for how the variability of payment impacts incomes for sole parent beneficiaries

Increases in incomes for sole parent beneficiaries will depend on the amount of child support paid. The ability of liable parents to pay will directly impact the size and consistency of payments to sole parent beneficiaries. The formula assessment determines the payment amount. If the liable parent does not meet their payment obligation, this will impact the consistency of the sole parent beneficiary's income. When the liable parent does pay arrears, due to the combination of their regular payment and the arrears, the sole parent rate of benefit may be further abated. Due to the information available and the limits on modelling, the full impacts of this variability are unable to be represented.

This modelling cannot determine the impact of child support payment on client benefit debt

The modelling does not take into account debt creation as a result of variability in child support payments as it assumes a consistent ongoing payment level based on individual payee payments over the prior financial year. The variability of these payments is unable to be modelled at this time.

The impact of the new policy settings on debt will need to be identified and mitigated/minimised through the development of legislation, operational policy changes, business process design, and IT infrastructure.

There are risks to realising the benefits of passing on child support

The realisation of increases of income for sole parent beneficiaries is conditional on the arrangement and payment of child support. Since early 2020 we have seen a significant reduction in the number of child support applications made by sole parents. The reduction

[24] Private agreements are an agreement between the parents for the care of a child, with no involvement from Inland Revenue. The agreement could be for regular or ad-hoc, financial or in-kind assistance to the receiving carer.

was due to inaccessibility for clients to apply for child support as a result of COVID-19 restrictions, but soon after we had the introduction of the removal of the sanction. Child support applications are still lower than pre-covid levels however we cannot confirm whether the reduction is related to the removal of the sanction or the changes in processes to collect the child support applications (due to COVID-19). It is possible that the removal of the obligation for sole parent beneficiaries to apply would reduce the number of formula assessment-based child support applications.

However, we are unable to determine whether this would be a decrease for all forms of child support arrangements as clients are no longer sanctioned for not applying for child support and could arrange child support privately without impacting their welfare assistance (if they do not declare this income to MSD). Further, the Government's intention is to empower sole parent beneficiaries to make their own decisions about applying for child support. This also aligns the treatment between sole parent beneficiaries and re-partnered beneficiaries.

Some impacts on clients will be challenging to monitor

Two reasons have been identified as making the monitoring of long-term impacts challenging: the potential increase in uptake of private agreements, and the impact on long-term goals such as improved health or mental wellbeing outcomes. The latter will be challenging to attribute directly to passing on child support, given the length of time to realise these goals and the unknown impact of future changes to the child support and welfare systems.

First, we are removing the obligation for social security beneficiaries to apply for a formula assessment which will change how clients arrange child support, providing them with new alternatives through voluntary agreements or by privately making child support arrangements. We have no data to support clients' preferences to apply or not to apply or child support, and what form of child support arrangement they would prefer. Once the obligation to apply for child support is removed, there may be a decrease in formula assessments, and an increase in voluntary and private agreements. However, private agreements are external to MSD and Inland Revenue's systems and officials will be unable to monitor this.

Second, it will be challenging to monitor the effectiveness of the long-term goals of passing on child support. This includes the goals of improved health and mental wellbeing outcomes. Over the length of time that the goals are monitored (for example, over 10 years), it will be difficult to attribute improvements directly to passing on child support. It is reasonable to assume there will be a range of contributing factors and likely changes in Government policy, including changes to income support for sole parent beneficiaries.

Limits on consultation and stakeholder engagement

While WEAG consulted the public in 2018, officials have been unable to separately consult on the proposed change. The Minister for Social Development and Employment and the Minister of Revenue wish to make the change public through the Budget 2022 process so further consultation with the affected group has not been possible. Further consultation is expected via the select committee process as part of the passage of legislative changes required to pass on child support to sole parent beneficiaries.

Limitations and constraints on Ministers' confidence

The overall impact of these limitations and constraints does narrow the scope of what is being considered for child support pass-on, and the depth of comparison between options.

However, we consider the data is reliable as an indicator of impacts. Ministers can be confident that the rigour of the analysis has been applied.

Responsible Manager(s)

Bede Hogan Policy Manager Income Support Policy Ministry of Social Development	Maraina Hak Policy Lead Families and Individuals Inland Revenue
s 9(2)(a)	s 9(2)(a)
17 November 2022	17 November 2022

Quality Assurance 16 March 2022

Reviewing Agency:	MSD and Inland Revenue
Panel Assessment & Comment:	The review panel considers that it partially meets the Quality Assurance criteria. The Regulatory Impact Assessment demonstrates a convincing problem definition and clearly sets out a range of options and evaluation criteria. Though there has not been public consultation through this policy development process specifically, the document outlines the relevant commentary and consultation that has previously occurred and clearly demonstrates various stakeholders' views. For the majority of the proposal costs and benefits are clearly set out with supporting evidence (including monetisation where appropriate), and data constraints and limitations explained and analysed. Implementation risks and mitigations are discussed thoroughly. The method in which income will be charged (forward over four to five weeks automatically) is attested to be necessary for the policy change to be operationally feasible, and qualitative benefits for clients are clearly articulated. However, the impact analysis for this choice does not demonstrate the financial impacts for child support recipients, and the qualitative discussion of the negative impacts is relatively limited.

Quality Assurance 17 November 2022

Reviewing Agency:	MSD and Inland Revenue
Panel Assessment & Comment:	The review panel considers that it partially meets the Quality Assurance criteria. The review panel reiterates this assessment of the overall RIA. The addendum notes the reason for the deviation from the original preferred option (the problem definition for the addendum) and sets out a range of options for progressing as well as the constraints to which that analysis is subject. The addendum could

	have more clearly stepped through how the critical delivery and cost constraints affected the options set and deviations from the original RIA content, but overall, the document presents a clear assessment of the impacts of the new preferred option.

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

Context within which action is proposed

It is mandatory for sole parent beneficiaries to apply for child support

When a receiving carer applies or reapplies for a Sole Parent Support, the Unsupported Child's Benefit or the sole parent rate of Supported Living Payment, Jobseeker Support, Jobseeker Support Student Hardship, or Young Parent Payment, they are obligated to apply for child support and undergo a formula assessment[25]. Child support paid on behalf of these clients to Inland Revenue is retained by the Government.[26] Child support payments to sole parent beneficiaries have historically been retained, and this has remained the policy throughout various reforms of the welfare system since the 1930s. The rationale is to offset the cost of the benefit that receiving carers get.

When a child support payment exceeds the total main benefit, the social security beneficiary is paid the amount of child support that exceeds their benefit payment. However, it is uncommon for child support payments to exceed the sole parent rate of benefit ($406.78[27] a week as at 1 July 2021). These carers need to declare the child support they receive so the impacts to their benefit or supplementary assistance can be assessed.

Child support is not retained for re-partnered beneficiaries or for those only receiving supplementary assistance, and the amount received by the carer is considered income for financial assistance purposes.

There are three types of child support arrangements:

- Formula assessments: This is when Inland Revenue assesses the amount of child support payable using a formula to determine the payment obligation. It then collects the payment from the liable parent and pays it to the receiving carer or withholds it in the case of sole parent beneficiaries and recipients of the Unsupported Child's Benefit. The child support is paid to carers monthly.
- Voluntary agreements: Parents can come to an agreement between themselves on how much child support will be paid. Inland Revenue then collects and pays child support to the carer monthly. Generally, sole parent beneficiaries and recipients of the Unsupported Child's Benefit cannot enter a voluntary agreement, as they are obligated to apply for a formula assessment.[28]

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[25] Unless the client has a voluntary agreement to pay more than formula assessment determines the liable parent should pay. This is uncommon.

[26] This does not include clients receiving Supported Living Payment on the grounds of caring for another person at a sole parent rate.

[27] From 1 April 2022 the sole parent rate paid weekly will be amended to gross $511.65 and net $440.96.

[28] Except when a person becomes a beneficiary and already has a voluntary agreement place that is higher than the formula assessment.

- Private agreements: Parents can come to an agreement between themselves on the type, size, and frequency of support provided. The agreement could be for regular or ad-hoc, financial or in-kind assistance. This could, for example, include paying for regular schooling costs or one-off health costs. Inland Revenue do not collect or pay any support in this case. Private agreements are treated as income under the Social Security Act 2018, so beneficiaries are required to declare it as income if they are receiving income-tested assistance.

Formula assessments and voluntary agreements through Inland Revenue are both referred to as child support and are only identified separately where necessary in this regulatory impact statement. Private agreements are discussed separately when appropriate.

There are strong links between child poverty and negative long-term outcomes

There is a high incidence of material hardship amongst beneficiaries with dependent children:

- In the working-age[29] population, approximately 28 percent of beneficiaries with children claim they have postponed or put off their visits to the doctor 'a lot' to keep costs down (compared to 6 percent of non-beneficiaries with children), and
- 44 percent of beneficiaries with children say they do not have enough money to meet every day needs such as accommodation, food, clothing, and other necessities (compared to 12 percent of non-beneficiaries with children).[30]

Material hardship is associated with poor outcomes for mothers and their children.[31]

Children who experience poverty are likely to have worse long-term outcomes

Children and adolescents who experience poverty have worse cognitive, social-behavioural and health outcomes, in part because they have lower family incomes. The parent's inability to purchase resources for children is a stressor resulting from low income. Children that experience poverty are more likely to experience negative long-term outcomes in areas such as adult employment, education, income, health, and cognitive development.[32]

There is no single measure of poverty in New Zealand. The Child Poverty Reduction Act 2018 sets out a multi-level, multi-measure approach to measuring child poverty. The Child Poverty Minister has set targets for three primary measures. The first intermediate target period ended with the statistics reported for the year ended June 2021, showing the Government has made progress towards all three intermediate targets. As at June 2021 there are:

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[29] 16 – 64 years of age.

[30] Refer to the presentation prepared for the Welfare Expert Advisory Group: *The living standards of people supported by income-tested main benefits*. https://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/information-releases/weag-report-release/the-living-standards-of-people-supported-by-income-tested-main-benefits-joint-msd-and-sia-presentation.pdf

[31] Association of material hardship with maternal and child outcomes: *Technical report of cross-sectional analysis of nine-month data from Growing Up in New Zealand cohort (2018)*. https://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/research/material-hardship-maternal-and-child-outcomes/material-hardship-maternal-and-child-outcomes.docx

[32] Prepared for the Welfare Expert Advisory Group: Rapid Evidence Review: *The impact of poverty on life course outcomes for children, and the likely effect of increasing the adequacy of welfare benefits*. Ministry of Social Development. December 2018.

- 13.6 percent of children (156,700) lived in households with less than 50 percent of the median equivalised disposable household income before housing costs are deducted,
- 16.3 percent of children (187,300) lived in households with after-housing-costs equivalised disposable income that was less than 50 percent of the median after-housing-costs income in the baseline year, and
- 11.0 percent of children (125,700) living in households that experienced material hardship.[33]

The Welfare Expert Advisory Group consulted substantively, and recommended child support be passed on

In 2018 the Minister for Social Development commissioned the Welfare Expert Advisory Group (WEAG) to undertake a broad-ranging review of the welfare system and advise Government on the future of New Zealand's welfare system. WEAG conducted an inclusive and consultative engagement process with opportunities for New Zealanders to provide input by survey, submissions, community forums, and hui. WEAG heard from nearly 3,000 New Zealanders from across the welfare system, including: recipients of benefits, beneficiary advocates, and MSD staff.

Feedback received during consultation and formulated in the WEAG's 2019 report found that the welfare system did not treat its clients with dignity and respect, and that changes were needed to treat people with more compassion and empathy. Many respondents thought that child support payments should be passed on to the receiving carer. Passing on child support was recommendation 27 of 42 made by WEAG in its 2019 report 'Whakamana Tāngata – Restoring Dignity to Social Security in New Zealand'. WEAG recommended that the payments be passed on to receiving carers and that these payments be treated as income for benefit abatement in the same way as wages (Option 2).[34]

Further consultation is expected via the select committee process as part of the consideration of the Bill required to implement the child support pass-on proposal.

Wider support for passing on child support

Welfare advocacy groups, commissioned expert panels, and academics have all expressed the need for child support to be passed on, but have not indicated a preference for in full (Options 2, 2(a), 3, 5 and 6) or partial (Option 4 and 4(a)) pass on. They expect it will reduce child poverty rates and prioritise the child's wellbeing.

- In 2011 the Child Poverty Action Group undertook an analysis in their report Left Further Behind and devoted a chapter to Reforming Child Support. They considered that "part or all of Child Support should be paid directly to the parent on a benefit", that "Child Support reform must have the child's well-being at the centre, not the financial needs of the Government".[35]
- In 2012 the Children's Commissioner commissioned the Expert Advisory Group on Solutions to Child Poverty. It recommended the government pass-on child support

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33 Stats NZ. *Child poverty statistics: Year ended June 2021*. https://stats.govt.nz/information-releases/child-poverty-statistics-year-ended-june-2021

34 Refer page 110, *Whakamana Tāngata Restoring Dignity to Social Security in New Zealand*, Welfare Expert Advisory Group, February 2019 (Whakamana Tāngata).

35 Child Poverty Action Group, *Left further behind: how policies fail the poorest children in New Zealand* (2011), pg. 90. https://www.cpag.org.nz/assets/sm/upload/jq/66/v2/dv/WEB%20VERSION%20OF%20LFB.pdf

payments (Recommendation 13) to eligible sole parents who are on state-provided benefits, considering it the "practical, cost-effective and relatively inexpensive measure that will mitigate some of the worst consequences of child poverty." They even suggested the government guarantee payment of child support regardless of whether the liable parent paid it (Recommendation 14) in order to reduce income inconsistency.[36]

- In his 2017 thesis, economist Michael John Fletcher determined "that pass-on would improve outcomes following separation in terms of reducing the decline in living standards, ameliorating poverty rates, and reducing the gap between parents with care of children (mostly women) and paying parents (mostly men)."[37]

International practice suggested some options to consider

Comparable jurisdictions such as Australia and the United Kingdom operate a form of child support pass-on and do not retain payments to offset benefit costs. In the United Kingdom, child support is disregarded in the income test. In Finland and Germany, child support is passed on and is guaranteed by the government (that is, paid even if the liable parent does not pay), but is treated as income when calculating social assistance payments.[38]

Key features of the regulatory system and its objectives

The Child Support Act 1991 contains legislative provisions:

- requiring child support to be retained when the receiving carer is paid Sole Parent Support, Unsupported Child's Benefit or the sole parent rate of: Supported Living Payment, Jobseeker Support, Jobseeker Support Student Hardship, or Young Parent Payment, and
- requiring sole parent beneficiaries to apply for a formula assessment with Inland Revenue.

Regulations under the Social Security Act 2018 set out the parameters for "allowable costs" for Temporary Additional Support.

Changing these settings will require legislative amendments. In addition, a Ministerial Direction in relation to Special Benefit will need to be amended to change the settings for sole parent beneficiaries.

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[36] Children's Commissioner. Expert Advisory Group on Solutions to Child Poverty. *Solutions to Child Poverty in New Zealand evidence for action* (2012), pg. 42. https://www.occ.org.nz/assets/Uploads/EAG/Final-report/Final-report-Solutions-to-child-poverty-evidence-for-action.pdf

[37] M. Fletcher. *An investigation into aspects of the economic consequences of marital separation among New Zealand parents*. Auckland University of Technology, (2017), pp. 189-190.

[38] M. Hakovirta, C. Skinner, H. Hiilamo, M. Jokela (2019). *Child poverty, child maintenance and interactions with social assistance benefits among lone parent families: a comparative analysis*. Journal of Social Policy (2019), pp. 1-21 https://doi.org/10.1017/S0047279419000151

What is the policy problem or opportunity?

Problem definition

Sole parent beneficiaries are treated differently on the basis of marital status, because child support paid by the other parent (liable parent) is not passed on to them, the carer of that child (receiving carer). Instead, child support payments are made to Inland Revenue and are retained by the Government to offset the cost of paying benefits. Child support is passed on to other recipients of benefits, for example, re-partnered parents or clients only receiving supplementary assistance (who may also be working).

There is a high incidence of material hardship amongst beneficiaries with dependent children and passing on child support payments would increase the incomes of many sole parent beneficiaries and contribute to the Government's Child Poverty targets to reduce the number of children in poverty.

For parents in hardship with an obligation to pay child support, this obligation is not recognised when applying for Temporary Additional Support (income- and asset-tested hardship assistance). This can limit the support they receive.

Policy opportunity

There is a strong case for changing the policy to retain child support for sole parents, because the current settings are:

- not reflective of other developments and approaches in welfare system, and create tension with the purpose of the Child Support Act 1991 and Social Security Act 2018,
- unfair as child support is currently retained on an unequal basis, and
- not child-centric because the money collected to help meet the costs of raising the child does not benefit the child or family. This is inconsistent with the policy intent and does not provide a positive incentive for liable parents to meet their child support obligations.

In many countries, child support payments are passed on in part or in full to parents with children receiving welfare payments. New Zealand stands out internationally in not passing on any child support, unless child support payments exceed welfare payments or, for example, re-partnered clients.[39,40]

In New Zealand, recent analysis suggests pass-on would improve outcomes following separation of parents. Pass-on would reduce the decline in living standards, ameliorating poverty rates, and reducing the gap in the impact of separation between parents with care of children (mostly women) and paying parents (mostly men).[41]

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[39] Fletcher, M. J. (2017). *An investigation into aspects of the economic consequences of marital separation among New Zealand parents.* A thesis submitted for examination to Auckland University of Technology in fulfilment of the requirements of the degree of Doctor of Philosophy.

[40] Skinner, C., Meyer, D., Cook, K., & Fletcher, M. (2017). Child Maintenance and Social Security Interactions: The Poverty Reduction Effects in Model Lone Parent Families across Four Countries. *Journal of Social Policy*, *46*(3), 495-516. doi:10.1017/S0047279416000763

[41] Ibid.

Tensions with the Child Support Act 1991

Child support payments are intended to support the child for which they are paid, not the caring parent. As child support is only passed on if it is above the rate of sole parent benefit, it is the cost of benefit for both the caring parent's and the child that is being "offset".

The underlying purpose of child support is to ensure that children are supported and that parents are held responsible for the financial support of their children. When the government retains child support, the ability to which these payments can support children is severely limited.

Child support pass-on is an opportunity to contribute to a fairer, more child-centric welfare system

Currently, sole parent beneficiaries are treated differently in the welfare system from other recipients of child support payments. Child support payments are retained by the Government to offset benefit costs for sole parent beneficiaries who are receiving carers. Other parents, such as re-partnered parents or parents only receiving supplementary assistance, have their child support payments passed on to them. s (9)(2)(g)(i) [redacted]

Currently, the Child Support Act 1991 requires sole parent beneficiaries to apply for child support under a formula assessment with Inland Revenue. Sole parent beneficiaries are not permitted to enter into a voluntary agreement administered by Inland Revenue.

The resulting payments are retained by the Government to offset the cost of the benefit. Usually, the benefit is more than the child support payable. In cases where the child support exceeds the benefit, the excess is passed on to the sole parent.

These rules do not apply to people who are on a couple rate of benefit and who have children in their care from a previous relationship. They can choose whether to apply for child support under the Child Support Act 1991 (formula assessment or voluntary agreement) or make private agreements. If they do apply for child support, all child support payments are passed on to them rather than being retained to cover benefit costs. Their child support payments and private agreements are treated as income, and benefits are abated accordingly when the income is declared.

s 9(2)(h) [redacted]

s (9)(2)(g)(i) [redacted]

Officials have identified the following features of the full design as too complex to legislate for phase one:

- Reducing the client's income charge when they repay overpaid child support using personal resources, such as savings.
- Ensuring debt repayments are only taken into account for a debt that relates to a child support period after 1 July 2023.
- Ensuring that child support relating to a period when the client was not receiving a benefit will not impact the client's income for financial assistance purposes.

- Treating offset amounts of child support as income.

Improved relationships between liable parent and children

Research suggests that there is an increased incentive, and therefore likelihood, of child support payments being made by liable parents where they can see that their child will receive the benefit of their financial support.[42]

Research also suggests that child support payments that are passed on are associated with increased engagement and interaction between liable parents and their children.[43]

Links between child poverty and mental health

Various studies have shown a relationship between poverty experienced in childhood and a greater likelihood of mental health problems throughout their life.

New Zealand has four major longitudinal studies following cohorts of children born in New Zealand which give insights into possible links between experiences of poverty in childhood and later mental health problems.

The Dunedin Multidisciplinary Study which began in 1972 found that, compared with those from high socioeconomic status (SES) backgrounds, children who grew up in low SES families had poorer cardiovascular and periodontal health, and a higher incidence of substance abuse; and these were not changed if the children improved their SES later.[44]

Findings from the Christchurch Health and Development Study, which started in the mid-1970s, suggest that a low standard of living, together with a number of other features of childhood adversity[45] may increase the likelihood of mental health problems in adulthood.[46]

More recent data from the Growing Up in New Zealand longitudinal study, which began in 2009, showed that risk factors for vulnerability of children included maternal characteristics and behaviours, features of the home environment and poor maternal mental wellbeing and physical health in late pregnancy. Exposure to multiple risk factors for vulnerability at any one time point increased the likelihood that children will experience poor health outcomes during their first 1,000 days of development; and that Māori and Pacific babies are disproportionately exposed to these risk factors.[47]

The Pacific Islands Family Study, which began in 2000, found a relatively high prevalence (7.3 percent) of depressive symptoms in 9-year-old Pacific children; there was no

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[42] Cancian, M., Meyer, D. R. & Caspar, E. (2008). *Welfare and child support: Complements, Not Substitutes*. Journal of Policy Analysis and Management, 27(2), 354-375.)

[43] Nepomnyaschy Lenna. (2007) *Child Support and Father-Child Contact: Testing Reciprocal Pathways*. Demography. 44(1):93–112.

[44] Poulton, R., Caspi, A., Milne, B. J., Taylor, A., Sears, M.R. & Moffitt, T.E. (2002). *Association between children's experience of socioeconomic disadvantage and adult health*. The Lancet, 1640-1645.

[45] Low maternal educational attainment, low educational aspirations by parents, single parent family type, parental history of criminal offence including substance abuse, and childhood exposure to family violence, regular/severe physical punishment, and sexual abuse.

[46] Fergusson, D., McLeod, G., & Horwood, L. (2015). Leaving school without qualifications and mental health problems to age 30. *Social Psychiatry and Psychiatric Epidemiology, 50*(3), 469-478.

[47] Morton, S. M. B., Atatoa Carr, P. E., Grant, C. C., Berry, S. D., Marks, E. J., Chen, X. M-H. & Lee, A.C. 2014. *Growing Up in New Zealand: A longitudinal study of New Zealand children and their families.* Vulnerability Report 1: Exploring the Definition of Vulnerability for Children in their First 1000 Days. Auckland: Growing Up in New Zealand.

relationship to SES apart from low maternal education.[48] A major New Zealand report in 2011 “Reducing social and psychological morbidity during adolescence” identified poverty as one of several factors influencing mental health of adolescents and the importance of early intervention.[49]

The evidence strongly suggests that the incidence of mental health conditions among children and adolescents can be reduced by addressing severe and persistent poverty, particularly during the early years of a child’s life.

Women and Māori may benefit from passing on child support

MSD administrative data shows that 95,700 sole parent families were receiving a relevant sole parent rate of benefit as of September 2021.

Women make up 88 percent of all sole parent beneficiaries (around 84,200 of sole parent families receiving a relevant sole parent rate of benefit) and will be positively impacted by passing on child support.

Māori make up 49 percent of sole parent families likely to be impacted (20,300 of the 41,550) by passing on child support. Māori make up a much larger proportion of sole parent families than of the general population, and those families will see increases in their income.

Disabled people may benefit from passing on child support

Disabled people are more likely than others not to be employed and therefore to be on benefit, so disabled sole parents are more likely to be reliant on their benefit to help support them as parents. Passing on child support to sole parent beneficiaries will improve the financial circumstances of many sole parents and their families.

Most importantly, disabled children and their families, whether with a disabled parent or a non-disabled parent, are more likely to experience barriers and to have higher costs associated with their disability, than others. Therefore, disabled children are more likely than non-disabled children to benefit from the proposed policy shift.

Supported Living Payment is the main benefit type for people who have a long-term health condition or disability. There are approximately 3,800 people receiving Supported Living Payments-related benefits who may benefit from passing on child support.

Temporary Additional Support does not consider child support an allowable cost for formula assessments

Temporary Additional Support (and the Special Benefit) is a ‘last resort’ form of hardship assistance for people who cannot meet their ongoing essential costs (allowable costs) from their income. Once a parent is made liable for child support, legally they must make the payments they have been assessed to pay. Child support is an obligatory cost however it is not currently included in the comparison of costs and income. Therefore, the parent, along with any children in their care, ends up with a larger income deficit.

Sole parent beneficiary clients are currently obligated to apply for child support and are required to complete a formula assessment which calculates a payment based on the incomes of the parents and the amount of care each parent has for the child. However, it is

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[48] Paterson, J., Lustini, L., Taylor, S. (2014). Pacific Islands Family Study: depressive symptoms in 9 yearold Pacific children living in New Zealand. New Zealand Medical Journal, 127 (1390), 13-2

[49] Gluckman, P. (2011). *Improving the transition: Reducing social and psychological morbidity during adolescence.* Auckland: Office of the Prime Minister’s Science Advisory Committee.

proposed that the obligation to apply for formula assessments is intended to be removed. Clients will be able to choose the best form of child support agreement for themselves (i.e., formula assessment, voluntary agreement, or private agreement). Child support obligations under a voluntary agreement or private arrangement may be for more or less than under a formula assessment.

If child support was considered as an allowable cost for voluntary or private agreements, MSD staff would need to consider whether the arrangements, at the amount expected, were essential and whether steps could be taken to reduce their costs. These would be difficult to determine, as it would require MSD staff to make subjective judgements about what costs are essential for the liable parent to meet. Any clients in these situations could apply for a formula assessment and have it included as an allowable cost in their Temporary Additional Support. Therefore, only child support liabilities raised under a formula assessment are proposed to be included as an allowable cost for Temporary Additional Support.

Without the use of automation significant resources would be required to support sole parent beneficiaries to declare their income

Clients have an obligation under the Social Security Act 2018 to inform MSD if they have any change in circumstances. This includes any changes to their income, which is used to determine the rate of financial assistance payable.

MSD's current practice is to charge the expected amount of child support a client will receive. This means that if the liable parent does not pay, a client can have their benefit abated unnecessarily.

Regular information sharing and the automation of how child support income is charged would be required to mitigate the expansion of resources required to manage the influx of sole parent beneficiaries declaring their income. This would also improve clients experience by removing the expectation that they contact MSD to declare child support income, so sole parent beneficiaries (and potentially other clients) could rely on accurate child support income information being provided instead. However, this would not be necessary if child support was treated as income for the child.

Other clients receiving child support will be impacted if child support is treated as income of the receiving carer and charging is automated

Child support payments are currently passed on to some clients, including re-partnered clients (who are receiving child support for children in their care from a previous relationship), clients only receiving supplementary assistance, and sole parents whose child support payments exceed the sole parent rate of benefit (which is not common). Re-partnered clients and clients only receiving supplementary support receive the full amount of their child support entitlement, whereas sole parent beneficiaries receive the difference between their rate of main benefit and the amount of their child support payment (called an excess payment). Their main benefit is not abated by any excess payment because the total rate of benefit has already been retained by the Government.

If automated, the charging of income would be applied to all clients in receipt of child support from Inland Revenue. This would be a change in approach for some existing clients. When information sharing is used to charge the actual amount of child support paid as income, any clients who do not currently declare their child support payments as income (which they are expected to under the Social Security Act 2018) may experience a reduction in their monthly income.[50]

Legislative complexity

Complex rules are required for the definition and treatment of child support income in the benefit system, reflecting that this type of income is being charged according to different rules compared to other types of income. Child support income will be charged forward, and the income charging will occur automatically against a person's benefit when MSD receive payment information from Inland Revenue via an information share. Translating these rules (and any necessary exceptions) in the Social Security Act 2018 (and associated regulations) is complex.

Child support pass-on relies on automating the charging of child support as income due to large volumes of payments, to maximise consistency of income charging and prevent debt.

What objectives are sought in relation to the policy problem?

The objectives of passing on child support to sole parent beneficiaries are:

- to treat them more fairly with respect to how marital status impacts child support and minimise the creation of new inequities,
- to increase the adequacy of financial resources for sole parent beneficiaries to support children,
- to reduce the number of children in poverty, and
- to reduce barriers for liable parents to pay child support.

[50] Preliminary analysis undertaken in 2019 showed that up to 95 percent of clients who received child support did not declare their child support payments as income.

Section 2: Deciding upon an option to address the policy problem

What criteria will be used to compare options to the status quo?

The following principles were identified to assess the package of changes proposed for child support pass-on:

- **fairness or equity** – is the option 'fair' in how it treats the child support payments for different families and how does the option align with the purposes of the Child Support Act 1991 and the Social Security Act 2018,
- **child-centred** – what are the possible impacts on the child (including child poverty levels),
- **behavioural impacts** – what are the possible impacts on compliance with the Child Support Act 1991 and the Social Security Act 2018,
- **certainty of income** – how will the option impact on people's ability to manage their week-to-week income and what impact will it have on client debt,
- **administrative ease** – how easy or complex will the option be in developing and implementing, as well as the client experience, and
- **cost** – implementation and ongoing costs.

What scope will options be considered within?

- The child support (Inland Revenue) and welfare (MSD) systems.
- Previous options proposed to, and in-principle decisions made by, the Minister for Social Development (and Employment51) and the Minister of Revenue.

Out of scope

- Inland Revenue's policy settings and the rules guiding the assessment of child support obligations.
- How child support payments are used by the receiving carer for the benefit of the child.

What options are being considered?

The following two options were not considered:

- retaining child support to offset the cost of all beneficiaries would increase material hardship for beneficiaries already receiving child support and create further inequity between the treatment of beneficiaries and working population, and
- not treating child support as income for benefit abatement purposes would operate similarly to Option 3. Under option 3, child support would be treated as income of the child. Therefore, under Option 3, benefits would not abate as the income is not that of the receiving carer.

Option 1 – Child support is not passed-on to sole parent beneficiaries [*status quo*]

The status quo is no legislative or policy change. Without which there would be no:

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[51] Some decisions were made when by the Minister for Social Development, others by the Minister for Social Development and Employment.

- correction of the inequity for sole parent beneficiaries,
- increase in the incomes of sole parent beneficiaries,
- reduction in child poverty,
- increased incentive for liable parents to pay child support,
- cost of implementation, and
- adjustments required by parents.

Option 2 – full pass-on, and treating child support as income for financial assistance purposes from 1 July 2023

Child support payments would be passed on to sole parent beneficiaries instead of being retained by the Government to offset the cost of benefit payments. Child support would be treated as income for financial assistance purposes.

The overall cost of this option is estimated to be $354.27 million over the forecast period 2021/2022 to 2025/2026

Costs and savings for the Government:

- $458.63 million is the cost of passing on child support (that is, no longer retaining child support to offset the cost of income-tested financial assistance),
- $25.42 million is the cost for enabling child support liability to be considered allowable costs for Temporary Additional Support (and Special Benefit) purposes
- ($174.15) million in savings from benefit abatement (due to increased incomes from passing on child support payments), and
- ($25.58) million in savings due to how child support is treated for the purposes of Income Related Rent Subsidy).

Government investment in the project:

- $3.65 million in one-off costs (business design and IT requirements, monitoring and evaluation, FTEs for implementation),
- $42.10 million in ongoing costs (communication, depreciation, capital charge, FTEs for contact centres, processing staff and other support staff), and
- $20.20 million for the IT build.

Modelling of impacts

Based on the modelling of matched MSD and Inland Revenue data, of a total 95,700 sole parent families approximately 50,800 families are estimated to be affected (that is, clients who have child support payments due). The remaining 44,900 have not or cannot apply for child support. The latter group includes widows/widowers, people who are not required to apply[52], and people who chose not to apply for child support either before or after the 2020

[52] As outlined in section 9(5B) of the Child Support Act 1991.

removal of the sanctions[53] on sole parent beneficiaries who do not identify the other parent and apply for child support. Of the 50,800 families estimated to be impacted:

- Approximately 41,550 sole parent families will receive on average $65 per week of child support income, with a median increase of $24 per week. Following the abatement of income-tested financial assistance, these families will gain overall by an average of $47 per week, and a median gain of $20 per week.Approximately 1,000 parents will see weekly gains of $200 or more per week.
- Around 4,000 sole parent families will see no immediate gain because the liable parent does not pay child support.
- Around 50 sole parent families are expected to lose financially from child support pass-on due to a combination of factors. Around half of those families are expected to lose financially due to the loss of their main benefit and the Winter Energy Payment. The other families are expected to lose due to a combination of reductions in their Temporary Additional Support, Income-Related Rent Subsidy and Childcare Assistance, with most losses less than $10 per week.
- Around 5,200 families will see no immediate gain due to the child support payments abating their benefit payments.

More than half of the 41,550 sole parent families (21,900) that will benefit financially will have no reduction in their financial assistance as a result of having their child support payments passed on. Another 32 percent (13,200) will retain between 50-99% of their child support income, with the rest reducing the amount of financial assistance payable.

Women, Māori, Pacific families and disabled people are expected to benefit from Option 2

Women make up 88 percent of all sole parent beneficiaries (around 84,200) and will be positively impacted by passing on child support.

Māori will receive on average $52 per week of child support income, with a median of $20 per week. Following the benefit abatement of income-tested financial assistance, these families will gain overall by $40 per week, with a median gain of $20 per week. However, the increase following abatement is less than the average of all families ($47 per week). The lower-than-average increase is due to lower average child support payments by liable parents. The amount of child support paid under a formula assessment is determined by the incomes of the parents. It is likely these liable parents pay less because they have a lower income.

Pacific families make up around 3,700 of the 41,550 sole parent families likely to be impacted. These families will receive on average $69 per week of child support income, with a median of $33 per week. Following the benefit abatement of income-tested financial assistance, these families will gain by marginally more than the average and median of all families at an average of $51 per week, with a median gain of $21 per week. This is because increases in income depend on the amount of child support paid, and for Pacific families, these average payments are higher than for other impacted sole parent families as a whole.

Supported Living Payment is the main benefit type for people who have a long-term health condition or disability. There are approximately 3,800 people receiving Supported Living Payment-related benefits who may benefit from child support pass-on. MSD have compared

53 The section 192 sanction in the Social Security Act 2018 was repealed on 1 April 2020 as one component of the Income Support Package.

the Supported Living Payment group in terms of average child support payment and amount of child support retained after abatement on a weekly basis. Those receiving Supported Living Payment-related benefits will receive on average $76 per week of child support income, with a median of $30 per week. Following the benefit abatement of income-tested financial assistance, these families will gain overall by an average of $55 per week, with a median gain of $23 per week, which is more than the average ($47) and median ($20) amounts of all families per week.

Most importantly, compared to others, disabled children and their families (whether with a disabled parent or a non-disabled parent) are more likely to experience barriers and to have higher costs, associated with their disability. Therefore, disabled children are more likely than non-disabled children to benefit from the proposed policy shift.

There will be a reduction in child poverty levels

It is estimated that child support pass-on will reduce child poverty by around 7,000 (+/-2,000) children on the fixed-line AHC50 measure,[54] and by around 5,000 (+/-2,000) children on the BHC50 measure[55] in the 2023/24 financial year.[56]

In advice to Cabinet in March [CBC-22-MIN-0021 refers], the 2021 child poverty impact projections above were used. The Budget child poverty projections have been updated by Treasury to incorporate the most recent economic forecasts for the Budget Economic and Fiscal Update 2022. It is now estimated that child support pass-on will reduce child poverty by around 10,000 (+/-4,000) children on the fixed-line AHC50 measure, and by around 6,000 (+/-3,000) children on the BHC50 measure in the 2023/24 financial year.[57]

This will contribute to the Government's ten-year longer-term targets to reduce material hardship from 13.3 percent of children to 6 percent – a reduction of around 80,000 children.

The automation of income charging rules will accurately reflect benefit entitlement for re-partnered clients and clients only receiving supplementary assistance

Preliminary analysis undertaken in 2019 showed that up to 95 percent of clients who received child support did not declare their child support payments as income. The automation of information sharing and of charging income will impact clients who do not currently declare their child support income.

The number of other clients receiving child support currently is 921 re-partnered clients and 10,415 clients only receiving supplementary assistance. Of these clients, 58 percent of re-partnered clients and 59 percent of clients only receiving supplementary assistance are expected to experience a reduction of their benefit entitlement because child support payments exceed the income abatement thresholds. The remainder of the clients will

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[54] AHC50 measures the number of children in households with incomes much lower than a typical 2018 household, after they pay for housing costs, and is measured by the threshold line set at 50 percent of the median income in 2017/2018 (base financial year), after housing costs are removed.

[55] BHC50 is a moving-line income measure, with the poverty threshold taken the year the data is gathered (low income, before housing costs – moving-line measure). BHC50 measures the number of children in households with much lower incomes than a typical household, and is measured by the threshold line set at 50 percent of the median household income in the year measured.

[56] These figures are based on Treasury's tax and welfare analysis modelling.

[57] The Budget Economic and Fiscal Update 2022 (BEFU) included data from Statistics New Zealand – such as, changes to the cost of living – and Government policy interventions announced since the BEFU. These child poverty impact projections are based on the updated figures.

experience no reduction in benefit supplementary assistance. For those clients who experience a reduction in financial assistance, this is in line with their current obligations (to declare all sources of income) and the policy intent.

The combined impact to these client groups is expected to result in approximately $30 million in savings from net benefit abatement (from abating their child support income).

Passing on child support will decrease the Income-Related Rent Subsidy for some clients

Approximately 8,900 clients receiving Income-Related Rent would see a decrease in their Subsidy as a result of child support pass-on, meaning they will be required to contribute more to their rental costs. The median decrease would be $5.00, and the average decrease $11.92. It is estimated that the decrease in Income-Related Rent Subsidy would save the Government $21.58 million over five years.

Passing on child support will decrease the Emergency Housing Special Needs Grant for some clients

It is estimated that approximately 650 sole parent beneficiaries will pay a higher contribution rate (because of the child support income they will receive after 1 July 2023) than they would currently. Increases to the contribution are estimated to be a median of $4.92 per week. Because of these increases, it is estimated that there will be a $1.239m increase in Crown revenue over five years. This is in addition to savings estimates that formed part of the Budget 2022 funding agreed to by Cabinet. Despite increases to their emergency housing contribution, these clients are still estimated to receive an overall gain to their income of a median $14.74 per week.

Further work is required to achieve these savings by ensuring all child support payments can be considered income in line with the policy intent.[58] This will involve changes to legislation, operational guidance, practice and potentially IT systems. These changes will be made prior to the implementation of child support pass-on.

This option cannot be delivered for 1 July 2023

The original timeframe agreed to by Cabinet cannot be achieved under this option. Officials have identified the following features of the full design as too complex to legislate for as part of phase one:

- Reducing the client's income charge when they repay overpaid child support using personal resources, such as savings.
- Ensuring debt repayments are only taken into account for a debt that relates to a child support period after 1 July 2023.
- Ensuring that child support relating to a period when the client was not receiving a benefit will not impact the client's income for financial assistance purposes.
- Treating offset amounts of child support as income.

Option 2(a) – Delay implementation of full child support pass-on – treating child support as income for the sole parent beneficiary from 1 November 2024

As in Option 2, Inland Revenue will pass on child support payments to sole parent beneficiaries, and all child support will be treated as income for determining the amount of

[58] The policy responsibility for IRR and public housing eligibility sits with the Ministry of Housing and Urban Development.

financial assistance payable by MSD. However, the implementation would be deferred to 1 November 2024. This would provide the necessary time to legislate for the complexities of how child support is treated as income in the welfare system.

There would be additional implementation costs to Option 2

Overall, the net cost of the proposal would remain relatively similar. However, there would be additional implementation costs greater than originally forecast from running the project over a longer period of time, and due to any technical changes from transitioning from phase one to two.

There would be a delay to the benefits being realised

The benefits associated with the proposal identified in Option 2 would not occur until after 1 November 2024. This includes increased incomes to sole parent families and a reduction in child poverty levels.

Option 2(a) will deliver the full design in one legislative vehicle but cannot be delivered for 1 July 2023. This is distinct from Option 6, which passes on child support from 1 July 2023, but will not be able to deliver the full design until mid-2025. This further delay is due to the phasing introducing additional complexity to the legislative process.

Option 3 – full pass-on, but treating child support as income for the child

Child support payments would be disregarded as income for the parent or the carer and instead would be treated within the benefit system as income for the child. This would have a greater impact on reducing child poverty than Option 2 as the carer would still effectively receive all child support on behalf of the child. It would also require significantly less resources in the IT build, as well as less ongoing resources for MSD. However, there would be no savings from benefit abatement (as the child's income is not assessed for most types of financial assistance). In addition, new operational policies and processes would still be required to be designed to reflect the policy change.

This option would align with the objects of the Child Support Act 1991 but would create tension with the purposes of the Social Security Act 2018. It aligns with the Child Support Act 1991 with respect to ensuring that children are supported and that parents are held responsible for the financial support of their children. However, Option 3 is a significant policy shift from the general purpose of the Social Security Act 2018 which states that clients use all available resources before they seek financial assistance. This purpose would no longer apply in respect to child support payments. This option also raises equity concerns, as people who receive large sums of child support could still be eligible for a benefit.

Pursuing Option 3 would be simple to administer in the welfare system but involves setting a precedent that child support is not income, which may impact how other income might be treated. This would raise wider questions around what is considered income in the welfare system and would require significant work and careful consideration of the flow-on implications.

Option 4 – partial pass-on – treating child support as income for the sole parent beneficiary

Partial pass-on would mean that instead of the full amount of child support being passed on to receiving carers, a maximum amount (for example, $20) per week would be passed on, and any remainder would be retained by the Government to offset the cost of their benefits. Child support would still be treated as income of the sole parent beneficiary.

However, s (9)(2)(g)(i) [redacted] there would be a smaller reduction of child poverty. It would also be significantly more complex for Inland Revenue to implement than Option 2.

Option 4(a) – partial pass-on – treating child support as income for the child

As in Option 4, partial pass-on would mean that instead of the full amount of child support being passed on to sole parent beneficiaries, a maximum amount would be passed on, and any remainder would be retained by the Government to offset the cost of their benefits. However, child support payments would be considered as income for the child under the benefit system and would not affect the receiving carer's financial assistance from MSD. This was viewed as a potential option to ensure families did not receive a full unabated benefit (because child support is income for the child) and potentially large child support payments, which might be seen as contrary to the purpose of the welfare system.

This option was discounted because it did not achieve the policy objectives. Officials did not determine whether this option would only apply to sole parent beneficiaries s (9)(2)(g)(i) [redacted] or whether it would apply to all beneficiaries - which would have negative consequences for re-partnered parents. It would not be possible for Inland Revenue to implement this option for 1 July 2023.

Option 5 – Simplified version - full child support pass-on – treating child support 'cash in hand' as income for the sole parent beneficiary

Child support payments would be passed on to sole parent beneficiaries. However, only the child support payments paid to the person (into their bank account) and included in the information share would be treated as income for financial assistance purposes, while offsetting amounts and some debt repayments would be excluded. Under this option, child support arrears would be treated as income for financial assistance purposes even if they relate to a period the person was not on a benefit.

Option 5 would mean that the welfare system would not be taking into account all child support amounts as income. This is contrary to one of the purposes of the Social Security Act 2018 which is to consider all financial resources available to clients when determining the rate of financial assistance payable. It also creates inequity between clients depending on the nature of the child support payment received. Some clients will not have their child support treated as income, as offset amounts of child support will not be included, and others will not have reductions in child support income charges if they repay a child support overpayment debt from personal resources. This means some clients would receive more financial assistance than they may otherwise have been entitled to under Option 2, and conversely some clients may receive less financial assistance than they would have been entitled to under Option 2.

The overall gains clients are expected to receive are similar to the gains from the full design. While we cannot model the impact of the Option 5 on these groups, we estimate the number of people impacted is comparatively small.

Additional inequities would arise because MSD only make retrospective changes to income charges in some situations when an error has occurred as a result of the information shared.

Option 6 – phased implementation: full child support pass-on with income charging rules implemented in two phases [officials preferred option]

Child support payments would be passed on to sole parent beneficiaries from 1 July 2023 with the income charging rules implemented in two phases. A simplified version of the child support pass-on proposal would be implemented for 1 July 2023 (effectively Option 5) and the aspects which cannot be legislated for (listed in Option 2) at a later date (expected to be mid-2025 at the earliest).

s (9)(2)(g)(i) [redacted] However, the vast majority of the benefits of the policy would be realised from the implementation of phase one, for example, passing on child support to sole parent beneficiaries and charging most child support as income for financial assistance purposes.

The overall cost of the phased approach is estimated to be unchanged over the forecast period

The phased approach is not expected to impact the cost of child support pass-on in phase one. The cost of implementing phase one of child support pass-on is within the existing Budget allocation. s 9(2)(f)(iv) [redacted]

The difference in impact on child poverty between phase one and phase two of Option 6 would be statistically insignificant.

There are implementation risks associated with the phased approach

s (9)(2)(g)(i) [redacted]

s 9(2)(h) [redacted]

s (9)(2)(g)(i) [redacted]

Options 2, 4, 4a, 5 and 6 share the same policy requirements

Based on the previous decisions by the Minister for Social Development and Employment, and the Minister of Revenue[59], implementing Options 2-4, 4(a), 5 and 6 involve:

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[59] Previous Minister of Revenue, Hon Stuart Nash.

- removing the obligation for social security beneficiaries to apply for child support (under section 9 of the Child Support Act 1991),
- retaining child support for recipients of the Unsupported Child's Benefit and Foster Care Allowance as Oranga Tamariki—Ministry for Children is currently undertaking work to reform the system of financial assistance and support for caregivers, and
- making child support an allowable cost for liable parents applying for Temporary Additional Support (hardship assistance that is income- and asset-tested).

Consistencies between Options 2, 2(a) 4, 5 and 6

Requirements for IT infrastructure and business processes

Including:

- automation as part of child support pass-on which is dependent on the amendment of the Approved Information Sharing Agreement between Inland Revenue and MSD, as well as passing legislative changes to enable MSD to use automated decision-making. It also involves significant investment and building of IT infrastructure to support information sharing and automation of non-discretionary business processes, and
- child support being charged forward, as income, over the following four or five weeks of benefit payments, from when the child support is paid. As child support is paid monthly and benefit payments are paid more frequently, Ministers[60] agreed that spreading the charge of child support over this period would reduce the fluctuations of income for the client.

Child support payments should be charged forward[61] *as income over the four or five weeks from when child support is paid to the client.*

This ensures that clients are not disadvantaged by child support payments received before they become entitled to income-tested assistance.

Child support payments represent a monthly period whereas payment of benefits represent a weekly or fortnightly period. Using four or five weeks is the equivalent period of the monthly child support payments in the welfare payment system and was considered the most appropriate timeframe to charge the payment over because it is reflective of the period for which the payment was paid over. A strict application of the charging forward rule could lead to financial assistance being abated due to child support received over a month before a client is granted assistance.

This would unfairly disadvantage new clients, who are unlikely to anticipate this and therefore may have already spent their child support payment. It also creates a precedent to retrospectively include income that relates to a period before a client is entitled to, and accruing, assistance.

Therefore, child support payments would be charged forward against financial assistance if received on or after the earliest commencement date for any financial assistance the client

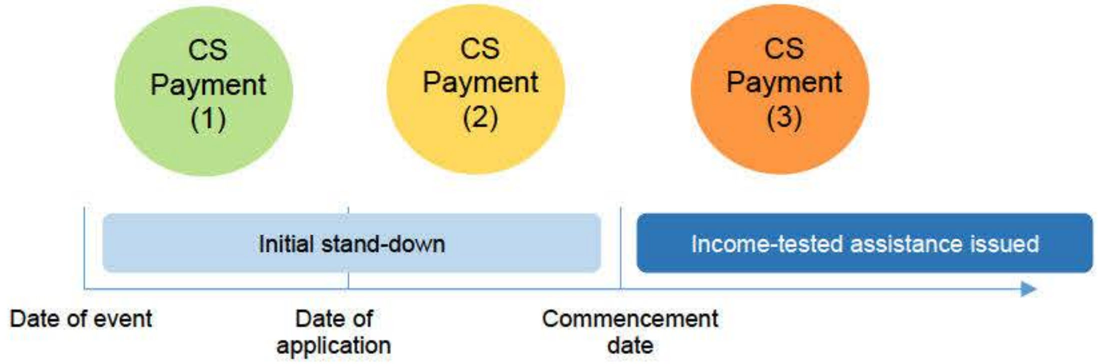
[60] Previous Minister of Revenue, Hon Stuart Nash, and Minister of Social Development, Hon Carmel Sepuloni.

[61] Charging forward: distributing the child support payment received by Inland Revenue (paid monthly) across the next four to five weeks of financial assistance received by the client.

receives. Note the commencement date can be earlier than when they apply for assistance if the 28-day rule applies.[62]

For example, in the diagram below, child support (CS) Payments (1) and (2) would not be treated as income, but CS payment (3) would be. Existing income charges for child support would continue if the client transferred to another income-tested assistance.

Diagram One: Charging child support income for clients who previously were not receiving income-tested assistance



MSD would automate the charging of child support income based on child support payment information shared by Inland Revenue

For child support payments administered by Inland Revenue (formula assessments and voluntary agreements), it is proposed that payment information shared with MSD will be matched with MSD clients' identities. This information will contain details of what has been passed on to receiving carers by Inland Revenue.[63] From this information, MSD would automate charging of child support as income when determining the amount of financial assistance payable. Information sharing between Inland Revenue and MSD occurs pursuant to the current Approved Information Sharing Agreement between the agencies.

This would remove the need for clients with child support arrangements administered by Inland Revenue to regularly declare the child support payments they receive as income. This would reduce the compliance burden for clients and improve the consistency and accuracy of income charging.

Child support payments under a private arrangement are not administered by Inland Revenue so clients receiving these payments will still need to regularly declare them.

Automated charging through information sharing will require dispensing with the notice period for an adverse action. If MSD was required to provide 10 days' notice in line with the requirement in the Privacy Act 2020 before applying the automated charge, this would likely disadvantage clients. The delay from the notice period would mean that child support payments would be charged as income well after the payments are received by the client, resulting in a disconnect between the receipt of child support and any reduction or abatement of their financial assistance.

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62 The 28-day rule allows clients in certain circumstances to have a commencement date earlier than their application date, if they apply within 28 days of the date on which the person becomes entitled to the benefit.

63 There will be a data cleansing exercise between MSD and Inland Revenue to update Inland Revenue numbers on MSD records to help support higher data matching between our agencies.

As such, MSD would need to consult publicly on amending the Approved Information Sharing Agreement in order to dispense with the requirement to give 10 working days' notice of a proposed adverse action, where the action is being taken based on information sharing under an Approved Information Sharing Agreement.

A number of detailed design decisions would be required to support automatically charging child support payments as income. In order for MSD to automate this process, specific rules need to be developed and legislative amendments need to be made in accordance with the rules replace the current discretionary rules in legislation for the purpose of child support pass-on.

MSD has discretion when calculating a person's weekly income to determine the period with which that period relates to. Such discretionary decisions must be delegated to a human person, not a computer. s 9(2)(h) [redacted] As such, before child support pass-on goes live, the Social Security Act 2018 will need to be amended to enable the use of automated decision-making.

The process of automated decision-making would be governed by MSD's automated decision-making standard which will provide safeguards to ensure automation for child support pass-on is lawful, aligns with policy intent and is implemented in accordance with MSD's Privacy, Human Rights and Ethics Framework.

Clients who already receive child support through Inland Revenue would also be impacted by child support pass-on. Re-partnered clients and clients not on a main benefit but who are receiving supplementary assistance, receive the full amount of their child support payments. Sole parent beneficiaries receive the difference between their rate of main benefit and the amount of their child support payment (called an excess payment) which is not charged as income as the total rate of benefit has already been retained by the Crown.

However, with child support pass-on child support will be paid to a range of clients, and as such clients may find the amount of financial assistance payable is reduced (or abated) as all child support payments will be treated as income.

In addition, the automation and income charging rules would apply to a range of MSD clients in receipt of child support from Inland Revenue. This will be a change in approach for some existing clients. When information sharing is used to charge the actual amount of child support paid as income, any clients who do not currently declare their child support payments as income (which they are expected to under the Social Security Act 2018) may experience a reduction in their financial assistance.[64]

This will occur if the child support payments exceed the income abatement threshold amounts or if they receive Temporary Additional Support. While these are intended consequences, some clients may struggle with this transition.

The number of clients receiving child support currently is approximately 900 re-partnered clients and 10,400 non-beneficiaries. Of these clients, 58 percent of re-partnered clients and 59 percent of non-beneficiaries are expected to experience some reduction in the amount of financial assistance payable as a result of child support payments exceeding the income abatement thresholds (approximately 6,700 in total). The remainder of the clients will experience no reduction in their financial assistance. For those clients who experience a

[64] Preliminary analysis undertaken in 2019 showed that up to 95 percent of clients who received child support did not declare their child support payments as income.

reduction in their financial assistance this flow-on is in line with their current obligations (to declare all sources of income) and the policy intent.

The combined impact to these client groups is expected to result in approximately $30 million in savings from net benefit abatement due to taking their child support income into account.

These following changes are intended to address inconsistencies

Including, by:

- recognising child support as an allowable cost for liable parents receiving Temporary Additional Support (and Special Benefit),
- including re-partnered parents and clients only receiving supplementary support in the child support payment information shared by Inland Revenue for MSD to automate the charging of child support as income, and
- treating child support as income for public housing tenants receiving child support and the Income-Related Rent Subsidy. This would decrease the clients' overall subsidy and their overall income but aligns with how income should be treated.

The automation of re-partnered parents and clients only receiving supplementary support

Automation of income charging rules would be required to implement the proposal and would be applied to all clients in receipt of child support from Inland Revenue. This would be a change in approach for some existing clients. When information sharing is used to charge the actual amount of child support paid as income, any clients who do not currently declare their child support payments as income (which they are expected to under the Social Security Act 2018) may experience a reduction in their monthly income.

This will occur if the child support payments exceed income abatement thresholds or if they receive Temporary Additional Support. While this is the policy being implemented as intended, some clients may struggle with this transition.[65]

Comparison of the options against the status quo

The following table uses the assessment criteria listed above to assesses Options 2 - 4 against the status quo (Option 1). Each option is scored on how it contributes to each criterion in comparison to the status quo and the high-level reasons for the score are recorded directly below each criteria score. The final assessment is provided in the final row of the table.

Key:
++ much better than doing nothing/the status quo
+ better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
- worse than doing nothing/the status quo
- - much worse than doing nothing/the status quo

[65] Preliminary analysis undertaken in 2019 showed that up to 95 percent of clients who received child support did not declare their child support payments as income.

How do the original options compare to the status quo?

	Option 1 – Status Quo	Option 2 – Full pass-on, child support treated as income for financial assistance purposes	Option 3 – Full pass-on, but treating child support as income for the child	Option 4 – Partial pass-on
Equity or fairness	0	+ + + Removal of inequity for sole parent beneficiaries + All child support charged as income (equity with other clients)[66]	- + Removal of inequity for sole parent beneficiaries - Parents who receive large sums of child support still eligible for financial assistance - Treats sole parent beneficiaries differently than other clients	- + Partial removal inequity for sole parent beneficiaries - Only entitled to a portion of child support - Treats sole parent beneficiaries differently than other clients
Certainty of income	0	+ + + Increases income when child support is paid + Child support paid monthly will be treated as income and spread over the following four or five weeks for benefit abatement purposes	+ + + + Increases income when child support is paid + + Benefits more stable as not abated by child support payments	+ + + Increases income when child support is paid + Child support paid monthly will be treated as income and spread over the following four or five weeks for benefit abatement purposes
Behavioural impact	0	0 + Liable parents incentivised to pay child support - Likely drop in child support applications, as application becomes voluntary	0 + Liable parents incentivised to pay child support (all child support received by carer) - Likely drop in child support applications, as application becomes voluntary	0 + Liable parents may be incentivised to pay child support - Likely drop in child support applications, as application becomes voluntary
Child-centred	0	+ + Provides more financial resources for sole parents when paid	+ + + + Provides substantial financial resources for sole parents when paid (as benefit not abated because of child support)	+ + Provides limited additional financial resources for sole parents
Administrative ease	0	0 + Reduces burden to self-declare income due to Inland Revenue/MSD automation of child support info share - Requires ongoing additional staff	0 + Client does not need to declare child support - Requires ongoing additional staff	0 + Reduces burden to self-declare income due to Inland Revenue/MSD automation of child support info share - Requires ongoing additional staff
Cost	0	- - - Loss of Government revenue (child support) + Child support abatement gains - Investment in IT build required - Requires additional ongoing costs (Inland Revenue and MSD)	- - - Loss of Government revenue (child support) - Minor investment in IT build and some additional ongoing costs (Inland Revenue and MSD)	- - + Child support abatement gains - Investment in IT build required - Requires additional ongoing costs (Inland Revenue and MSD)
Overall assessment	0	+ + +	+ +	+

[66] Except for recipients of the Unsupported Child's Benefit and Foster Care Allowance as Oranga Tamariki—Ministry for Children is currently undertaking work to reform the system of financial assistance and support for caregivers.

What original option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

Option 2, with the payments taken into account for benefit income tests (including supplementary assistance), is considered to be the option most likely to meet the policy objectives.

A summary of our assessment of the proposal is set out in the table below:

Criteria	**Equity or fairness**	**Certainty of income**	**Behavioural impact**	**Child-centred**	**Administrative ease**
Assessment	Removal of inequity for sole parent beneficiaries. All child support charged as income equity with other clients. Child support treated as income for all recipients of child support.	Increases income when child support is paid. Child support paid monthly will be treated as income and spread over the following four or five weeks for benefit abatement purposes.	Liable parents incentivised to pay child support. Likely drop in child support applications, as application becomes voluntary.	Provides more financial resources for sole parents when paid.	Loss of Government revenue by not passing on child support. Charging child support as income provides abatement gains. IT build required. Requires additional ongoing costs for Inland Revenue and MSD.

The removal of inequity on the basis of marital status, the anticipated behavioural impact, and child-centred principles, and conclusions provides strong arguments for proceeding with full child support pass-on and treating child support as income for benefit abatement purposes.

The equivalent positive impacts would not be achieved through alternative policy changes such as increasing sole parent benefit rates. The key conclusions are that:

- passing on child support provides an increased incentive to apply for child support, following the removal of the former sanction which reduced benefits for sole parents who do not apply for child support,

- research suggests that passing on child support payments is associated with increased engagement and interaction between liable parents and their children,[67] and
- there are minimal impacts on work incentives for most clients, though there are stronger impacts on work incentives for the small number of clients with relatively high levels of child support due to them.

There are mixed results in terms of fairness, certainty of income, and administrative ease principles.

- *Fairness*: Option 6 will equalise how the benefit system treats sole parents and re-partnered parents in relation to child support. However, the proposal will impact groups differently:
    - Around 41,550 of those sole parent families will receive on average $65 per week, with a median gain of $24 per week. Following the benefit abatement of income-tested financial assistance, these families will gain overall by an average of $47 per week, and a median gain of $20 per week. Approximately 1000 parents will see weekly gains of $200 or more per week.
    - Around 4,000 families will see no immediate gain, mostly because the liable parent does not pay child support. However, these families will gain if the liable parent begins to pay child support.
    - 5,200 sole parent families will see no immediate gain due to the child support payments fully abating their financial assistance.
    - The remaining 44,900 sole parent families do not, or cannot, currently apply for child support and will therefore see no benefit from child support pass-on, and there could well be a decrease in overall child support applications.[68] However, child support pass-on creates a positive incentive for new sole parents to apply for child support and the intention is to empower parents to make that choice.

The composition of the group gaining and losing may change depending on whether sole parents receive arrears payments of child support in any month, and if debt relates pre- or post- implementation in July 2023[69].

- *Certainty of income*:
    - The potential irregularity of monthly child support payments and their interaction with the generally weekly income support system means some of those who will benefit will experience somewhat irregular changes to income based on when child support is paid (including for arrears). Where significant

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67 Nepomnyaschy, L. (2007). child support and Father-Child Contact: Testing Reciprocal Pathways. Demography. 44(1):93–112; Cancian, M., Meyer, D. R. & Roff. J. (2007). Testing New Ways to Increase the Economic Well-Being of Single-Parent Families: The Effects of child support Policies on Welfare Participants. Institute for Research on Poverty Discussion Paper no. 1330-07. https://pdfs.semanticscholar.org/ad62/2923a5669c2b9575f44bcfa554b8f427032d.pdf?_ga=2.129322952.518866569.1532401039-192239164.1532401039

68 This includes sole parents who have meet specific requirements and are therefore not required to apply for child support, widows or widowers, or those who choose not to apply.

69 Child support debt accrued during the period prior to implementation will be retained by the government when repaid in the future. Therefore, there will be no impact of the repayment of debt on other income.

arrears payments are made, this can result in a larger abatement than if the child support had been paid on time, or the creation of debt. However, the monthly payment will be spread over time, charging child support income forward over the following four or five weeks. Together with the use of Inland Revenue data on child support payments by MSD, the generation of debt from irregular payments should be minimised.

  - Annual income assessments for some will identify that the benefit has not been sufficiently reduced, in which case a benefit debt will result and would have to be repaid.

  - Some clients, particularly people who have an ongoing income deficit, may find it difficult to manage in the weeks following the receipt of a child support payment when their benefit assistance, including Temporary Additional Support, may be paid at a reduced rate. As child support is paid monthly, clients who have received a payment and are in hardship might only be able to meet their necessary costs for some of the four- or five-week period that their benefit would abate over, even with Temporary Additional Support. These issues would be exacerbated if more than one payment of child support occurred within a month, causing "stacking" of income charges. This could occur when a liable parent was in arrears and Inland Revenue passed on one or more arrears payments made after the normal monthly payment.

- *Administrative ease*: Taking child support payments into account in the benefit income test will make child support pass-on challenging to administer. This will also apply to recipients of supplementary assistance, which is income-tested. It will require significant resources for MSD's implementation and ongoing administration, with Inland Revenue incurring small costs for implementation and administration. The complexity around certainty of income may also be difficult to communicate to clients.

  - Child support pass-on will use real-time information and automated decision-making to manage transactions, adding an additional layer of complexity to the benefit system.

  - Regarding child support as income for the child would have a higher fiscal cost but would reduce the ongoing administration costs for MSD, mitigate the significant IT changes involved, and could be delivered more quickly. However, this is a significant policy shift from the general purposes of the Social Security Act 2018 as the expectation that clients use all available resources before they seek financial assistance would no longer apply in respect to child support payments. This also raises equity concerns as people who receive large sums of child support could still be eligible for a benefit.

MSD originally recommended **Option 2** because it:

- would improve the fairness of the policy with respect to equalising the treatment of sole parent beneficiaries, re-partnered parents and clients receiving only supplementary assistance,

- is child centric, and

- may improve the likelihood that liable parents would meet their child support obligations.

Option 3 was not recommended as it:

- is a significant policy shift from the general purposes of the Social Security Act 2018, and
- raises equity concerns for people who receive large sums of child support, and between sole parent beneficiaries and other MSD clients.

Option 4 was not recommended as it:

- retains inequity between sole parents and re-partnered parents,
- creates administrative complexity in terms of determining what amount is appropriate to pass-on (for example, a flat rate per child or a percentage),
- reduces the amount of money available to go towards the costs of raising a child compared to Options 2 and 3, and
- could lead to a perception that the standard amount set to be passed on is the appropriate amount for liable parents to pay and carers to receive in child support and so undermines support for the child support formula.

MSD also proposes to change regulations under the Social Security Act 2018 to exempt the payments from cash asset tests for the income charging period. This would ensure payments do not immediately affect assistance that is subject to cash asset testing. Other legislative changes will be required to support the charging forward of child support income over four or five weeks and may also be needed for timely information-sharing between Inland Revenue and MSD.

While these arrangements would assist clients to manage the unpredictable and irregular nature of many child support payments, we are not entirely able to eliminate the likelihood that some clients will end up with periods of irregular income and end-of-year benefit debt.

Under current settings, sole parents may incur a debt with MSD when they receive an arrears payment, or a court ordered lump sum of child support because of annual income assessments of main benefit entitlement. If a sole parent or Supported Living Payment client stays on benefit for 12 months, and they have had their main benefit abated at some point, they receive an annual income assessment of benefit. Rather than considering their main benefit entitlement on a weekly basis, it is considered on a 52-week basis.

Having an annual rather than a weekly assessment is usually in the client's favour because income can be spread over a 52-week period, rather than the week it was earned. Of the annual income assessments undertaken, a recent investigation found that around 60 percent of clients have not been paid their full benefit entitlement for that 52-week period and are paid the remaining the additional benefit arrears owed to them.

However, significant child support arrears payments may lead to a debt for the parent after their annual income assessment due to the automatic income charging rules limiting the income charging of any child support payment to the following four or five weeks. This means a large payment could result in weekly benefit abatement across the four- or five-week period being less than the annual abatement.

MSD recommends that the policy settings for Temporary Additional Support (and the Special Benefit) also be amended to include child support as an allowable cost as this would:

- be more likely to provide the income needed to support the liable parent and their dependants,
- be child-centric, as it reflects that child support is meant to provide essential support for their child, and
- support liable parents in meeting their child support obligations.

The preferred option set out above is no longer viable for delivering child support pass-on for 1 July 2023

Officials have since determined that more time is needed to draft Option 2 for the Child Support (Pass On) Acts Amendment Bill. As a result, the policy previously agreed to cannot be delivered for 1 July 2023. An additional principle has been added in order to assess options:

- **implementation timeframe** – when can the option be delivered by. This principle must be met to be considered a viable option.

Comparison of the options against the status quo

The following table uses the assessment criteria originally used and the implementation timeframe principle to assess all options against the status quo (Option 1). Each option is scored on how it contributes to each criterion and the high-level reasons for the score are recorded directly below each criteria score. The final assessment is provided in the final row of the table.

Key:

++ much better than doing nothing/the status quo

+ better than doing nothing/the status quo

0 about the same as doing nothing/the status quo

- worse than doing nothing/the status quo

- - much worse than doing nothing/the status quo

How do the options compare to the status quo and the preferred option above?

	Option 1 – Status Quo	Option 2(a) – Delayed implementation	Option 3 – Full pass-on, but treating child support as income of the child	Option 4 – Partial pass-on, and treating as income for the receiving carer	Option 4(a) – Partial pass-on, and treating child support as income for the child	Option 5 – Simplified version of child support pass-on	Option 6 – Phased implementation
Equity or fairness	0	+ + + + Removal of inequity for sole parent beneficiaries + + All child support charged as income (equity with other clients)[70]	- - + Removal of inequity for sole parent beneficiaries - Parents who receive large sums of child support still eligible for financial assistance - Treats sole parent beneficiaries differently than other clients - Not consistent with the purposes of the Social Security Act 2018	- - + Partial removal inequity for sole parent beneficiaries - Only entitled to a portion of child support - Treats sole parent beneficiaries differently than other clients - Government could retain more than cost of benefit	- - - + Partial removal inequity for sole parent beneficiaries - Only entitled to a portion of child support - Treats sole parent beneficiaries differently than other clients - Government could retain more than cost of benefit - Not consistent with the purposes of the Social Security Act 2018	- + Removal of the inequity for sole parent beneficiaries - - Different treatment depending on the type of child support payment received	+ + + Removal of inequity for sole parent beneficiaries s (9)(2)(g)(i) [redacted]
Certainty of income	0	+ + + Increases income when child support is paid + Child support paid monthly will be treated as income and spread over the following four or five weeks for benefit abatement purposes	+ + + + Increases income when child support is paid + + Benefits more stable as not abated by child support payments	+ + + Increases income when child support is paid + Child support paid monthly will be treated as income and spread over the following four or five weeks for benefit abatement purposes	+ + + + Increases income when child support is paid ++ Benefits more stable as not abated by child support payments	+ + + Increases income when child support is paid + Most child support paid monthly will be treated as income and spread over the following four or five weeks for benefit abatement purposes	+ + Increases income when child support is paid + Child support paid monthly will be treated as income and spread over the following four or five weeks for benefit abatement purposes - Transition from phase one to two will see client incomes change
Behavioural impact	0	0 + Liable parents incentivised to pay child support - Likely drop in child support applications, as application becomes voluntary	0 + Liable parents incentivised to pay child support (all child support received by carer) - Likely drop in child support applications, as application becomes voluntary	0 + Liable parents may be incentivised to pay child support - Likely drop in child support applications, as application becomes voluntary	0 + Liable parents incentivised to pay child support (all child support received by carer) - Likely drop in child support applications, as application becomes voluntary	0 + Liable parents incentivised to pay child support - Likely drop in child support applications, as application becomes voluntary	0 + Liable parents incentivised to pay child support - Likely drop in child support applications, as application becomes voluntary
Child-centred	0	+ + Provides more financial resources for sole parents when paid	+ + + + Provides substantial financial resources for sole parents when paid (as benefit not abated because of child support)	+ + Provides limited additional financial resources for sole parents	+ + Provides financial resources for sole parents when paid (as benefit not abated because of child support)	+ + Provides more financial resources for sole parents when paid	+ + Provides more financial resources for sole parents when paid

[70] Except for recipients of the Unsupported Child's Benefit and Foster Care Allowance as Oranga Tamariki—Ministry for Children is currently undertaking work to reform the system of financial assistance and support for caregivers.

	Option 1 – Status Quo	Option 2(a) – Delayed implementation	Option 3 – Full pass-on, but treating child support as income of the child	Option 4 – Partial pass-on, and treating as income for the receiving carer	Option 4(a) – Partial pass-on, and treating child support as income for the child	Option 5 – Simplified version of child support pass-on	Option 6 – Phased implementation
Administrative ease	0	0 + Reduces burden to self-declare income due to Inland Revenue/MSD automation of child support info share - Requires ongoing additional staff	0 + Client does not need to declare child support - Requires ongoing additional staff	0 + Reduces burden to self-declare income due to Inland Revenue/MSD automation of child support info share - Requires ongoing additional staff	0 + Client does not need to declare child support - Requires ongoing additional staff	0 + Reduces burden to self-declare income due to Inland Revenue/MSD automation of child support info share - Requires ongoing additional staff	- + Reduces burden to self-declare income due to Inland Revenue/MSD automation of child support info share - Issues with managing transitional periods - Requires ongoing additional staff
Cost	0	- - - Loss of Government revenue (child support) + Child support abatement gains - Investment in IT build required - Requires additional ongoing costs (Inland Revenue and MSD)	- - - - Loss of Government revenue (child support) - No child support abatement savings - Minor investment in IT build and some additional ongoing costs (Inland Revenue and MSD)	- - - Loss of Government revenue (child support) + Child support abatement gains - Investment in IT build required - Requires additional ongoing costs (Inland Revenue and MSD)	- - - - - Loss of Government revenue (child support) - Investment in IT build required - Requires additional ongoing costs (Inland Revenue and MSD) - No child support abatement savings	- - - Loss of Government revenue (child support) + Child support abatement gains - Investment in IT build required - Requires additional ongoing costs (Inland Revenue and MSD)	- - - Loss of Government revenue (child support) + Child support abatement gains - investment in IT build required s 9(2)(f)(iv)
Implementation timeframe	0	- - - - November 2024	+ + + + 1 July 2023	- - - - Inland Revenue cannot implement the changes for 1 July 2023	- - - - Inland Revenue cannot implement the changes for 1 July 2023	+ + + + 1 July 2023	+ + + + Phase one for 1 July 2023
Overall assessment	0	+ +	+ +	- - -	- - - - -	+ +	+ + +

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

In light of the need to delay implementation, Option 6 is considered the best option to deliver the child support pass-on policy.

Option 2(a) was not selected because it did not meet the key criterion of delivery of pass-on for 1 July 2023.

Option 6 has been recommended as it:

- delivers the main aspects of child support pass-on for 1 July 2023,
- eventually delivers the full design,
- will deliver the benefits associated with Option 2 in the first phase, s (9)(2)(g)(i) [redacted] and
- can be delivered without significant changes to the fiscal cost for the first phase; however further funding may be required for phase two.

Other options were discarded because they did not meet the key objectives.

What are the marginal costs and benefits of the option?

Affected groups	Comment	Impact	Evidence Certainty
Additional costs of the preferred option compared to taking no action			
Regulated groups	Overall sole parent beneficiaries will have more income. However, there will still be a need to budget carefully in months when large payments are received or when they are receiving Temporary Additional Support (which reduces dollar for dollar with additional income), as their welfare assistance would be reduced over the subsequent four or five weeks.	Around 6,500 sole parents are expected to gain from child support pass-on and will have a reduction in their Temporary Additional Support.	High
Regulators	Ongoing administrative costs relating to charging child support payments as income for welfare assistance.	Approximately $9.21 million per annum between Inland Revenue and MSD once the policy is fully implemented.	Medium

Others (e.g., wider govt, consumers, etc.)	Government no longer offsetting benefit costs by retaining child support but treating the payments as income for financial assistance purposes.	$154.73 million per annum no longer retained, with $48.74 million per annum recovered in social assistance abatement.	High
Total monetised costs		Total overall cost $354.27 million from 2021/22 to 2025/26	
Non-monetised costs	Likely drop in child support applications, as application becomes voluntary.		
Additional benefits of the preferred option compared to taking no action			
Regulated groups	Additional income averaging $47 per week for 41,550 sole parent families, and a reduction in child poverty in these families.	3,000 – 14,000 children moved out of poverty (above the 50 percent BHC and AHC measures).	High
	Additional income for some liable parents (depending on their individual expenses and income) through Temporary Additional Support.	A total of $8.41 million per annum in additional assistance through Temporary Additional Support. Up to $18 a week for individual liable parents.[71]	High
Regulators	Application for child support positively incentivised, as it is likely to increase incomes.	Low	Medium
	Increased incentive for receiving parents to apply for child support, leading to abatement of welfare assistance.	Low	Medium
Wider government	Increased income is associated with better whānau health and wellbeing for all affected groups.	Low	Medium
Other parties	Liable parents may be encouraged to comply with their child support obligations as they can see their payments going	Low	Medium

71 This is the minimum rate of child support for the period 1 April 2019 to 31 March 2020, which we would usually apply to people receiving TAS.

	directly to the children for whom it is paid.		
Total monetised benefits	Passed on child support payments	$354.27 million from 2021/22 to 2025/26	
Non-monetised benefits	s 9(2)(h) [redacted] Improved health and wellbeing outcomes for sole parent beneficiaries and their families. Improved cognitive development and school achievement in childhood, and improved education in adulthood. Improved relationships between liable parents and their children.	Medium	

Under current settings, some sole parents who remain on a benefit for 12 months or more may incur a debt with MSD if they receive a large arrears payment. This is because the large payment will result in weekly benefit abatement being less than the annual abatement.

In the initial period after implementation, the risk of this occurring is low since child support arrears relating to the period before the policy change will be retained by the Government in line with current policy. Over time, the likelihood of debt from large arrears payments will increase as an increasingly large proportion of arrears payments relates to the period after this policy is implemented.

Section 3: Delivering an option

How will the new arrangements be implemented?

How the new arrangements will come into effect
MSD formed a project team in July 2021 with the initiative requiring 24 months to design, develop and implement the business, technical and legislative changes. The initiative is working towards a July 2023 implementation date. Inland Revenue and their child support pass-on project team was formed in late November 2021 following the move of child support to START (Inland Revenue's new technology platform).

The scale of the IT change means that the IT build needs to occur concurrently with the legislative amendment process. If there are substantive changes made to core policy decisions at the select committee stage, the IT build could require further funding and time to meet the new requirements.

The charging of child support payments as income for sole parent beneficiaries will be automated
Legislative changes are required to enable the use of automated decision-making by MSD for the purpose of child support pass-on. The automation of processes and non-discretionary decisions will minimise manual tasks that staff might otherwise be required to make.

A crucial component of child support pass-on is the automation of the sharing of child support payment information and charging of child support as income for benefit abatement purposes. To enable this automation, specific rules would need to be developed on how to treat child support payments in legislation in addition to the current discretionary rules. The Social Security Act 2018 would also need to be amended to enable the use of automated decision-making to enable MSD to automatically charge child support payments as income for benefit abatement purposes before the implementation of child support pass-on.

For income testing purposes, the payments will be treated as if they were spread across the following 4 or 5 weeks – depending on the number of benefit paydays in the month. For example, the system will be designed to treat a $200 child support monthly payment as if it was four payments of $50 each (if there were four benefit paydays in the month) or five payments of $40 each (if five paydays in the month). Current implementation assumptions are:

- Budget funding, including for 2022/2023 will be obtained for implementation,
- amendments to the Child Support Act 1991 and the Social Security Act 2018 will be required,
- implementation on 1 July 2023,
- child support will be charged as income against benefits and other financial assistance - this maintains the status quo across the welfare system (including Social Security Act 2018, Working for Families tax credits, Income Related Rents and Community Services Card,
- the charging of income against benefits and other financial assistance would be automated,
- IT changes will be required to both Inland Revenue and MSD systems,
- a data-sharing system between Inland Revenue and MSD will be required, and
- the 10-day notice period for an adverse action will be waived through an amendment to the Approved Information Sharing Agreement between Inland Revenue and MSD, enabling MSD to charge child support payments as soon as possible to avoid the creation of debt for clients.

Implementation risks

Overall, officials consider that child support pass-on is a high-risk project.

Officials consider that the commencement date of 1 July 2023 has the following implementation risks:

- Operational errors: s (9)(2)(g)(i) [redacted] Generally, there is a staged approach to this development.
    - Mitigation: Early involvement of experts from privacy teams, legal, IT etc. to co-design the policy and business processes means that the most feasible options can be worked through to operationalise the high-level policy objectives. Inland Revenue has also partnered with MSD to test and progress these options. Key policy direction will be sought as the project progresses and we will work with key stakeholders, including the Office of the Privacy Commissioner, to address any issues raised.

- Implementation date: The changes will require complex system changes. s (9)(2)(g)(i) [redacted]
    - Mitigation: Contingency (financial and resourcing) has been built into both the legislative process and the IT build as they run concurrently. If there are minor legislative changes through that process, the IT build can reflect these and still deliver. Each risk has an assigned owner, and a set of controls and mitigation strategies will be developed to manage or minimise their impact.

- Finalising legislation: A new risk has been identified in relation to legislative drafting. These issues have arisen due to complexities in the overall child support pass-on policy.
    - Mitigation: Moving to a phased approach simplifies legislation required by the original implementation time frame agreed to. This provides more time to legislate for the more complex aspects of the proposal.

How will the phased approach be implemented?

MSD and Inland Revenue have teams working on child support pass-on. They will continue to work on phase one for delivery for 1 July 2023.

Once the timeframe for phase two has been set out, the other aspects of the proposal (which are identified in Option 2 above) will be delivered. MSD and Inland Revenue will report to Ministers with an implementation plan.

How will the new arrangements be monitored, evaluated, and reviewed?

The proposal includes $0.45 million in the two years following implementation of phase one for evaluation. The evaluation will be undertaken by MSD and use a mix of qualitative and quantitative methods to examine the impact of the changes, including how clients and staff are experiencing the changes.

Child support pass-on is a major financial initiative which could have significant impacts for sole parent beneficiaries and their children and should therefore be evaluated. MSD has current evaluation and reporting underway to assess the impacts of the welfare overhaul work programme, including the Families Package and subsequent changes. This includes annual reporting tracking trends in relevant payments, as well as additional research on the quantitative impacts of these payments, and qualitative and quantitative studies to gain insights into client experience. Inland Revenue will also undertake a process evaluation to measure the effectiveness of the initiative. We consider this will be appropriate for identifying any problems that may arise during implementation. It will also monitor key metrics relating to this initiative, including changes to the number of child support applications, the amount of child support received, and the amount of child support arrears (excluding penalties).

In addition, MSD has secured further funding to include:

- additional monitoring, and impact evaluation if feasible, focused on changes in claims, private agreements, formula assessments, the proportion of liable parents making payments, and levels and frequency of payments; and
- an in-depth qualitative study of people's experiences of the changes, with a focus on sole parent beneficiaries' experiences of having to budget with fluctuating incomes (for example, where their liable parent is unreliable at making regular payments), clients' experience of child support payments automatically being charged forward over four or five-weeks, and sole parents', liable parents' and their children's wellbeing, their perceptions of the quality of their relationships, and changes they see in the short-term.

The evaluation of phase two will be undertaken when that phase is implemented. This may require additional funding.