



Report

Date: 19 October 2016

Security Level: IN CONFIDENCE

To: Hon Anne Tolley, Minister for Social Development

Advice on Section 70A of the Social Security Act 1964

Purpose of the report

- 1 Substantive welfare reforms have changed the way the Ministry of Social Development (MSD) works with sole parents. Changing Section 70A of the Social Security Act 1964 was not considered as part of the welfare reforms. It is now an appropriate time to consider the effectiveness of Section 70A.
- 2 It is now an appropriate time to consider Section 70A, and you asked for more information on the effectiveness of this policy.
- 3 We ask you to agree that current Section 70A be retained in the Rewrite Bill and to decide on whether to proceed with further policy work on Section 70A. We also ask you to note that work is underway to improve the administration of this policy.

Executive summary

- 4 Substantive welfare reforms have changed how MSD works with sole parents. Work and social obligations introduced and the benefit categories have been collapsed. This has led to an increase in the number of sole parents working.
- 5 Section 70A was not considered as part of the welfare reforms, and it is now an appropriate time to consider this policy. You asked MSD to provide you with advice on the effectiveness of this policy.
- 6 Section 70A applies a reduction to the benefit rate of a sole parent who does not identify the other parent of their child and/or apply for Child Support, subject to some exemptions. The policy's intent is to encourage the establishment of paternity and applications for Child Support, and provide a signal from government that this is considered important.
- 7 There are 13,616 benefit reductions in place. The clients affected by the reductions are more likely to be women, Māori or Pacifica, and younger than other sole parent beneficiaries.
- 8 We do not have sufficient evidence to confirm if the benefit reduction is achieving the policy's intent. Compared to other sole parents, clients affected by Section 70A have higher risk factors for long-term welfare receipt and hardship. However, clients with a benefit reduction are no more likely to access hardship assistance than other sole parent beneficiaries.
- 9 Sole Parents consider applying for Child Support in the context of the best interests of their children. If the parent decides to sever all contact with other parent, and not apply for Child Support, the benefit reduction can penalise them for making a choice they view as being in the best interests of their child.
- 10 Research from the mid-2000s identified several problems with the administration of this policy, which meant that many clients did not understand the policy. Anecdotal evidence suggests this has continued. Work and Income offices do not provide the

most appropriate environment for discussing the sensitive subject matter of exemptions from Section 70A. However, the number of exemptions granted has increased every year since 2006.

- 11 MSD is undertaking work on the administration of this policy, including
- undertaking consultation with staff and stakeholders to gain a better understanding of the administration of this policy
 - testing options to provide clear and timely information online and through our networks on applying for child support, exemptions to the policy, and explore ways to make it easier for clients to have these conversations.
 - considering changing the process for determining exemptions to Section 70A.

Recommended actions

It is recommended that you:

- 1 **note** that there is insufficient evidence to assess the policy's effectiveness in achieving its intent or how it affects clients and their children
- 2 **note** that MSD is undertaking work on the administration of this policy, including undertaking consultation, testing options to provide information online and through MSD's networks, and considering changing the process for determining exemptions to Section 70A.
- 3 **note** that the Social Security Legislation Rewrite Bill is awaiting second reading and is due to be passed by the end of this year making it impractical to complete the policy work and secure the Budget 2017 funding that would be required to make a change to the Section 70A policy through that bill
- 4 **agree** that the current Section 70A reduction and exemptions be retained in the Social Security Legislation Rewrite Bill

Agree / Disagree

Either maintain the status quo

- 5 **agree** to maintain the status quo and retain the Section 70A reduction and exemptions

Agree / Disagree

Or agree MSD to proceed with urgent policy work to remove the section 70A reduction

- 6 **agree in principle** to repeal Section 70A, and seek budget funding once work has been completed on estimating the fiscal cost, and an appropriate legislative vehicle has been found

Agree / Disagree

Or instruct MSD to undertake research, which would inform future policy decisions

- 7 **agree** that MSD provide you with a proposed scope for further policy work on Section 70A by February 2017. Note that this will include a timeline and process for gathering better information to identify and assess options, and to inform policy decisions

Agree / Disagree

8 **agree** to send a copy of this report to the Associate Minister for Social Development

Agree / Disagree

Sacha O'Dea
General Manager
Working Age Policy

Date

Hon Anne Tolley
Minister for Social Development

Date

Welfare reforms changed the way MSD works with sole parent clients

- 1 In 2010, the Government started implementing welfare reforms based on an unrelenting focus on work, which has changed how MSD works with sole parents.
- 2 The work obligations for Sole parents were increased. Obligations depend on the age of the youngest child:
 - if the child is under three years of age, sole parents have work preparation obligations
 - once the child turns three, sole parents have part-time work obligations
 - when the child is 14 or over sole parents are expected to work full-time.
- 3 Parents who have subsequent children on a benefit are subject to work availability expectations based on the age of their previous youngest child, once the newborn turns one year of age.
- 4 Work preparation obligations were strengthened and set an expectation that, in general, clients should take reasonable steps to prepare for work. This now applies to clients with a youngest child under three. The requirement to attend pre-benefit activities was also extended to sole parents.
- 5 Clients with dependent children are required to meet social obligations regarding the health and education of their children in order to continue receiving government assistance. Beneficiary parents of dependent children on a main benefit are required to take all reasonable steps to have their dependent children:
 - enrolled in and attending early childhood education from the age of three until they start school
 - enrolled in and attending school from age five (or six) depending on when the child first starts school)
 - enrolled with a General Practitioner or with a medical centre that belongs to a Primary Health Organisation
 - up to date with core Well Child/Tamariki Ora checks until they turn 5 years old.
- 6 The benefit categories were collapsed in 2013. Sole parents generally now access Sole Parent Support if their youngest child is under 14 and Jobseeker Support if the youngest child is 14 or above.
- 7 There has been a substantial decrease in the total number of sole parents on Jobseeker Support (JS) or Sole Parent Support (SPS). The number of sole parents on JS or SPS fell from 97,296 to 77,025 from 2010 to 2016, as more sole parents moved into employment. This is reflected in the valuations of the benefit system, as the total liability for sole parents has decreased.

A financial penalty to encourage sole parent beneficiaries to seek financial support from the other parent is a historical component of the benefit system

- 8 Section 70A requires that the rate of a sole parent's benefit will be reduced for each dependent child for whom the person does not seek Child Support, subject to some exemptions.
- 9 A financial penalty to encourage sole parent beneficiaries to seek financial support from the other parent is a historical component of the benefit system. The earliest precursor to this policy was introduced in 1938. Women who did not obtain a maintenance order from the other parent were not eligible for the Emergency Benefit.
- 10 The policy's intent is to encourage the establishment of paternity and applications for Child Support, and provide a signal from government that this is considered important. 78% of clients are meeting their Child Support obligations.

- 11 The benefit is reduced by \$22 for each dependent child for whom the client refuses or fails to meet their Child Support obligations. After 13 weeks a further \$6 a week reduction may be applied once only per client, regardless of how many of that client's children the \$22 reduction applies to.
- 12 An exemption to the benefit reduction is applied if:
 - there is insufficient evidence available to establish who is in law the other parent
 - the client is taking active steps to identify who in law is the other parent
 - the client or their child(ren) would be at risk of violence if the client carried out or took steps to meet their Child Support obligations
 - there is another compelling circumstance for the client's failure to meet their Child Support obligations and there is no real likelihood of Child Support being collected, or
 - the child was conceived as a result of incest or sexual violation.

There are currently 13,616 reductions in place

- 13 As at March 2016, 13,616 clients have their benefit reduced due to Section 70A. That represents 17.7 percent of sole parent beneficiaries.
- 14 Approximately 80 percent of these clients have a reduction for only 1 child, 16 percent for two children, and the remaining 4 percent for 3 children and above.
- 15 A total of 2,884 clients have exemptions in place.
- 16 A breakdown of clients with a benefit reduction according to gender, ethnic group, and age is provided in Appendix B. A breakdown of all sole parent beneficiaries is provided for comparison.
- 17 The key findings are that, compared to all sole parent beneficiaries, clients with a benefit reduction are:
 - More likely to be women: 97.7 percent of clients with a reduction are women, compared to 89.4 percent of the sole parent population.
 - More clients identify as Māori or Pacific People (by 5.8 and 3.6 percent respectively), and
 - Fewer identify as NZ European or 'other' (by 5.7 and 3.7 percent respectively), and
 - More clients are younger, with 69.8 percent of clients with a reduction being under 34, compared to 56.5 percent of the sole parent beneficiary population.

There are procedures in place to inform clients of their Child Support obligations, and to provide information on situations where an application for Child Support is not required

- 18 The current process for applying for a benefit, or including a child, requires the client to attend an appointment with Work and Income. Part of the appointment process includes a discussion about the client's Child Support obligations.
- 19 During that conversation, if the client reveals information that indicates they are exempt from the obligation to apply for Child Support, then the:
 - client is advised that they do not need to complete the application for Child Support, and
 - client's record is updated to prevent Child Support information being sent to Inland Revenue.
- 20 The Manuals and Procedures for Case Managers provide guidance on how to deal with each exemption.
- 21 If the client's benefit is reduced under Section 70A, the client receives an automated notification (by letter), outlining:

- that their benefit has been reduced
- why the benefit has been reduced
- what exemptions exist to the reduction
- their rights to review the decision, and
- that an additional \$6 reduction will be applied if the reduction continues for 13 weeks.

The outcomes of this policy are unclear

22 Four key issues have been identified for consideration:

- whether the benefit reduction achieves its purpose
- whether it increases hardship
- how it affects the best interests of the child, and
- concerns about how the policy is administered.

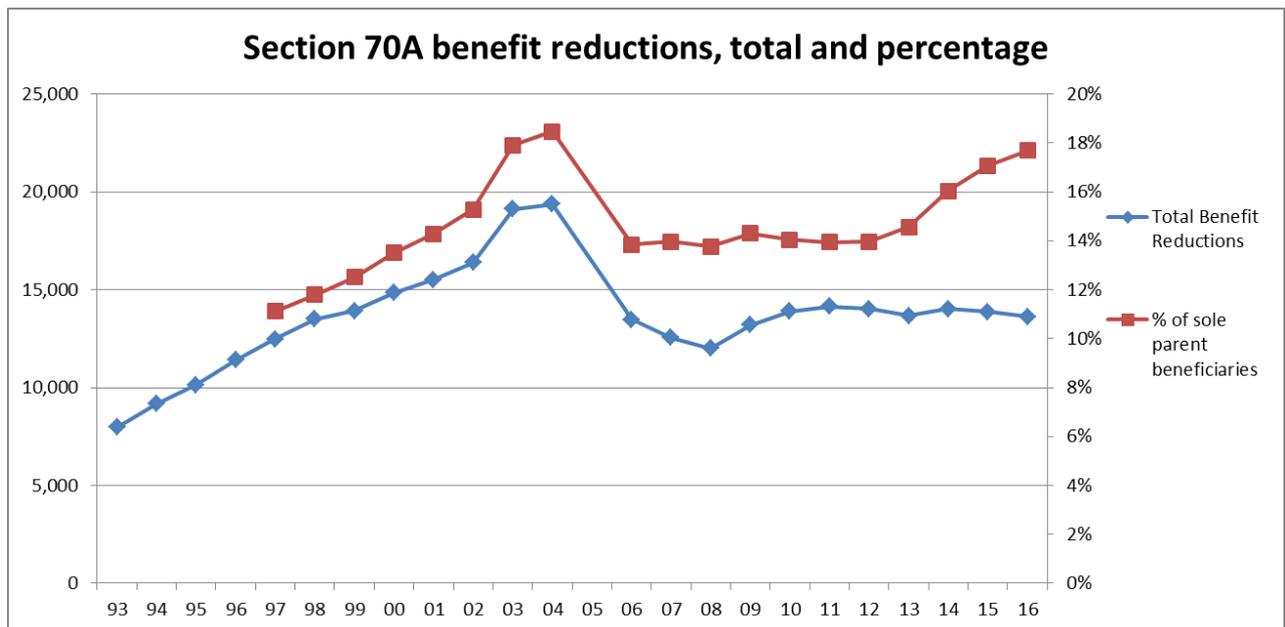
The effectiveness of the benefit reduction in achieving its purpose is unclear

23 The purpose of Section 70A is to encourage the establishment of paternity and applications for Child Support. We do not have sufficient evidence to confirm if the benefit reduction is achieving the policy's intent.

24 There are three trends that can be observed in the recent history of the Section 70A reduction:

- 1993-2004: Total reductions increased from 965 to 19,467 or from 5.6 percent of total sole parent beneficiaries to 16 percent. From 2001, MSD undertook research projects identifying the reasons beneficiaries do not name the other parent. The research identified a number of problems in relation to the administration of Section 70A, which are outlined in Appendix A of this report.
- 2004-2008: In 2004, the Government began implementing changes to respond to the findings of the research. The Government increased support for clients, which was delivered through the Early Intervention Programme (the Programme).¹ In 2005, an additional \$6 reduction was introduced, and two new exemptions were added. This period was marked by a substantial decrease in total reductions from 2004 to 2006, and then small decreases in 2007 and 2008. Total numbers reduced from 19,378 in 2004, to 11,997 in 2008.
- 2009-2016: Reductions increased from 11,997 to 13,213 in 2009. The Programme ceased in 2009. Benefit reduction numbers have been stable since then. There are currently 13,616 benefit reductions in place, constituting 17.7 percent of the sole parent beneficiary population.
- Considering the number of benefit reductions as a proportion of all sole parent beneficiaries shows a slightly different trend. From 1993-2004, the percentage of sole parents with a reduction rose from 5.6 to 16 percent. That percentage fell from 18.5 to 13.8 percent between 2004 and 2006. The percentage was stable at around 14 percent between 2006 and 2012. Between 2013 and 2016 it rose from 14.6 to 17.7 percent. Since 2011, the number of sole parent beneficiaries has decreased, but the number of benefit reductions has remained stable so the percentage of sole parents with reductions has risen.

¹ Further information on the Early Intervention Programme is provided in Appendix A



25 No evaluations of whether the benefit reduction itself encourages applications for Child Support have been conducted, and the data does not show what effect the reduction has on Child Support applications. An evaluation was undertaken for the Programme, and concluded that the Programme was effective in increasing applications for Child Support and informing clients of the policy.

Compared to other sole parents, clients affected by Section 70A have higher risk factors for long-term welfare receipt and hardship, but are no more likely to access hardship assistance

26 Sole parents are more likely to suffer hardship compared to other beneficiaries. Reducing the benefit of sole parents' risks compounding that hardship.

27 The 2015 Valuation of the Benefit System for Working-Age Adults provides the average expected duration of different cohorts. For the whole Sole Parent Support population, the average expected duration on benefit is higher for:

- women (12.0 years) compared to men (10.6 years),
- Māori (13.8 years) and Pacific People (10.6 years) compared to NZ Europeans (10.3 years) and 'other ethnicity' (9.1 years), and
- for younger cohorts, for example clients aged 18-19 (13.8 years) compared to those aged 35-39 (11.7 years).

28 While the valuation does not specifically estimate the difference in expected benefit duration for those with or without a Section 70A reduction, the over-representation of women, Māori, and young people in the Section 70A client group suggests that they are likely to be at higher risk of long-term welfare receipt than other sole parent beneficiaries.

29 The Household Incomes in New Zealand Report provides measures of hardship and paints a similar picture to the Valuation. Hardship is higher amongst: sole parents compared to couples with children; women compared to men; Māori and Pacific People compared to NZ European; and younger people.

30 Some research has been done on the life outcomes of children without a father named on the birth certificate. This is relevant to the Section 70A client group, as not naming the father on the birth certificate is the main reason for not applying for Child Support.

- Swedish research concluded that "children of unknown fathers do poorly in life except if they live with adoptive parents. While the high child mortality suggests

negligence and lack of proper care in the home, the high mortality during adolescence and adulthood point to low levels of self-esteem and well being leading to self-destructive behavior. The causes of these disadvantages are, however, less clear".²

- Three pieces of American research analysed the outcomes for children without fathers named on their birth certificate. The research found that these children have a higher risk of: death among healthy infants due to maltreatment; infant mortality; very low and low birth weights; and pre-term and very pre-term birth.³
 - New Zealand research on Sudden Unexpected Death in Infancy (SUDI) found SUDI is more likely for children who do not have the other parent recorded on the birth certificate (2.09 deaths per 1000), than for children with both parents recorded (0.63 per 1000).
- 31 More research may indicate that clients with a benefit reduction form a cohort of people, defined by their relationship to the other parent. The children of this cohort may be at risk of poor long-term outcomes.
- 32 Research from the mid-2000s concluded that "beneficiaries subject to the benefit reduction became accustomed to living within a reduced benefit. However, sole parent families in general have the lowest living standards of all family types in New Zealand. Having access to an additional \$22 per week would improve the social and economic position of these beneficiaries and their families regardless of how they cope on a reduced rate of benefit."
- 33 One quantitative measure that may indicate increased hardship is an increased take-up of hardship assistance. Data from the mid-2000s showed that clients with a benefit reduction had similar take-up characteristics to sole parents who did not have a reduction.
- 34 Updated data from 2016 shows the same outcomes as the mid-2000s. Clients with benefit reductions have similar take-up rates to other sole parent beneficiaries. This data is provided in Appendix C.
- 35 The mid-2000s research noted that "there may be compelling reasons for this. It may be the case that these beneficiaries are not aware of the availability of all their entitlements. It is also possible that this group supplements their income support in some way, either from direct Child Support payments from the other parent or through support from family".
- 36 Interviews conducted in the early-2000s with case managers and external informants (who were not sole parents) identified that benefit fraud is a reason why some sole parents accept a benefit reduction. If the other parent is also on a benefit and in a relationship with the sole parent beneficiary, they would be concerned about that being revealed through a Child Support application. The client may also have a private financial agreement with the other parent that is more than the reduction.

² Anders Björklund, Karin Hederos Eriksson, and Marianne Sundström, Working Paper 6/2011 - Children of Unknown Fathers: Prevalence and Outcomes in Sweden (Swedish Institute for Social Research (SOFI), 2011), http://www.sofi.se/polopoly_fs/1.64990.1323949609!/WP11no6.pdf.

³ Barbara Luke and Morton B. Brown, "Maternal Risk Factors for Potential Maltreatment Deaths Among Healthy Singleton and Twin Infants," in *Twin Res Hum Genet* (2007 Oct; 10(5)): 778–785. James A Gaudino Jr., Bill Jenkins, and Roger W Rochata, "No fathers' names: a risk factor for infant mortality in the State of Georgia, USA," in *Social Science & Medicine* (Volume 48 (2), January 1999): 253-265. Amina P Alio, Alfred K Mbah, Ryan Grunsten, and Hamisu M Salihu, "Teenage Pregnancy and the Influence of Paternal Involvement on Fetal Outcomes," *Journal of Pediatric and Adolescent Gynecology* (Volume 24 (6), December 2011): 404-409.

The Programme's evaluation found that 5 percent of the clients that were interviewed had a private financial arrangement.

The impact on the best interests of the child is unclear

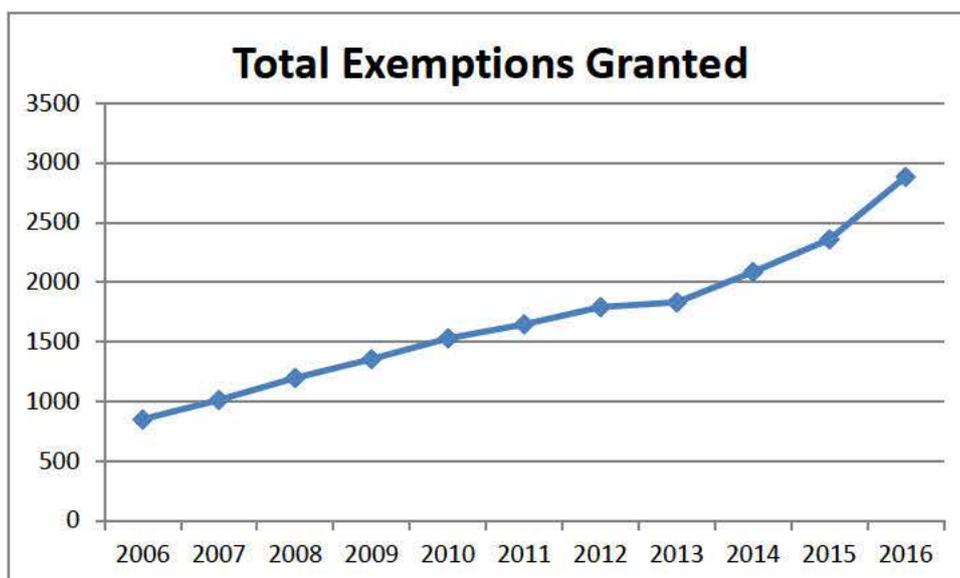
- 37 Two considerations are relevant for the best interests of the child: whether Section 70A encourages contact with the other parent, and whether it increases hardship.
- 38 The Care of Children Act 2004 sets out principles relating to children's welfare and best interests. The Act states that a child should continue to have a relationship with both of his or her parents. However, the behaviour of the parent who is seeking to have a role in the upbringing of the child is relevant, to the extent that that conduct is relevant to the child's welfare and best interests. Thus the behaviour of the parent may mean the best interests of the child are better served by not having contact.
- 39 The mid-2000s research concluded that some sole parents have a strong desire to be independent of the other parent, and forego the \$22 to completely sever any connection with the other parent. This could be for a number of reasons, including fear of the other parent, the very short duration of the relationship that resulted in pregnancy, concern that the other parent may want to exercise parental rights now or in the future, or to protect their child from a relationship they see as harmful for the child.
- 40 For those sole parents, the decision to apply for Child Support is part of a wider decision on whether to have the other parent be part of their and their child's life. Many conclude that having contact with the other parent is not in the best interests of their child, but were not eligible for an exemption. The benefit reduction had two outcomes in these situations: it encouraged unwanted contact with the other parent; or financially penalised the sole parent for doing what they consider is best for their child.
- 41 As part of the Programme, Field Officers asked parents if their child knew who the other parent is, and found that 46 percent of children knew the other parent. Of this group, 25 percent had no contact with the other parent.
- 42 As a result of the research, two new exemptions were put in place: fear of violence and compelling circumstances. This means fewer of these situations may be arising, as they are covered by exemptions. We do not have up-to-date research to assess the extent of this problem. If these situations still remain, the policy risks countering the best interests of the affected child.
- 43 We were unable to assess whether the benefit reduction increases hardship. This is important for the best interests of the child, as material well-being is a key factor in the current and future well-being of a child. If the policy increases hardship, it is unlikely to be in the best interests of the child.

There are concerns about the administration of this policy

- 44 During the Select Committee process for the Social Security Legislation Rewrite Bill, 49 of the 121 submissions called for the repeal of Section 70A. The submissions raised three major concerns about the administration of this policy. They said:
 - the policy is poorly communicated to clients,
 - case managers lack the training to deal appropriately with distressing conversations involving sexual violence or to recognise violent situations, and
 - it can be highly distressing and upsetting for clients to disclose the events relating to the conception of their child, or the reasons why they believe that disclosing the other parent's details may result in a risk of violence, particularly as the conversation takes place in an open-plan Work and Income office.

In the mid-2000s, there was evidence that clients did not understand the policy, and anecdotal evidence suggests this has continued

- 45 The benefit reduction cannot change behaviour if a client does not know they have a reduction in place or that they can take action to remove the reduction. Therefore a lack of knowledge of the policy amongst clients undermines the goal of the policy.
- 46 The Programme evaluation identified a lack of understanding of Section 70A as a significant problem, concluding:
- around 20 percent of clients were not aware they had a reduction in place
 - a large number were not well informed. Over half did not know what action to take to have the reduction removed, what exemptions were available, how to establish paternity or the assistance available to them
 - around half of those interviewed said they would reconsider their decision, and
 - in the quarter after the Programme began, 955 fewer penalties were applied (a 4.76 percent decrease).
- 47 When the Programme ceased, Field Officers noted a continued lack of understanding of the policy amongst clients and case managers.
- 48 One submission on the Rewrite Bill by a group called The Stop the Sanctions Campaign, who were set-up by Auckland Action Against Poverty to campaign against Section 70A, stated; "Work & Income consistently fail to adequately explain these sanctions, the exemptions, and how to access the exemptions, to sole mothers who are subject to them. Women often do not receive formal notification of the decision to impose the sanction".
- 49 MSD's processes are designed to ensure clients are informed of the Section 70A policy. Information is provided to clients at two points: in the initial interview, and through a follow-up letter. The letter outlines that the client's benefit has been reduced, why the benefit has been reduced, exemptions to the reduction, and their right to review the decision.
- 50 The table below shows there has been an increase in the total exemptions provided since 1996. The number of exemptions granted has grown at the same time total benefit reductions have been stable, so a higher proportion of clients have an exemption in place.



- 51 The anecdotal evidence provided in submissions said that MSD's current process is not working well. The submitters based their evidence on experience from benefit impact sessions, community law centres, and women's refuges. It is possible that the evidence from submitters may not be representative, as many beneficiary advocates may only see clients who do not understand the policy.

Work and Income offices do not provide the most appropriate environment for discussing the sensitive subject matter of exemptions from Section 70A

- 52 Submitters said that Work and Income does not provide an appropriate environment for discussing Section 70A. Two problems were identified.
- 53 The first was that case managers lack the training to deal appropriately with distressing conversations involving sexual violence, or to recognise violent situations. Front-line staff do not receive specific training on Section 70A, or training on how to deal with sexual violation or incest. There is some case manager training and information that is relevant. Case managers receive a one day workshop providing them with practical skills to enable them to identify and respond appropriately to clients who are living in or leaving violent family situations. There are family violence co-ordinators available for consultation and advice. The operational guidelines for Section 70A are also comprehensive. If sexual violation or incest is mentioned, an exemption should be granted without additional questioning.
- 54 The second problem was that it can be highly distressing and upsetting for some people to disclose the events relating to the conception of their child, or the reasons why they believe that disclosing the other parent's details may result in a risk of violence.
- 55 The mid-2000s research led MSD to draw three relevant conclusions:
- Family lawyers told MSD that beneficiaries feel alienated from, and distrustful of, government agencies. If a sole parent is on a benefit because they have removed themselves from a violent relationship, they are likely to be anxious that the other parent does not discover where they are. These sole parents will be very reluctant to name the other parent of their child, knowing that deliberately or inadvertently information about their whereabouts could be passed to the other parent.
 - Some children are the result of infidelity, rape, or incest. Some sole parents may not wish to disclose these matters to case managers either because they feel they or their family will be judged, or because they fear that the information may not be kept confidential. This is particularly an issue in provincial and rural areas where case managers are members of small, tight-knit communities.
 - MSD conducted qualitative interviews with clients with a benefit reduction. A theme throughout the interviews was that clients felt embarrassed, and many found it difficult to discuss their situation.
- 56 The evaluation of the Programme noted it was in part successful because it provided:
- a more comfortable, private environment to discuss issues that are sensitive and complex, and
 - the Field Officers were skilled facilitators and communicators and trained in issues of family violence.
- 57 Clients may feel particularly uncomfortable bringing up the issues surrounding the Section 70A benefit reduction in an open-plan environment. Case Managers can offer to conduct the discussion in a private interview room. Case Managers do not receive specific training on Section 70A, and may discuss Section 70A alongside other issues, such as entitlements and obligations.
- 58 Whilst the anecdotal evidence raises concerns about the understanding of the policy, and whether Work and Income provides an appropriate environment for discussing exemptions, more clients are being granted exemptions.

MSD has initiated work on the administration of this policy

- 59 To gain a better understanding of the administration of this policy, we will undertake consultation with staff and stakeholders, including some submitters who raised these issues. This could provide information on whether the problems identified are widespread, staff experiences with the policy, and options to enhance the administration of this model.

- 60 As part of this stakeholder engagement, we will test some options to provide clear and timely information online and through our networks on identifying the other parent of a child and/or applying for Child Support, provide more information on exemptions, and explore ways to make it easier for clients to have these conversations. This will form part of an existing programme looking at client communications to ensure they are as clear and easy to understand as possible, especially when clients may be in stressful situations.
- 61 MSD will consider changing the process for determining exemptions to Section 70A to mitigate submitters' concerns that Work and Income does not provide the most appropriate environment for discussing the sensitive issues around the Section 70A policy.
- 62 In the Departmental Report to the Select Committee, we noted that MSD is working through the concerns raised to determine what improvements could be made for managing sensitive conversations. MSD is considering the option of enhancing existing training material on family violence to strengthen its ability to manage these conversations.
- 63 MSD has an information-sharing agreement with Inland Revenue whereby Work and Income collects and sends the client's paper Child Support application to Inland Revenue. If Inland Revenue cannot complete a Child Support assessment, then Inland Revenue advises Work and Income that the application is incomplete. MSD will either apply a section 70A deduction or advise the case manager to follow up. Inland Revenue accepted about 16,000 Child Support applications from MSD, and declined around 4,000 applications, in the 12 months ending 31 March 2016.
- 64 We have identified significant overlap in the information MSD collects to grant a benefit and the information Inland Revenue collects to process Child Support. MSD is currently working with Inland Revenue to identify any opportunities to improve the Child Support application process.
- 65 We will provide you with an update on the administration initiatives in February 2017.

Option 1: Maintain the status quo

- 66 You can choose to maintain the status quo. As previously noted, MSD has initiated work on the administration of this policy, and we will report back to you with an update on these initiatives in February 2017.
- 67 Welfare reforms were underpinned by an unrelenting focus on work, and were implemented recently. MSD is also undertaking a significant programme of change in how it interacts with clients. MSD is continuously rolling out a programme of simplified processes and transactions to improve services for the public. Innovative approaches to service delivery are also an important focus for the next four years. The effect of the reforms may not be fully shown in an evaluation, meaning we would not know how this client group has reacted to the reforms.

Option 2: Repeal Section 70A

- 68 You could repeal the policy, which will become Sections 176, 177, and 178 of the new Social Security Act. This requires legislative change. Given the progress of the Social Security Legislation Rewrite Bill, we would recommend making this change through a different legislative vehicle, for example the Bill to give effect to alignment decisions.
- 69 As previously noted, we cannot predict the likely fiscal costs, as we do not have information to estimate the likely behavioural changes that repealing the policy would have. Assuming no behavioural change, repealing the policy would cost approximately \$25.5 million in its first year, and \$100 million over four years. This cost would rise if more clients did not comply with their Child Support obligations. A decrease in compliance would also reduce the amount of Child Support retained by the Crown to offset benefit costs (currently \$186.5 million).
- 70 Repealing the policy would require budget funding. We would work with Inland Revenue and the Treasury to refine the estimate of the fiscal cost, and consider the likely behavioural changes. We could develop a bid for Budget 2017.

Option 3: Instruct MSD to undertake research, which would inform future policy decisions

71 In assessing this policy and options for change, we would consider:

- the goal of encouraging applications for Child Support
- whether the policy is in the best interests of the child
- fiscal costs, and
- administrative ease.

72 As noted above, it is unclear whether the policy is achieving its purpose of encouraging applications for Child Support, or how it affects the best interests of the child. This means we cannot be certain about how changing the policy would affect these considerations.

73 Information is not currently available to show how the benefit reduction impacts Child Support applications. We therefore cannot predict the behavioural changes that modifying or repealing the policy would have. This means we cannot fully assess the fiscal costs of policy changes, as behavioural changes would impact how much Child Support is collected by Inland Revenue. In 2016, the Crown retained \$186,515,979 in Child Support to offset benefit cost. This was collected from 139,248 liable parents.

74 We recommend that you agree to MSD providing you a proposed scope for further policy work on Section 70A by February 2017. Note that this will include a timeline and process for gathering better information to identify and assess options, and to inform policy decisions on the Section 70A reduction and exemptions policy.

75 Further information and evidence could include both qualitative and quantitative research. Quantitative evidence could include analysing whether this group have worse life outcomes, or are more at risk of long-term welfare receipt. This would require a data exploration exercise to check whether this is possible, and a significant amount of evaluation and/or modelling work. This would be a large piece of work, and would need to be considered alongside other priorities.

76 The research from the mid-2000s conducted qualitative research; we could refresh this research to focus on the concerns raised by submitters. The research design from the mid-2000s included:

- a set of interviews with external key informants. External key informants included community workers working with sole parents, beneficiary advocates, family court lawyers, and Inland Revenue staff (refreshed research could include key submitters on the Rewrite Bill)
- discussion groups with case managers, and
- face-to-face and telephone interviews were undertaken with Domestic Purpose Benefit recipients subject to the benefit reduction.

77 These interviews provided information on:

- reasons for not naming the other parent or not applying for Child Support
- whether the other parent is involved in the child's life, or provides financial or other support
- client's understanding of the reduction
- whether the client would reconsider the decision
- how clients manage with a reduced income, and
- what clients think about the Section 70A policy

78 Refreshed research could also interview clients who had a reduction, and then complied with their Child Support obligations. Interviewing these clients would provide information on why people change their minds, whether the reduction influenced their decision, and how having the additional money affected their and

their children's lives. This would provide a better picture of clients' experiences with the benefit reduction.

Future analysis would provide options for modifying the policy

- 79 The results of this research would inform future policy options. At a high level, if the research concludes that the reduction is effective in achieving its purpose, does not increase hardship or violate the best interests of the child, maintaining the status quo may be appropriate. Work has been initiated on the administration of the policy. If the research concludes that it is ineffective, increases hardship, and does not support the best interests of the child, then repealing may be appropriate.
- 80 There are various options for modifying the policy. If the research concludes the reduction is effective, showing when it has the largest impact is important. For example, if there is little increase compliance after the additional \$6 reduction is applied after 13 weeks, it could be removed. Alternatively, a time limit on the reduction could be introduced, if there is little increase in compliance after the first year. If the research shows that clients take time to consider their options, and only begin to comply after a period, a delay could be introduced to the reduction, so it only applies after 13 weeks.
- 81 The research into the best interests of the child would have two aspects. If the policy increases hardship, but is also effective, the reduction could be decreased from \$22 to mitigate hardship. If the research shows the children are at-risk of poor long-term outcomes, consideration could be given to what interventions and services would best support them. If the reduction is penalising sole parents with legitimate reasons for not wanting to name the other parent, where exemptions do not apply, we could consider an alternative method of holding the other parent accountable. If the research concludes that the reduction leads to high levels of hardship amongst large families, limiting the amount of cumulative reductions is an option.

This policy is likely to be raised during Second Reading and debated in the committee of the whole House

- 82 Carmel Sepuloni has put forward a Supplementary Order Paper (SOP) which includes repealing Sections 176, 177, and 178 of the Social Security Rewrite Legislation Bill. The SOP will be voted on during the Committee of the Whole House. The Greens and New Zealand First have publicly supported repealing this policy.
- 83 If you agree to the recommendations in this paper, we advise these key points in response
- The policy's intent is to encourage the establishment of paternity and applications for Child Support, and provide a signal from government that this is important.
 - Encouraging Child Support applications, which ensures the other parent meets their financial responsibilities for their child, is an important outcome to pursue.
 - Approximately 78% of clients meet their Child Support obligations, with 4% receiving exemptions.
 - Submitters raised concerns about how this policy affects clients, and work on the administration of this policy has been initiated in response. MSD will work with key stakeholders to improve the practice and make more information available through MSD's website.
 - I've asked for further work to be done to understand what's actually happening in practice, and to identify options to improve the policy. This work will consider whether the policy meets its intent, and provide options to maintain, modify, repeal, or replace the policy with another mechanism for encouraging the establishment of paternity and applications for Child Support.

Appendix A: Information on the Early Intervention Programme

- 84 The Programme was primarily designed to detect fraud, and existed before its involvement in Section 70A. The Programme identified particular benefit or client groups, and ran for three months per group, where randomly selected clients were interviewed by Field Officers. The goal of the interview was to:
- ensure that clients were receiving their full and correct benefit entitlements
 - remind clients of their obligation to keep the Ministry informed of any changes in their circumstances, and
 - identify any cases of suspected benefit fraud or other entitlement discrepancies that may require further action to ensure payment of full and correct benefit entitlements.
- 85 After a trial run in 2004, Cabinet agreed to have the Programme interview every client with an existing Section 70A reduction, and every client with a new Section 70A reduction being imposed.
- 86 Clients were visited by a Field Officer to discuss their Section 70A reduction, and identify steps they could take to have the reduction removed. The visits were conducted in the client's home or their local Work and Income service centre.
- 87 The implementation of the Programme created a facilitative approach to encouraging sole parents to apply for Child Support

Evaluations of the Programme showed it was successful, and identified a lack of knowledge of the policy amongst clients and case managers as a problem

- 88 The evaluation of the Programme trial showed that 20 percent of clients were unaware that they had a reduction imposed. Less than half knew about the steps to remove the reduction, what exemptions were available, or how to establish paternity or the assistance available to them. Around half of clients said they would re-consider their decision not to establish paternity or apply for Child Support following their interview.
- 89 Reports from Field Officers noted a number of problems with how clients were being informed, including:
- case managers commonly did not ask why the father of the child was not named.
 - case managers did not explain to the client that the client will lose money with a reduction.
 - many clients did not know that they had a reduction.
 - interviews about Section 70A were either not done by case managers, or the questioning was inadequate.
 - some case managers did not have the life experience or maturity to adequately interview clients about paternity and conception issues.
 - some clients were reluctant to disclose the name of the father of the child where they did not trust the staff in a particular service centre - usually in small communities.
 - there were some instances where a reduction had been added on the advice of Inland Revenue, but the case manager never told the client.
 - the Child Support form was often not sent to Inland Revenue by case managers.
- 90 The evaluation showed that beneficiaries needed a more effective way of receiving information to enable them to make sound decisions. The extension of the Programme to all clients was intended to address this issue. This would ensure that the additional \$6 reduction would only be applied where clients had made an informed decision not to meet their Child Support obligations.

- 91 The extension of the Programme had an immediate positive impact. In the first quarter after the Programme began, 955 fewer reductions were applied (a 4.76 percent decrease).
- 92 In 2009, the Programme ceased to be involved in the Section 70A process. The responsibility for informing clients was handed back to Work and Income as a business as usual process, as it would be more efficient and cost-effective than using the Programme.
- 93 Field Officers still observed a lack of understanding of Section 70A in both clients and case managers as the Programme was finishing.
- 94 Overall, the Programme had a clear positive impact in encouraging clients to apply for Child Support.

Appendix B

Demographic profile of Section 70A Clients

Gender	All sole parent beneficiaries		Section 70A Clients	
	Mar-16	Percentage of clients	Number of clients	Percentage of clients
Female	68,874	89.4	13,298	97.7
Male	8,151	10.6	318	2.3
Total	77,025	100	13,616	100

Ethnic group	All sole parent beneficiaries		Section 70A Clients	
	Mar-16	Percentage of clients	Number of clients	Percentage of clients
Māori	36,226	47.0	7,195	52.8
NZ European	23,350	30.3	3,346	24.6
Pacific People	8,406	10.9	987	7.2
Other	7,966	10.3	1,895	13.9
Unspecified	1,077	1.4	193	1.4
Total	77,025	100	13,616	100

Age group	All sole parent beneficiaries		Section 70A Clients	
	Mar-16	Percentage of clients	Number of clients	Percentage of clients
18-19	981	1.3	241	1.8
20-24	13,141	17.1	2,952	21.7
25-29	16,496	21.4	3,634	26.7
30-34	12,916	16.8	2,674	19.6
35-39	10,977	14.3	1,890	13.9
40-44	9,565	12.4	1,214	8.9
45-49	6,933	9.0	628	4.6
50-54	3,791	4.9	262	1.9
55-59	1,571	2.0	92	0.7
60-64	654	0.8	29	0.2
Total	77,025	100	13,616	100

Appendix C: Take-up of Hardship and Special Needs Grants

Number of working-age sole parents on JS or SPS with a Section 70A deduction as at 30 June 2016	Number of hardship grants received in the year ending 30 June 2016					Total
	0	1	2	3	4+	
	3,539	1,963	1,962	1,560	4,589	13,613
	26.0%	14.4%	14.4%	11.5%	33.7%	100%
Number of working-age sole parents receiving JS or SPS as at 30 June 2016	Number of hardship grants received in the year ending 30 June 2016					Total
	0	1	2	3	4+	
	19,796	10,940	10,941	8,825	26,133	76,635
	25.8%	14.3%	14.3%	11.5%	34.1%	100%

Number of working-age sole parents on JS or SPS with a Section 70A deduction as at 30 June 2016		Total
No	Yes	
11,001	2,612	13,613
80.8%	19.2%	
Number of working-age sole parents receiving JS or SPS as at 30 June 2016		Total
No	Yes	
59,525	17,110	76,635
77.7%	22.3%	

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