

In confidence

Chair
Cabinet Social Wellbeing Committee

WELFARE OVERHAUL: REMOVING THE SUBSEQUENT CHILD POLICY

Proposal

- 1 I seek Cabinet's approval to remove the additional dependent child policy (commonly known and referred to in this paper as the subsequent child policy) from the Social Security Act 2018. This policy currently impacts eligibility for Sole Parent Support and places obligations on parents to return to work earlier if they have an additional child while receiving a main benefit.

Relation to government priorities

- 2 The removal of the subsequent child policy supports the Government's priority of improving the wellbeing of New Zealanders and their families, and ensuring that everyone is either earning, learning, caring or volunteering.
- 3 As part of the Confidence and Supply Agreement between the New Zealand Labour Party and the Green Party of Aotearoa New Zealand, the Government committed to overhauling the welfare system so that everyone has a standard of living and income that enables them to live in dignity and participate in their communities, and lifts children and their families out of poverty. The removal of the subsequent child policy supports the Government's welfare overhaul work programme.

Executive summary

- 4 The subsequent child policy (the policy) was introduced in 2012. The policy impacts eligibility for Sole Parent Support and places obligations on parents to return to work earlier if they have an additional child while receiving a main benefit.
- 5 In their final advice to Government, the Welfare Expert Advisory Group (WEAG) recommended the removal of the subsequent child work obligations. I have previously signalled to Cabinet my intent to progress this recommendation [CAB-19-MIN-0170 and SWC-19-MIN-0168].
- 6 The Ministry of Social Development's modelling on the cohort affected by the subsequent child policy has found no evidence to suggest that the policy has reduced time on benefit or led to better social or financial outcomes for families. The policy has, however:
 - disproportionately impacted Māori and women
 - increased inequity and complexity in the welfare system, and
 - reduced flexibility for parents to spend time with their subsequent children.
- 7 The removal of the subsequent child policy will impact approximately 9,000 people and their families. The two main practical changes are that some parents

will become eligible to transfer from Jobseeker Support to Sole Parent Support, and parents' work obligations will change. These changes will have a significant impact on the small but significant group of parents who are currently impacted by the policy.

- 8 The departmental operating cost to implement the removal of the subsequent child policy is estimated to be \$4.01 million over four years, mainly for Information Technology changes. In November 2019 I signalled my intent to submit a budget bid for the removal of the policy. This cost will now be funded within the Ministry of Social Development's (MSD) baseline, and a budget bid is therefore no longer required.
- 9 The removal of the subsequent child policy requires amendments to the Social Security Act 2018. Subject to Cabinet agreement, I will report to the Cabinet Legislation Committee in due course with a Bill to amend the Social Security Act 2018.

Background

The WEAG recommended removing the policy, which was introduced in 2012

- 10 The WEAG was established in May 2018 to provide the Government with welfare overhaul advice [SWC-18-MIN-0050]. They delivered their final advice in February 2019, in the report *Whakamana Tāngata: Restoring Dignity to Social Security in New Zealand* (Whakamana Tāngata). The WEAG recommended removing some obligations and sanctions of the Social Security Act 2018, including the subsequent child work obligation (recommendation 11).
- 11 The subsequent child policy was introduced in 2012, and is referred to as an "additional dependent child" in the Social Security Act 2018. The policy initially only impacted work obligations, and has impacted eligibility for Sole Parent Support as of 2013. These impacts are detailed further below.
- 12 A parent is impacted by this policy when they are already a caregiver or principal caregiver of a dependent child/children, and become the caregiver or principal caregiver of another dependent child/children (ie subsequent child) while receiving a main benefit. The policy can apply to some recipients (in their own right or as the spouse or partner) of Sole Parent Support, Jobseeker Support, Supported Living Payment and emergency benefit.

The policy can impact work obligations and eligibility to Sole Parent Support for some parents

- 13 The subsequent child policy impacts work obligations and results in employment expectations being applied to parents earlier. Parents without a subsequent child are set work obligations based on the age of their youngest child:
 - work preparation obligations if the child is aged under three years
 - part-time work obligations if the child is aged three and above, up to fourteen years
 - full-time work obligations if the child is aged fourteen years and over.
- 14 If a person has a subsequent child while receiving a benefit, that subsequent child is only considered when setting work obligations until they reach the age of one. Work obligations are then based upon the age of a person's youngest non-

subsequent child. In effect, after the 'subsequent' child turns one, that child is effectively ignored for the purposes of setting work obligations.

- 15 The subsequent child policy also impacts eligibility for Sole Parent Support. When all other criteria are met, parents with a **non-subsequent** child are eligible for Sole Parent Support when their youngest child is aged under fourteen years, or Jobseeker Support if the youngest child is aged fourteen years or over.
- 16 The policy means a subsequent child is only considered for Sole Parent Support eligibility until the age of one, or not at all if their youngest non-subsequent child is already aged over fourteen years. Eligibility is then based on the age of the youngest non-subsequent child, meaning that a parent could be transferred from Sole Parent Support to Jobseeker Support despite having a child under the age of fourteen.

The subsequent child policy has not achieved its intended purpose, created inequities for children and parents, and undermines the value of parenting

The policy has not achieved its intended purpose of improving outcomes for families

- 17 The policy's primary focus was on requiring parents to return to work as early as possible after having a subsequent child. MSD's modelling on the cohort affected by the subsequent child policy has found no evidence to suggest that the policy has reduced time on benefit or improved financial or social outcomes.
- 18 It is important to address this policy as soon as practicable. The labour market has been significantly impacted by the COVID-19 pandemic, making it harder for people to enter the workforce. Parents with young children, including those with a subsequent child/children, are likely to experience difficulty in meeting current work obligations by entering the workforce earlier, whilst managing their caring responsibilities.

The policy has created inequities in the welfare system for children and their parents

- 19 The policy has resulted in the welfare system treating subsequent children differently to other children. It imposes more obligations on a parent when the subsequent child is young, compared to other non-subsequent children and minimises the flexibility to spend time caring for that youngest child.
- 20 This is an imbalance in the welfare system, which has led to a lack of fairness for some parents, and added complexity and compliance requirements for parents and MSD staff where the policy is applied.
- 21 Removing the policy would align with the Government's commitment to creating a fairer welfare system through the welfare overhaul and would partially address recommendation 11 of the Welfare Expert Advisory Group.

The policy undermines the value of parenting

- 22 The policy undermines the value of parenting and unpaid work, such as caring and volunteering. Earlier work obligations add further stress for these parents (many of whom are sole parents) and do not recognise the caring responsibilities of parents with young children.

23 The first 1,000 days of a child's life are critical for their long-term development, and this policy does not allow parents to spend time at home with their subsequent child/children during their first three years. This issue is further compounded for those without support networks to help with caring responsibilities.

The policy disproportionately impacts Māori and women

24 A significant proportion of the 9,000 people impacted by the subsequent child policy are Māori, including approximately 59 percent of affected Sole Parent Support recipients, 67 percent of affected Jobseeker Support recipients and 43 percent of affected partners.

25 I am particularly aware that Māori are disproportionately represented in the welfare system, making up approximately 15 percent of the New Zealand population, but approximately 36 percent of benefit recipients. In my Cabinet paper *Welfare Overhaul: Update on Progress and Long-Term Plan* I signalled that to build towards our vision for a future welfare system, all our work must be underpinned by a commitment to honour our Te Tiriti o Waitangi obligations [SWC-19-MIN-0168].

26 To ensure we are delivering on this commitment, I indicated that all policies, services and supports in the welfare system should be mana enhancing, and it is critical that we look to embed Te Ao Māori perspectives. I consider the removal of the subsequent child policy to align with these welfare overhaul commitments for Māori.

27 Approximately 91 percent of the total Sole Parent Support recipients are female. A large proportion of parents affected by the subsequent child policy either receive, or would otherwise be eligible to receive, Sole Parent Support. Given this, the subsequent child policy has a disproportionate impact on women.

28 Women undertake the majority of caring work in New Zealand, both paid and unpaid. While unpaid work is an important contribution to the economy and society, it is often poorly recognised and undervalued. The Government has committed to supporting those who are carers, a significant proportion of whom are female, and the removal of the subsequent child policy supports this commitment.

I seek Cabinet agreement to remove the subsequent child policy

I seek Cabinet agreement to remove the subsequent child policy, which will change work obligations for some parents and enable more parents to become eligible for Sole Parent Support

29 I intend to progress the removal of this policy as part of our broader welfare overhaul work on reviewing obligations and sanctions. This proposal aligns with the welfare overhaul commitments of the Government, including to support those who are able to be earning, learning, caring or volunteering.

30 Removing the subsequent child policy will result in two main practical changes:

30.1 Work obligations will be fairer and consistent for all parents. The youngest dependent child will always be considered when setting work

obligations for the client and/or partner of the client. Some parents will have their work obligations changed from part-time to work preparation obligations, and others changed from full-time to part-time or work preparation obligations depending on the age of their children.

30.2 More parents will become eligible for Sole Parent Support. The youngest dependent child (under the age of fourteen) of a parent will always be considered when establishing eligibility to Sole Parent Support. Although this shift will not result in a change to the benefit rate received, some families will become eligible for additional financial incentives that aren't available to them whilst receiving Jobseeker Support (subject to other eligibility criteria), such as the Work Bonus.

- 31 Officials have advised me that as of July 2019, a total of approximately 9,000 people will be impacted by these practical changes. This includes 5,400 Sole Parent Support recipients, 2,500 Jobseeker Support recipients, and 1,000 partners in a couple where a relevant main benefit is received. All of the parents impacted by this policy will have their work obligations changed (plus exemptions reviewed), and the 2,500 current Jobseeker Support recipients will also become eligible to transfer to Sole Parent Support.
- 32 The cost to implement the removal of the subsequent child policy is estimated to be \$4.01 million over four years. Operating expenses make up the majority of this cost, including for technological and system changes required for implementation. Approximately \$3.9 million of the total cost will be incurred within the first two financial years.
- 33 In November 2019, I signalled in the Cabinet paper *Welfare Overhaul: Update on Progress and Long-Term Plan* that I intended to submit a budget bid for the removal of the subsequent child policy as part of our work to provide better support for parents [SWC-19-MIN-0168]. MSD has since indicated that the removal of the subsequent child policy can be funded within its baseline, meaning a budget bid is no longer required.

This proposal will have significant impacts for those affected by the policy

- 34 These changes will have a positive impact on the small but important cohort of clients who are impacted by the subsequent child policy. This includes:
 - increased flexibility to spend time with children in the first 1,000 days of their life, which is a critical time period for a child's long-term development
 - increased equity and simplicity in the welfare system
 - eligibility to additional (albeit minimal) financial assistance for some clients (subject to other eligibility criteria)
 - a reduction in stress and therefore likely positive impact on mental health and wellbeing.
- 35 The COVID-19 pandemic is likely to exacerbate inequalities already being experienced by many socio-economically disadvantaged groups, and people in more than one of these groups are likely to experience compounding impacts. The negative effects of COVID-19 are therefore likely to be felt by a significant proportion of parents impacted by the subsequent child policy. The removal of this policy will provide a positive impact for this cohort.

- 36 There is no evidence to suggest that removing the subsequent child policy will have an impact on parents' (including sole parents') off-benefit or employment outcomes. MSD will continue to offer a range of employment initiatives, services and support to build capability and remove barriers for those who are able to undertake appropriate employment.

Implementation

- 37 Implementation of this initiative is expected to take approximately 14 months. I propose that implementation will commence in August 2020, with implementation expected to be complete in November 2021. The implementation timeline for this initiative can be broken down into two phases.

37.1 **Phase One** – MSD Service Delivery will require approximately four months to complete design work and business requirements. This includes the operational policy impacts and preparation for the changes required for the second phase. This phase will also require significant work on transitional arrangements for Jobseeker Support and Sole Parent Support clients, and some partners.

37.2 **Phase Two** – MSD Information Technology will require approximately ten months, from when business requirements are approved, to deliver the technical system changes. This includes removing all the complex system rules/functionalities relating to the policy, changing work obligations to be set based on the youngest child, transferring affected clients from Jobseeker Support to Sole Parent Support as appropriate, and advising affected clients of these changes before the policy change comes into effect.

Financial Implications

- 38 The departmental operating cost to implement the removal of the subsequent child policy is estimated to be \$4.01 million over four years, mainly for Information Technology changes. MSD will fund that cost within its departmental baseline.
- 39 The financial impact on the Benefits or Related Expenses appropriations is fiscally neutral across the Jobseeker Support, Emergency Benefit, Sole Parent Support and Supported Living Payment appropriations.
- 40 There is also an impact of \$48,000 on Training Incentive Allowance over four years (caused by some parents having access to additional financial incentives), which is funded from the Improved Employment and Social Outcomes Support MCA category Improving Work Readiness Outcomes. This operating impact will be funded from the Administering Income Support category of the MCA.

Legislative Implications

- 41 Amendments to primary legislation will be required to remove the subsequent child policy. Sections 221 – 224 (factors affecting benefit: subsequent child) provide for the subsequent child policy, and would need to be removed from the Social Security Act 2018 prior to the implementation date.
- 42 Regulation 74 (deferral of work-test obligations of person with dependent child under age 1 year) would also need to be removed as it refers to people who are

impacted by the subsequent child policy. Implementation will require transitional provisions in legislation.

- 43 Subject to Cabinet agreement to the removal of the subsequent child policy, I will report to the Cabinet Legislation Committee in due course on the appropriate legislative vehicle to amend the Social Security Act 2018.

Impact Analysis

- 44 The Treasury has indicated that impact analysis requirements apply to this proposal, in the form of a Regulatory Impact Statement. A Regulatory Impact Statement has therefore been prepared for the removal of the subsequent child policy, and is attached to this Cabinet paper.
- 45 The Impact Summary attached to this paper has been reviewed by a cross-agency Quality Assurance panel with representatives from the Treasury and the Ministry of Social Development who were not involved in the development of the Cabinet paper or the Impact Summary. The panel consider that it **partially meets** the Quality Assurance criteria.
- 46 The panel stated that the conclusion of the options analysis seems reasonable but more depth of evidence and analysis (particularly of any adverse consequences of the current policy and off-setting operational savings from stopping it) would have made for a stronger and clearer assessment.
- 47 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal as the threshold for significance is not met.

Population Implications

- 48 As noted above, the removal of the subsequent child policy will impact approximately 9,000 parents and their families. The impacts of this proposal will also be realised for future parents who would have otherwise been affected by the policy.

Children

- 49 The changes resulting from this proposal will affect approximately 9,000 parents and will therefore also affect the subsequent child/children of these parents. The first 1,000 days of a child's life are critical for their long-term development. This proposal will therefore likely have a positive impact on children, as it will allow parents to spend more time with their subsequent child/children before returning to work.
- 50 The current policy means parents of subsequent children are subject to different obligations to other parents in the welfare system. This proposal will therefore improve equity in the treatment of parents in the welfare system.

Māori

- 51 Māori are disproportionately represented in the welfare system and are most likely to require welfare support for the longest periods. The negative impacts of the subsequent child policy are disproportionate, as a significant proportion of the 9,000 parents impacted by this proposal are Māori (including approximately 59 percent of affected Sole Parent Support recipients, 67 percent of affected Jobseeker Support recipients, and 43 percent of affected partners).
- 52 The removal of this policy aligns with the Government's welfare overhaul commitment of achieving better outcomes for Māori. This proposal also aligns with the cross-government response to the Mana Wāhine Kaupapa Inquiry, by providing a policy response to issues raised by claimants about the need for improved government support and services for wāhine Māori in their role as mothers.

Women

- 53 Women are disproportionately represented in some areas of the welfare system, and they make up 91.5 percent of all Sole Parent Support recipients. The subsequent child policy disproportionately impacts women.
- 54 Women also undertake the majority of caring work in New Zealand including unpaid work. This proposal reflects the value this Government places on the importance of caring and parenting.

Pacific peoples

- 55 The cohort of parents impacted by this proposal includes some Pacific peoples, including approximately 13 percent of affected Sole Parent Support recipients, 9 percent of affected Jobseeker Support recipients, and 16 percent of affected partners.

Disabled people

- 56 This proposal is not expected to impact a large number of disabled people. There may be a small number of disabled Jobseeker Support and/or Supported Living Payment recipients who are included in the cohort impacted by the removal of the policy. The removal of the subsequent child policy will also have a positive outcome for parents of disabled subsequent children (and for the children themselves), by relieving the pressure to find work and suitable care for their disabled infant.

Human Rights

- 57 There are no human rights implications for the removal of this policy. The proposal is consistent with the Human Rights Act 1993 and the New Zealand Bill of Rights Act 1990.
- 58 The proposal is also likely to improve consistency with international agreements such as the United Nations Convention on the Rights of the Child.

Consultation

- 59 The following departments were consulted on this Cabinet paper: Inland Revenue; Ministry of Business, Innovation and Employment; Ministry for Pacific Peoples; Ministry for Women;

Ministry of Justice; Office for Disability Issues; Oranga Tamariki – Ministry for Children; Te Puni Kōkiri and the Treasury. The Department of the Prime Minister and Cabinet, and Child Poverty Unit have also been informed of this proposal.

- 60 As noted earlier, the removal of the subsequent child policy relates to a recommendation made by the WEAG. Nearly 3,000 people provided their thoughts to the WEAG to support their deliberations of the overall advice in *Whakamana Tāngata*.

Communications

- 61 MSD will support with appropriate internal and external communications as needed.

Proactive Release

- 62 I intend to proactively release this Cabinet paper within standard timeframes, with redactions as appropriate.

Recommendations

The Minister for Social Development recommends that the Committee:

- 1 **note** the subsequent child policy was introduced in 2012 and impacts eligibility for Sole Parent Support and places obligations on parents to return to work earlier if they have an additional child while receiving a main benefit
- 2 **note** the Welfare Expert Advisory Group recommended removing the subsequent child work obligation
- 3 **note** as part of the welfare overhaul, the Minister for Social Development has signalled to Cabinet the intent to progress the removal of the subsequent child policy [SWC-19-MIN-0168]
- 4 **note** the Ministry of Social Development's modelling on the cohort affected by the subsequent child policy has found no evidence to suggest that the policy has reduced time on benefit or improved social or financial outcomes for families
- 5 **note** the subsequent child policy:
 - 5.1 disproportionately impacts Māori and women
 - 5.2 has increased inequity, compliance requirements and complexity in the welfare system, and
 - 5.3 has reduced flexibility for parents to spend time with their subsequent children
- 6 **agree** to the removal of the subsequent child policy, to be given effect from November 2021
- 7 **note** that the removal of the subsequent child policy is intended to achieve:
 - 7.1 increased flexibility to spend time with children in the first 1,000 days of their life (which is a critical time period for a child's long-term development)
 - 7.2 increased equity and simplicity in the welfare system
 - 7.3 eligibility for additional (albeit minimal) financial assistance for some clients

7.4 a likely reduction in stress and therefore positive impact on mental health and wellbeing

- 8 **approve** the following fiscally neutral adjustment to give effect to the policy decision in recommendation 6 above, with no impact on the operating balance and net core Crown debt:

Vote Social Development Minister for Social Development	\$m – increase/(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & Outyears
Multi-Category Expenses and Capital Expenditure					
Improved Employment and Social Outcomes Support MCA					
Departmental Output Expenses:					
Administering Income Support (funded by Revenue Crown)	-	(0.012)	(0.012)	(0.012)	(0.012)
Improving Work Readiness Outcomes (funded by Revenue Crown)	-	0.012	0.012	0.012	0.012
Benefits or Related Expenses:					
Jobseeker Support and Emergency Benefit	-	(26.297)	(101.047)	(104.695)	(104.695)
Sole Parent Support	-	26.297	101.047	104.695	104.695
Total Operating	-	-	-	-	-

- 9 **note** implementation costs of \$4.01 million over four years for this policy change will be covered within the Ministry of Social Development's departmental operating baseline
- 10 **note** implementation work for this initiative will commence in August 2020
- 11 **note** removal of the subsequent child policy will require amendment to the Social Security Act 2018 and regulations
- 12 **invite** the Minister for Social Development to issue drafting instructions to the Parliamentary Counsel Office
- 13 **note** the Minister for Social Development will report to the Cabinet Legislation Committee in due course with a Bill to amend the Social Security Act 2018.

Hon Carmel Sepuloni
Minister for Social Development