MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

2017 Benefit System Performance Report

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Disclaimers (relating to section 6)

The results in this report are not official statistics. They have been created for research purposes from the Integrated Data Infrastructure (IDI), managed by Statistics New Zealand.

The opinions, findings, recommendations and conclusions expressed in this report are those of the authors, not Statistics New Zealand, the Ministry of Social Development or the Accident Compensation Corporation.

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Careful consideration has been given to the privacy, security and confidentiality issues associated with using administrative and survey data in the IDI. Further detail can be found in the privacy impact assessment for the Integrated Data Infrastructure available from www.stats.govt.nz.

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1. Executive summary

The purpose of this report is to review the performance of the benefit system and provide insights to key drivers, which will help the Ministry make informed choices about the range and provision of services. The report approaches this through modelling which has a strong focus on both future duration and cost of expected future financial supports to current Ministry clients. These provide inputs to the work carried out by the wider organisation.

Each year improvements are made to the model. The resulting outcomes over-time should be more robust and informative. Future model improvements will provide more focus on wider social outcomes as well as a measurement of overall wellbeing.

Performance over the last year

For most main benefit categories, experience has followed long-term trends. Sole Parent Support (SPS) client numbers have continued to decrease, predominantly due to an ongoing effect of strengthened work obligations in 2012 and the introduction of work-focused case management in 2013. Supported Living Payment (SLP) client numbers have remained stable. This represents a balance between a lower rate of exit, and a lower level of new SLP clients and transfers from other benefit categories. Youth benefit client numbers have continued to decrease due to lower numbers of new clients. This is likely to be at least partly driven by a long-term decrease in teen birth rates.

These changes were in line with the prediction of our previous modelling.

The exceptions are Jobseeker Support – Work-ready (JS-WR) and Jobseeker Support – Health Conditions and Disabilities (JS-HCD). For both of these benefit categories client numbers were higher than predicted. There were three main drivers for this:

1. Exit rates are lower than predicted and (apart from the Auckland region) below Global Financial Crisis (GFC) lows. Decreases in JS-WR exit rates are particularly prominent for longer duration clients, the Canterbury region, young clients and clients with children.

Chart 1.1 – JS-WR exit rates – by region

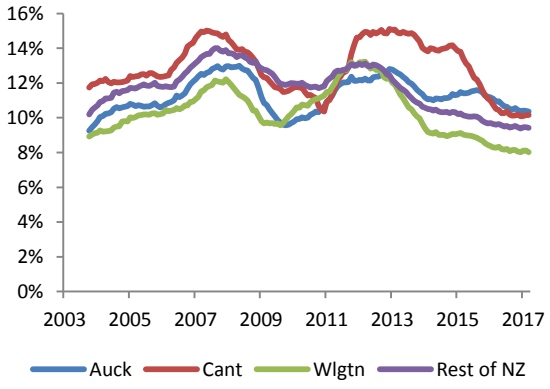
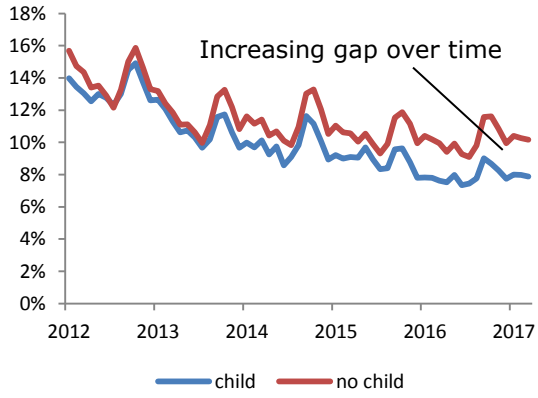


Chart 1.2 – JS-WR exit rates – by child/no child



Decreases in JS-HCD exit rates are also prominent for clients with children. This correlates with the $25 increase in benefit rates for clients with families as part of the

Child Material Hardship Package (CMHP) introduced in April 2016. This served to increase the amount clients could earn before their benefit is fully abated. In some cases it may also decrease the potential net income gain from moving into employment and stopping receiving a main benefit although changes were also made to the minimum family tax credit and the in work tax credit to balance this. Changes to the accommodation supplement from 1 April 2018 could have similar effects although accommodation supplement is also payable to low income families.

2. Significant growth in the working-age population and participation rate in the labour force has meant the number of people unemployed has not decreased significantly, despite a reducing unemployment rate. Further population growth can be expected to put upwards pressure on client numbers.

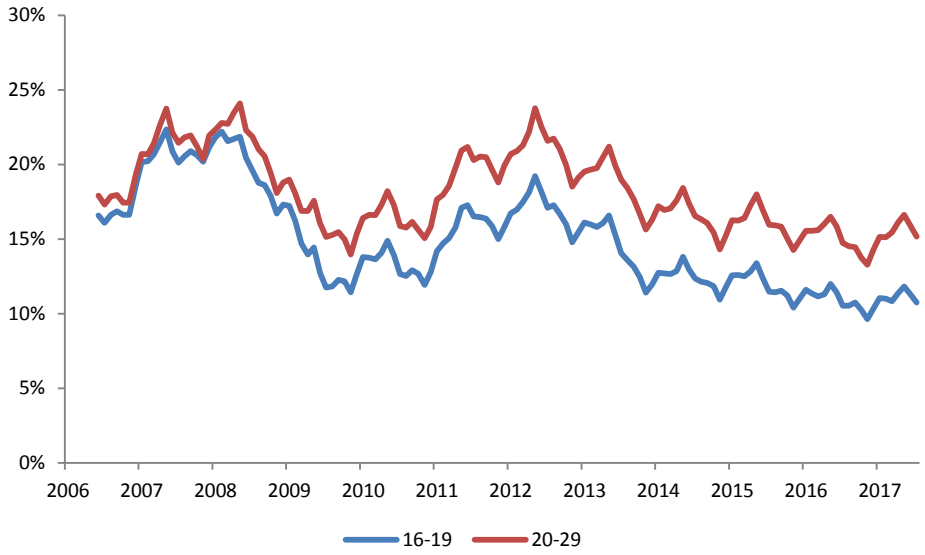
3. Job growth has also been skewed to skilled employment, making it relatively hard for low skilled workers to compete for employment. There is long-term risk to a significant portion of the working population of significant employment displacement as automation and other technological and lifestyle changes make some skills redundant.

Longer-term trends

Youth clients

Youth clients continue to be a key area of focus for the ministry. We know that people who enter the benefit system at an early age tend to spend much longer on benefits over their lifetime than other people. This disparity is increasing, despite youth benefit client numbers continuing to decrease. Youth who do not succeed through mainstream education and end up in the benefit system appear increasingly marginalised and distant from reaching their potential. This is highlighted by Chart 1.3 below, which shows how JS-WR exit rates for early entrants has decreased over time relative to other clients.

Chart 1.3 – 20-29 year old JS-WR exit rate - by age first on benefit



The issue is particularly acute for young Māori. 56% of youth service clients are Māori. Whereas non-Māori client numbers have been decreasing, Māori client numbers have remained relatively stable. Māori appear not to be benefiting from strong labour market

conditions as much as other ethnicities. Māori are also more prominent in the client group that cycle in and out of the benefit system. Without action, the disparity between Māori and non-Māori is likely to grow.

Recommendation 3, page 41

We recommend a focus on youth benefit clients who transition to working-age benefits. Where the youth service has not provided employment outcomes for these people, a different approach may be required. A specific focus on young Māori is appropriate given their overrepresentation in this group. Particularly those who transition to JS-WR and so don't have core health or child related barriers to employment.

Young people with work capability who become entrenched in the benefit system undoubtedly have poorer life outcomes relative to their peer group. Generally, they have not come through mainstream education with good qualifications and may have other barriers to employment.

Investment in youth needs to be thought of in terms of the whole social sector. Collective government consideration is likely to result in better targeted investment than if each agency focusses on this part of their population in relative isolation.

In particular, this group could benefit from opportunities related to the government's apprenticeship scheme.

Mental health

The influence of mental health conditions on the benefit system has increased significantly over time. Clients with mental health conditions preventing them from working now represent 20% of all main benefit clients (47% of JS-HCD clients and 31% of SLP clients). The growth has been particularly pronounced for young people. In 2006, 47% of under 30 year old JS-HCD clients were unable to work due to mental health conditions. This has now grown to 66% i.e. two out of every three under 30 year old JS-HCD clients can't work because of mental health conditions.

The growth in mental health diagnosis is well documented. The impact on the prospects of afflicted young people is substantial and growing. The 2017 investment strategy focuses heavily on health and disability clients, specifically the growing proportions who report a psychological condition as their primary incapacity. The overlap of the finding of this report, and other analysis undertaken to inform the Ministry's investment strategy, highlight the difficulties faced by these individuals and the level of tailored support required.

Recommendation 1, page 31

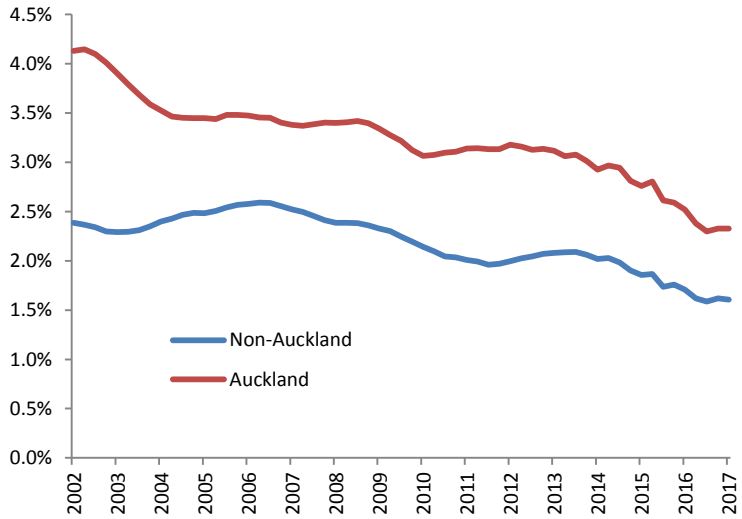
We recommend work is undertaken to arrest the growth in the number of clients under 30 with mental health conditions. This includes continuation of funding in order to trial new approaches to support clients with mental health conditions into employment and working with providers and partner agencies.

Public housing

While this report is predominantly about the benefit system, the public housing system is interrelated and part of the wider system of government support. Our modelling examines both systems together to enable a joined up view of people's pathways across both systems.

The rate at which people exit public housing has been decreasing for many years. In that sense, the system is slowing down.

Chart 1.4 – Public housing exit rates



This is primarily because the population is ageing and the affordability gap to the private market has increased. Income growth has not kept pace with rental growth.

At the same time, demand for public housing has increased as the population has increased and private market affordability has worsened. In the year to 30 June 2017 the number of households on the social housing register has increased by 35% (without any change to criteria to join the register) and the size of the register has since continued to grow. The proportion that is high priority has also increased.

This two-fold dynamic of increasing demand and decreasing effective supply (number of public houses becoming available) creates significant risks. In the absence of action the register is likely to continue to grow long-term.

Increasing the supply of public housing will help alleviate register growth. However, given the dynamics noted, this may not be a sustainable longer term solution in and of itself. In general terms, other ways to help people on the register into public housing more quickly include:

1. Increasing the turnover of public houses by providing greater support for those currently in public housing to move into the private market.
2. Improving the utilisation of public houses.
3. Providing alternatives to public housing to those on the register.
4. Improving private housing affordability.

Off-Benefit outcomes

Recommendation 4, page 59

We recommend work is undertaken to understand why a relatively high proportion of people who stop receiving a main benefit to study or train return to benefits. This may include qualitative and further quantitative research.

About 10% of people who stop receiving a main benefit do so to move into study or training. After 18 months, relatively few of these people are employed compared to those who initially stopped receiving a main benefit due to employment (28% vs 60%). A higher proportion are back receiving a main benefit (35%). Intuitively this feels high.

Other recommendations made in this report

Recommendation 2, page 37

We recommend trialing new approaches to support Supported Living Payment (SLP) clients into work, given the size of the population and the potential to improve wellbeing.

SLP is easily the largest benefit category with over 100,000[1] clients and high predicted future benefit receipt, yet investment in employment support services is minimal. Most clients receive a benefit right through to retirement age, with very few exiting the system or transferring to other benefit categories. For many, their capacity to work is very limited, now or in the future. The SLP population is not one that the Ministry has worked extensively with beyond providing income support.

However, there is an opportunity to support some SLP clients who can or could work in some capacity, and are willing. Undoubtedly there are many clients who aspire to work, but require significant assistance and connecting with supportive employers.

For some people a lifetime receiving a benefit is appropriate. It is the financial support the system is designed to provide. For others though, there may be the potential to improve their wellbeing by supporting them into employment.

Recommendation 5, page 68

We recommend that information relating to people accessing transitional and emergency housing is collected and stored in line with our core data-warehousing procedures.

Collecting and storing data helps improve management reporting as well as our ability to model the full public housing continuum.

[1] Including partners and carers

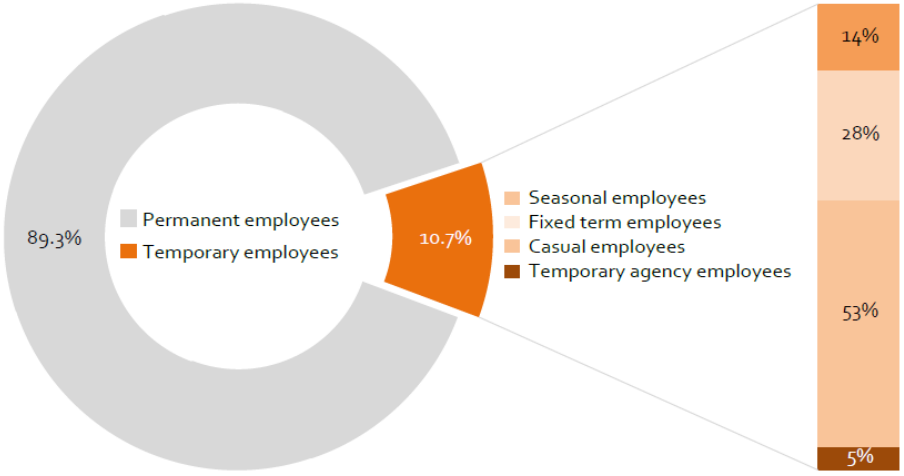
2. Introduction

The benefit system provides a safety net for people in financial need. In the year to 30 June 2017 MSD paid $4.43bn in main benefit payments. We estimate that approximately 420,000 people received a main benefit during that year with many more family members financially supported by these payments. MSD also spent $0.67bn from the 'Improved Employment and Social Outcomes Support' multi-category appropriation (MCA) on income support administration, and employment assistance and work-readiness programmes. These programmes are aimed at up-skilling people and/or supporting them into employment.

Labour market context

Over 10% of the labour market is temporary employment. This is an important part of the labour market, servicing many key industries. However, temporary employment does not offer long-term security and inevitably results in people being out of work for periods of time. At any one point in time, a large number of the labour-force are unemployed even in a buoyant economy. For the quarter to 30 June 2017, New Zealand's unemployment rate was 4.8%, a low rate by historical standards. However, this still represented 128,000 of the labour force out of work.

Figure 2.1 – Paid employee structure



Source: Stats NZ, December 2016 quarter

Providing a safety net during periods of unemployment is part of the reason why the benefit system exists. It also provides financial support to people who are unable to work due to temporary or permanent health conditions, and to people whose income is insufficient to meet their basic financial needs.

A well-functioning benefit system is a key part of a well-functioning society. There is a large array of research highlighting negative impacts and/or correlating circumstances associated with prolonged periods of unemployment. It can cause or exacerbate health conditions, including some mental illnesses, and impacts more broadly on work capacity through loss of

skills. This has wide-reaching impacts for people, their families and their communities. It also limits economic capacity through under utilising human capital.

If people have the capacity to work or the desire to learn, then the aim should be to support them back into sustainable employment or into further education as quickly as possible. If people are cycling between the benefit system and temporary employment, an aim could be to help them progress towards more sustainable employment. If people's skills have become outdated, then the aim should be to support them into training.

Report purpose

With sustainable employment and training in mind, the purpose of this report is to help the Ministry make informed choices about the range and provision of services. The report approaches this through modelling which to date has had a strong focus on both future duration of benefit support and expected future cost of current Ministry clients. Insights from the modelling input to the work carried out by the wider organisation.

Part one presents the recent experience of the benefit system as a whole (chapter three), and by the different benefit categories (chapter four). Each section describes how our expectations of clients' future experience on benefit have changed over the last year.

The Ministry provides a portfolio of services designed to support people and build their wellbeing. Part two describes how our expectations of future experience differ across groups of clients (chapter five), and evaluates how well this matches to the Ministry's expenditure on services (chapter eight). We also consider what happens to people when they stop receiving a main benefit (chapter six) and interactions with the public housing system (chapter seven).

This report is addressed to the Chief Executive of the Ministry of Social Development, with the understanding that it will also be provided to the Minister for Social Development, Minister of Finance, and the Minister for Housing and Urban Development.

3. Overall System

Each year a modelling exercise is performed to project the future benefit pathways of people in receipt of benefit support, and recent recipients of benefit support. The modelling predicts the number of future years that people will receive a benefit. This provides a quantification of people's future benefit pathways, allowing us to understand how the benefit system is changing over time. Based on the data available, it gives us a rich understanding of how different environmental factors and personal characteristics correlate with people's need for financial support. Each year improvements are made to the model. The resulting outcomes over-time should be more robust and informative. Future model improvements should provide more focus on wider social outcomes as well as a measurement of overall wellbeing.

Change in the benefit system

Chart 3.1 shows actual main benefit client numbers compared to predictions based on our modelling. The unemployment rate is shown for context. Client numbers are about 5,700 or 1.7% higher than predicted. This relates entirely to JS-WR and JS-HCD clients.

Chart 3.2 shows, for the last six years, the predicted future years on benefit, averaged over all main benefit clients. We also include what we expected the 2017 figure to be based on how we expected the client population profile to change between June 2016 and June 2017. The difference between the expected and the actual 2017 prediction represents change in the system.

On average we predict clients receiving a main benefit at 30 June 2017 to spend a further 10.6 years of their future working lifetime receiving a benefit

This is broadly in line with expectations. However there are differences at a benefit level which are discussed in chapter 4. We expected the figure to be lower than 2016 partly because SPS client numbers were predicted to decrease as a proportion of all clients (SPS clients have relatively high predicted future years on main benefit).

Chart 3.1 – All main benefit client numbers

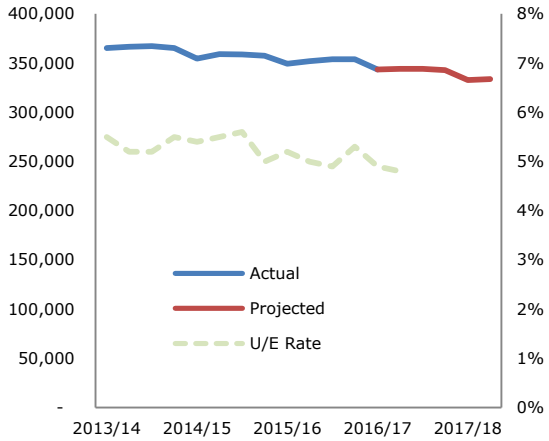
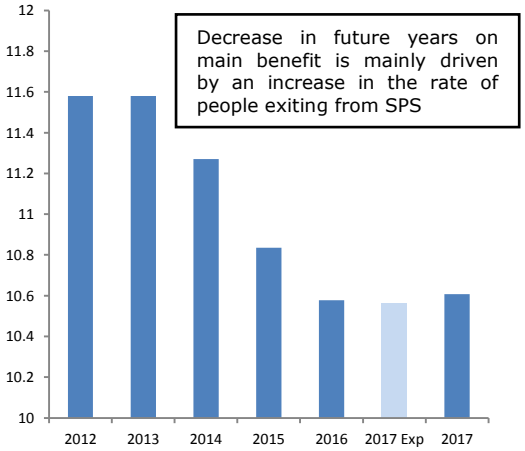


Chart 3.2 – Average predicted future years on main benefit – All main benefit client numbers

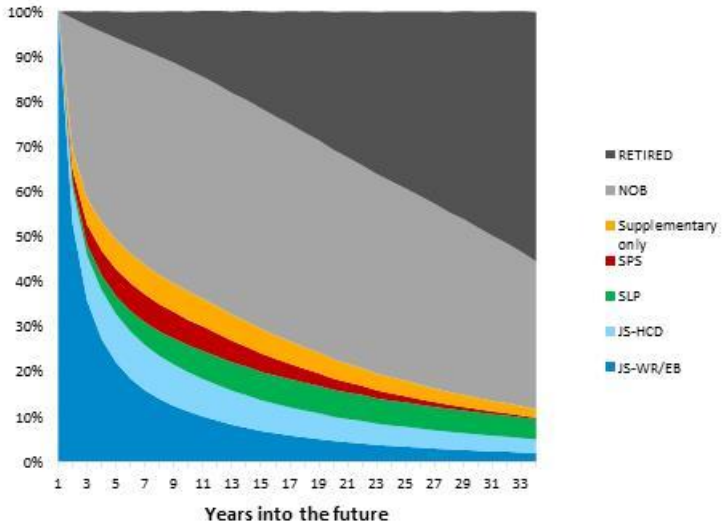


Factors that can influence the future years' prediction can be categorised as:

- Changes in the profile of the client population – predictions of future benefit receipt vary by demographic factors, current benefit category, and prior benefit receipt. Benefit receipt also correlates with other social sector service use. Public housing, corrections, education and child protection data informs the modelling. The predominant changes in profile over the year are a decrease in the proportion of clients who receive SPS (21.5% to 20.9%) and an increase in the proportion of clients who are Māori (35.2% to 35.7%). These changes were broadly predicted in the previous year's modelling.
- Changes in the patterns of movement of the client population through the benefit system – specifically, changes to the rates at which people transfer between benefit categories, and exit or re-enter the benefit system. The predominant changes are a decrease in the rate of client exits from JS-WR and JS-HCD. We have decreased exit rate assumptions in the modelling to reflect this, increasing our prediction of future years on main benefit.

We investigate these influences by benefit category in chapter 4. Note that predicted future years on benefit for a benefit category incorporates potential future spells receiving other benefit types. This is important, as it means that changes to exit, re-entry and transfer rate assumptions for one benefit category impact the predictions for clients currently receiving any benefit. As an example, Chart 3.3 shows the predicted proportion of current JS-WR clients in different benefit categories up to 35 years into the future. After about four years as many of these clients are predicted to be receiving another main benefit as there are to be receiving JS-WR.

Chart 3.3 – Predicted benefit state – Current JS-WR clients



Predicted future benefit receipt varies significantly – Our modelling allows us to understand what factors correlate with high future receipt

An average statistic is useful as an overall measure. However, it doesn't provide information about the variation. Each bar in Chart 3.4 represents 10% (or a decile) of the client population. The first bar is the 10% of clients with the lowest predicted future years on main benefits, the second bar the next 10%, and so on. The height of the bar represents the average predicted future years on main benefits for that 10% of the population. The colour coding of each bar represents the split of clients in that decile by benefit category.

The chart highlights that there is significant variation in predicted future years on main benefit, and that variation exists within each benefit category. A key insight is that the range of predicted benefit outcomes is wide for each benefit category. The average predicted future years on main benefit for decile 1 is 1.4 years, compared to 25.2 years for decile 10. While current benefit category is a useful predictor in our modelling, other characteristics allow us to differentiate predicted future benefit outcomes for clients currently receiving the same benefit. For example, care and protection services history, educational achievement, and ethnicity are strong predictors of future benefit outcomes for under 25 year old clients.

Chart 3.4 – Average predicted future years on main benefit – By decile (2017)

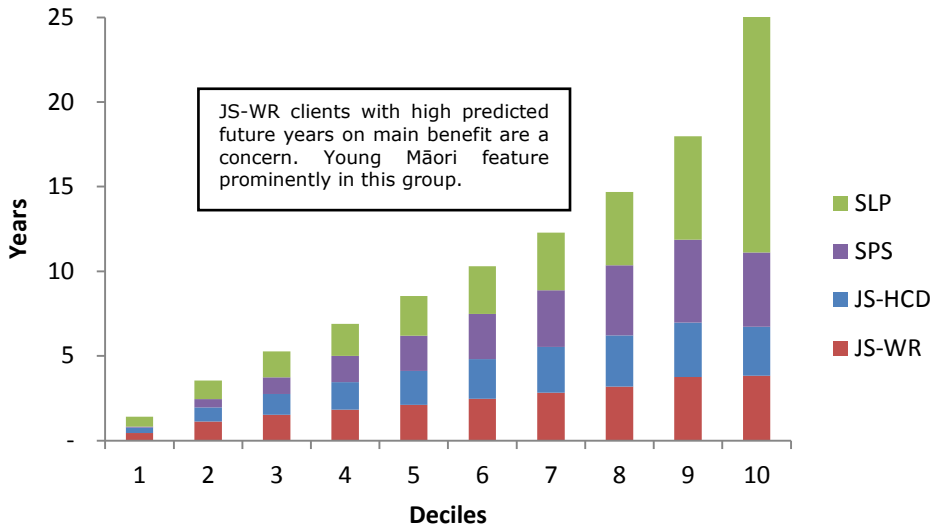


Table *3.1* below indicates that overall, 46.4% of the main benefit client population is expected to spend more than ten future years receiving a benefit. For some clients, including the 16.5% in receipt of SLP, this reflects the significance and permanence of their health conditions. For them, the benefit system is serving its purpose. For others who are capable of working (now or in the future), including the 9.6% of clients currently in receipt of JS-WR benefit, who expect to spend more than ten future years receiving a benefit, negative impacts from prolonged unemployment are likely to be experienced. These clients should be a key focus of employment assistance services (including the design of new or amended services).

Table 3.1 - Proportion of benefit population expected to spend over 10 more years on a main benefit

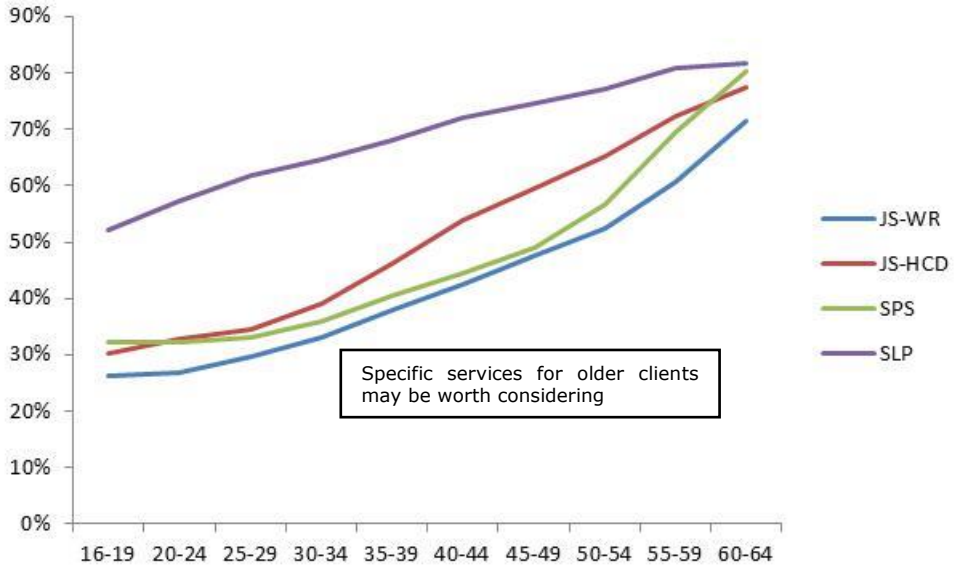
Benefit Type	Percentage of benefit population
JS-HCD	8.6%
JS-WR	9.6%
SLP	16.5%
SPS	11.7%
Total	**46.4%**

Older clients will spend a higher proportion of their future working lifetime receiving a main benefit

While predicted future years on main benefit is a useful measure to track, it tends to underplay the significance of older clients with long benefit duration. Because they have less potential future years in which they could receive a main benefit, their average predicted future years tends to be low. However, this looks different if we express it as a percentage of Future Working Lifetime (FWLT) (see Chart 3.5). The expected percent of FWLT on benefit increases significantly with age. A high proportion of over fifty year olds are expected to spend almost all of their remaining working lifetime receiving a benefit. This should be considered as part of service design and provision of services, not least because

this is a growing part of New Zealand's population. Even though NZ Super provides income from age sixty-five, negative impacts associated with sustained unemployment in the lead up to retirement may extend beyond this age. This affects both the individuals and their families.

Chart 3.5 – Percent of FWLT on main benefit – By age band



While 82% of main benefit clients over fifty years old have been receiving a benefit for more than a year, 46% have had time off benefits in the last five years. Most are likely to have extensive work experience, but their skills may not have kept pace with the labour market. Retraining options are worth exploring for this client group. MSD should also consider future implications for its client base of technological and work practice developments which constantly reshape labour market demand. Over time this leaves some skills redundant and people in need of retraining.

Key benefit system gateways

This subsection focusses on six key gateways in, through and out of the benefit system. Collectively, these gateways explain the majority of the change to the benefit system over time and the impact this has on predicted future benefit receipt. The six gateways are:

<u>Client Independence</u>

1. New clients receiving Jobseeker Support
2. Exits from Jobseeker Support
3. Exits from Sole Parent Support

<u>Youth Vulnerability</u>

1. Transition of youth to working-age benefits

<u>Transition to High-duration Benefits</u>

1. Transition of JS-WR Clients to JS-HCD
2. Transition to Supported Living Payment

Table 3.2 (with the six key gateways marked) gives a snapshot view of how clients have transitioned over the period from 30 June 2016 to 30 June 2017 compared with predictions.

For clients in each benefit category in the quarter to 30 June 2016, reading across the row shows how many of these clients received a benefit in the quarter to 30 June 2017. For example, of the 96,962 JS-WR clients in the quarter to 30 June 2016, 2,689 received SPS in the quarter to 30 June 2017, and 34,648 were no longer receiving a benefit.

Conversely, the columns show for each benefit category in the quarter to 30 June 2017, how many were in each category in the quarter 30 June 2016. For example, of the 69,489 clients who received SPS in the quarter to 30 June 2017, 53,295 were receiving SPS in the quarter to 30 June 2016. 6,447 were not receiving a benefit in the quarter to 30 June 2016. The 'Recent Exits' row represents people who exited benefit in the year to 30 June 2016.

The colours indicate if the actual result was better or broadly the same (green), or worse (red) than predicted.

Table 3.2 – Client transitions – June 2016 to June 2017

30 June 2016 Benefit Category			30 June 2017 Benefit Category						
			JS-WR	JS-HCD	SPS	SLP	YP or YPP	SUPP - only or OB	Exits
JS-WR	96,962	Actual	47,398	6,670	2,689	1,218	-	4,339	34,648
		Predicted	43,562	**5** 7,594	2,909	1,427	-	5,277	36,193
		A/P	109%	88%	92%	85%	-	**2** 82%	96%
JS-HCD	71,322	Actual	5,079	44,376	1,406	4,762	-	1,974	13,725
		Predicted	5,451	42,738	1,799	**6** 4,771	-	2,360	14,204
		A/P	93%	104%	78%	100%	-	84%	97%
SPS	73,269	Actual	3,899	1,237	53,295	889	-	4,915	9,034
		Predicted	3,546	1,118	53,789	891	-	**3** 4,971	8,954
		A/P	110%	111%	99%	100%	-	99%	101%
SLP	104,823	Actual	849	936	380	92,370	-	775	9,513
		Predicted	870	1,037	422	91,981	2	755	9,755
		A/P	98%	90%	90%	100%	-	103%	98%
YP or YPP	2,992	Actual	785	79	498	12	766	32	820
		Predicted	**4** 867	89	477	20	770	44	725
		A/P	91%	89%	104%	60%	99%	73%	113%
SUPP - only or OB	109,400	Actual	2,907	1,982	2,634	513	3	76,665	24,696
		Predicted	3,147	1,981	2,598	558	1	77,404	23,712
		A/P	92%	100%	101%	92%	-	99%	104%
Sub-Total	**458,768**	**Actual**	**60,917**	**55,280**	**60,902**	**99,764**	**769**	**88,700**	**92,436**
		Predicted	**57,443**	**54,557**	**61,994**	**99,648**	**773**	**90,811**	**93,543**
		A/P	**106%**	**101%**	**98%**	**100%**	**99%**	**98%**	**99%**
Recent Exits	88,770	Actual	8,017	3,581	2,140	613	20	2,818	71,581
		Predicted	**1** 7,998	3,380	2,054	744	22	3,369	71,203
		A/P	100%	106%	104%	82%	91%	84%	101%
Sub-Total	**547,538**	**Actual**	**68,934**	**58,861**	**63,042**	**100,377**	**789**	**91,518**	**164,017**
		Predicted	**65,441**	**57,937**	**64,048**	**100,392**	**795**	**94,180**	**164,746**
		A/P	**105%**	**102%**	**98%**	**100%**	**99%**	**97%**	**100%**
New Clients	86,771	Actual	25,790	13,188	6,447	4,045	2,176	16,150	18,975
	86,782	Predicted	**1** 25,310	11,889	5,846	4,164	2,015	18,100	19,458
	100%	A/P	102%	111%	110%	97%	108%	89%	98%
Total		**Actual**	**94,724**	**72,049**	**69,489**	**104,422**	**2,965**	**107,668**	**182,992**
		Predicted	**90,751**	**69,826**	**69,894**	**104,556**	**2,810**	**112,280**	**184,204**
		A/P	**104%**	**103%**	**99%**	**100%**	**106%**	**96%**	**99%**

The key take-out from the table is that there has been a significantly lower number of JS-WR and JS-HCD clients exiting the benefit system (or transitioning to only receiving supplementary benefits) than predicted. This is highlighted by gateway 2. The total number of new clients is about the same as predicted (86,771 vs. 86,782). However, fewer JS-WR and JS-HCD clients than predicted subsequently stopped receiving a main benefit (gateway 1). Exits from JS-WR and JS-HCD are discussed in section 4.1 and 4.2.

The number of new job seekers, highlighted by gateway 1 has been higher than predicted, especially for JS-HCD clients. Health and disability clients were highlighted as an area of focus in the investment strategy and are discussed in more detail in section 4.2.

Gateway 4 focusses on the number of youth clients transitioning to working age benefits. Fewer clients than predicted transitioned to working-age benefits over the year to 30 June 2017. Youth benefits are discussed more in section 4.5.

While SPS client numbers have been trending down for many years, the table highlights a higher number of new clients receiving SPS in the quarter to 30 June 2017 than predicted. See section 4.3.

Client groups

For reporting the results of each year's modelling, a grouping structure based around benefit category has usually been used. This year the structure has been updated to focus more on factors that differentiate people's future benefit receipt.

The new structure is set out in Table 3.3 with both 2016 and 2017 results. It first splits main benefit clients into under and over 25 year olds, given the focus of government on young people up to age 25 years. For under 25 year olds it then considers the age a main benefit was first received, given how indicative this is of future benefit receipt. Over 25 year olds are split according to how much of the last 3 years they have been supported by a benefit. SLP clients are split according to whether their eligibility is reassessed and whether their primary incapacitating condition is a mental health condition.

Groups are also included for people who only receive supplementary benefits (mainly Accommodation Supplement) and those who exited the benefit system in the last twelve months. These groups have been split based on people's benefit receipt in the last 5 years.

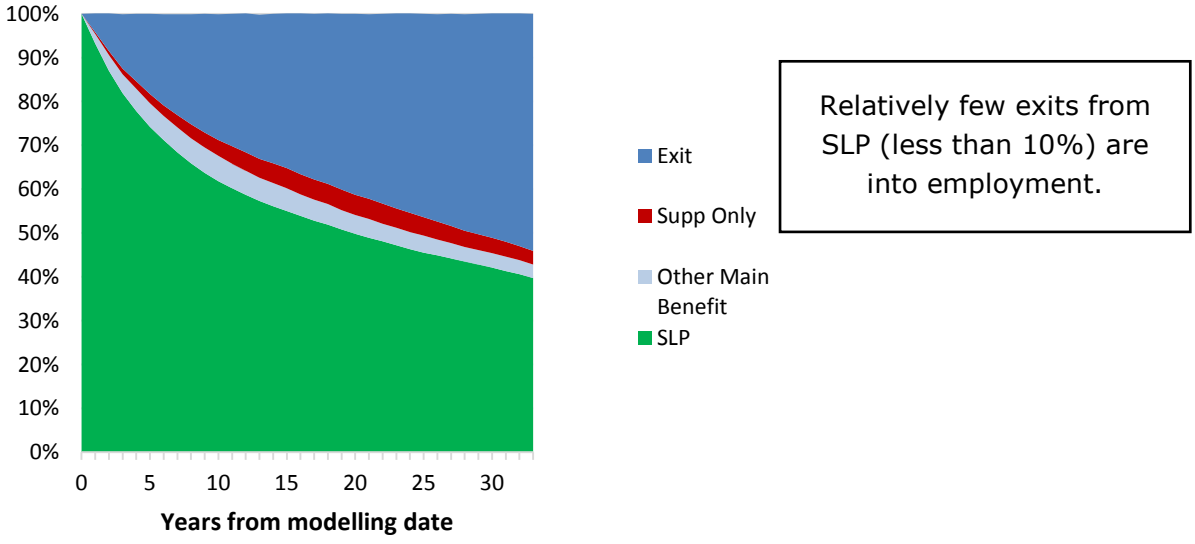
Table 3.3 – Modelling results by segment

Top tier segment (Benefit Status)	Second tier segment (Age Split)	Third tier Segment	Fourth tier segment	Actual Client Number 2017	Predicted Client Number 2017	Actual vs Predicted Ratio	Ave future years 2017	% in Public Housing 2017	Actual Client Number 2016	Ave future years 2016	% in Public Housing 2016
Main Benefit	Under 25	Non-SLP, First main benefit received <20	YP/YPP	2,466	2,638	0.93	15.2	5%	2,752	14.0	3%
			JS-WR	15,679	15,786	0.99	12.4	7%	17,164	11.5	8%
			JS-HCD	6,303	6,135	1.03	14.9	6%	6,306	14.3	7%
			SPS	10,700	11,662	0.92	14.3	15%	12,189	13.3	15%
		Non-SLP, First main benefit received >= 20	JS-WR	3,296	3,197	1.03	6.9	8%	3,476	6.6	8%
			JS-HCD	1,448	1,332	1.09	9.7	4%	1,369	9.5	5%
			SPS	1,511	1,517	1.00	9.8	8%	1,586	9.7	9%
		SLP		7,905	7,943	1.00	24.3	9%	7,949	24.2	9%
	Over 25	Non-SLP, <75% of last 3 years on main benefit	JS-WR	26,671	25,284	1.05	6.7	9%	27,490	6.8	8%
			JS-HCD	20,212	18,814	1.07	7.3	7%	19,338	7.5	7%
			SPS, Youngest Child 0-2	5,148	4,871	1.06	9.2	10%	5,091	9	9%
			SPS, Youngest Child 3-13	8,749	8,084	1.08	7.9	10%	8,449	7.7	9%
		Non-SLP, >75% of last 3 years on main benefit	JS-WR	29,323	26,513	1.11	9.8	17%	28,827	9.7	16%
			JS-HCD	37,283	36,439	1.02	9.7	17%	37,455	9.9	17%
			SPS, Youngest Child 0-2	9,280	9,451	0.98	14.0	25%	9,878	14.1	24%
			SPS, Youngest Child 3-13	28,134	29,219	0.96	11.4	21%	30,539	11.1	20%
		SLP	Carers	8,350	8,285	1.01	9.6	25%	8,292	9.8	24%
			Partners	7,074	7,414	0.95	7.5	20%	7,420	7.8	19%
			HCD – Never Reassess	30,022	30,556	0.98	11.7	13%	30,580	11.8	13%
			HCD – 2yr reassess, Primary incapacity, Mental Health	20,200	19,593	1.03	13.5	17%	19,608	13.8	16%
			HCD – 2yr reassess, Other incapacity	28,611	28,998	0.99	8.6	18%	29,021	8.8	18%
Supp Only Clients	Age 16 to 65	<33% of last 5 years on main benefit		74,528	76,010	0.98	2.0	1%	74,144	2.1	1%
		>33% of last 5 years on main benefit		30,916	33,143	0.93	4.3	5%	32,329	4.4	4%
Recent Exits	Age 16 to 65	<33% of last 5 years on main benefit		60,013	60,642	0.99	2.6	3%	60,696	2.7	3%
		>33% of last 5 years on main benefit		63,722	65,532	0.97	6.5	10%	65,590	6.3	9%

This new grouping structure is a significant improvement as it better distinguishes between client groups based on expectations of future benefit receipt. Key insights that can be drawn from Table 3.3 include:

- Influence of age of first entry – predicted future benefit receipt is significantly higher for people who first enter the benefit system in their teenage years compared to those who enter after age 20. For example, under 25 year old JS-WR clients who first entered the benefit system in their teenage years are expected to spend 12.4 further years receiving a main benefit. This compares to 6.9 years for those who first entered aged 20-24 years. The expected future cost of benefit for these clients is $70k higher than for those who entered after age 20. Entering the benefit system at an early age is correlated with other factors that predict high future benefit receipt. These include interaction with child protection services, low educational attainment and being supported as a child by parents/caregivers on a benefit. Māori are also significantly overrepresented amongst early entrants to the benefit system. A potentially high degree of investment is required to support early entrants, and to help them build the foundations required to independently realise their potential.
- Influence of recent benefit receipt – recent benefit receipt has a significant bearing on our expectations for future benefit receipt. While this isn't surprising, it implies there is an opportunity to improve clients' employment sustainability. If we can better build resilience in this area, the influence of recent benefit receipt would decrease.
- Young SLP clients – Chart 3.6 below shows the proportion of current under 25 year old SLP clients we expect to be in different benefit states in the future.

Chart 3.6 – Future benefit state – Under 25 year old SLP clients



Today's 7,905 under 25 year old SLP clients are expected to spend an average of 24 further years receiving a main benefit, with a total future benefit cost of $2.5bn. For many, their health conditions mean they have very limited potential to work in the future. However, some clients do have the potential to work with the right support. This could be beneficial to their well-being. This is why we recommend some trial based investment in this benefit category (see recommendation 1, page 35).

- Mental Health – psychological conditions are the primary health conditions impacting 31,776 (or 31%) of SLP clients. Of those with a 2 year reassessment cycle, mental health clients are predicted to spend more future years receiving a main benefit than non-mental health SLP clients (13.5 years vs 8.6 years). This is higher even than SLP clients who are never reassessed. The influence of mental health on the benefit system is significant and growing. The 2017 investment strategy also highlighted the growing proportion of SLP and HCD clients with mental health as their main incapacity.
- Average predicted future years on benefit has increased significantly for under 25 year olds who first entered the benefit system under the age of 20. This reiterates the findings in section 4.5 - exit rates have decreased most for clients who first entered the benefit system under the age of 20.
- Predicted future benefit receipt is significantly lower for recent exits with relatively low prior duration on benefit. Those who have spent less than a third of the last five years receiving a benefit are predicted to spend 2.6 future years on benefit. This compares to those who have spent more than a third of the last five years receiving a benefit who are predicted to spend 6.5 future years on benefit. This highlights that not only are longer duration clients less likely to attain employment and exit the benefit system, but those that do are more likely to return.

4. Benefit categories

Jobseeker Support – Work-ready

Jobseeker Support (JS) is a temporary benefit paid for up to 52 weeks while clients look for work, are in training for work or unable to work due to a health condition, injury or disability. The 'work-ready' sub-category refers to JS clients who are subject to work obligations (JS-WR). JS-WR clients are expected to look for full-time work. It is the most common benefit category through which people first enter the benefit system. It has a relatively high rate of client turnover as people lose and then find employment. It accounts for about 50% of main benefit grants and 50% of cancellations.

JS-WR client numbers are higher than predicted (by about 4,500) and the average predicted future years on main benefit is 0.2 years higher than expected

Chart 4.1 shows actual JS-WR client numbers compared to predictions based on our modelling. The unemployment rate is shown for context. Chart 4.2 shows the average predicted future years on main benefit for JS-WR clients.

Chart 4.1 – JS-WR client numbers

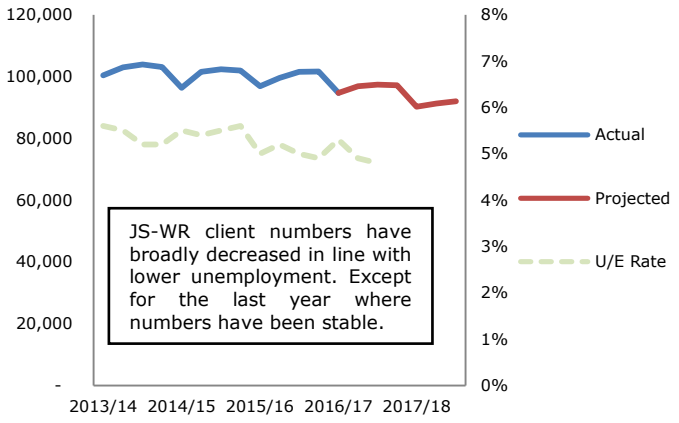
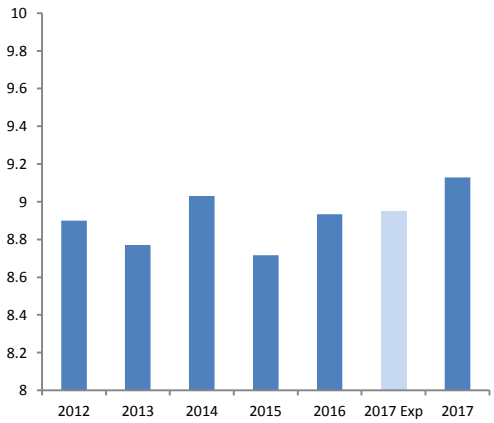


Chart 4.2 – Average predicted future years on main benefit – JS-WR clients



The fact that client numbers are higher than predicted, and predicted future years on main benefit is higher than anticipated are related. As Table 4.1 shows the primary reason why JS-WR client numbers are higher than predicted is that less JS-WR clients exited the benefit system than predicted over the year. Correspondingly, the assumed rate of exit in our modelling was decreased, causing the predicted future years on main benefit to increase.

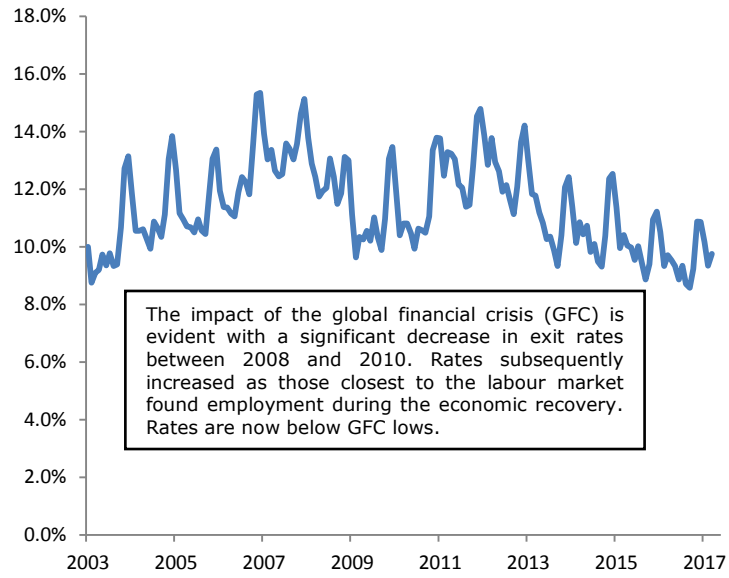
An average increase of 0.2 future years on benefit is equivalent to about $180m in future benefit payments for current clients.

Table 4.1 – JS-WR inflows/outflows over the year to 30 June 2017

	Actual	Predicted	Difference
Inflows to JS-WR			
New main benefit clients	64,663	65,112	- 449
Transfer from JS-HCD	11,044	11,602	- 558
Transfer from SPS	5,412	5,150	262
Transfer from SLP	1,173	1,191	- 18
Transfer from Youth Benefits	1,547	1,549	- 2
Outflows from JS-WR			
Exits from main benefit	69,122	72,850	- 3,728
Transfer to JS-HCD	12,093	12,995	- 902
Transfer to SPS	3,209	3,267	- 58
Transfer to SLP	1,438	1,625	- 187
Transfer to Youth Benefits	112	79	33

Exit rates for JS-WR are shown in Chart 4.3 below[2]. The monthly average rate decreased from 9.9% over the year to 30 June 2016 to 9.5% over the year to 30 June 2017. This follows a longer downward trend. The decrease to the assumed rate of exit in our modelling also partly reflects the fact that the decrease in exit rates between 2015 and 2016 is sustained.

Chart 4.3 – JS-WR exit rates



The Child Material Hardship Package appears to have reduced exit rates for JS-WR clients with children. Canterbury clients exit rates have decreased significantly.

[2] Exit rates in this report are expressed as the last three monthly rates divided by three

The decrease is not uniform across all JS-WR clients. Chart 4.4 to Chart 4.7 highlight some key variations.

Chart 4.4 – JS-WR exit rates - by gender

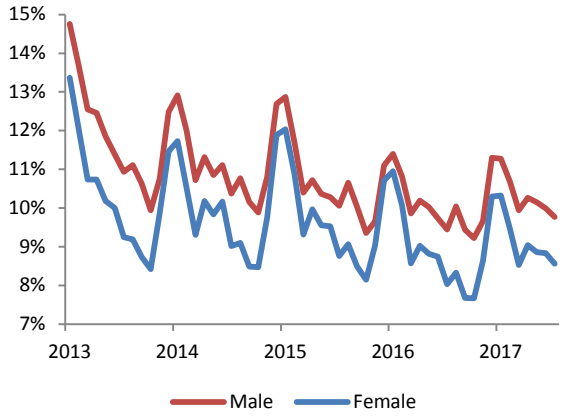


Chart 4.5 – JS-WR exit rates – by child/no child with no backdating for 2013 benefit structure changes

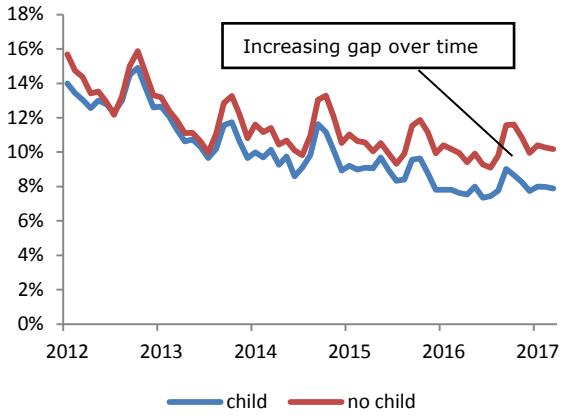


Chart 4.6 – JS-WR exit rates – by duration on benefit

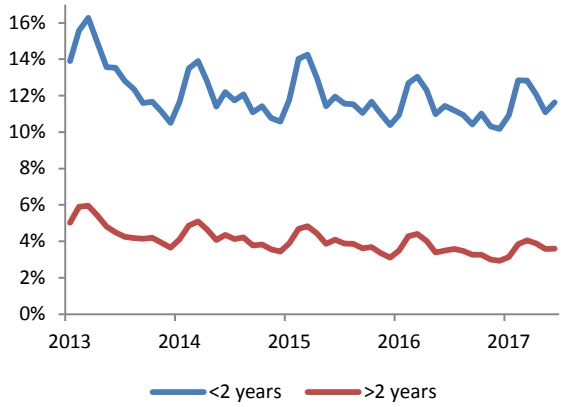
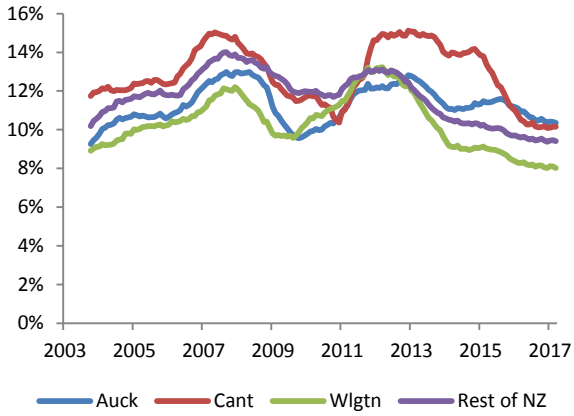


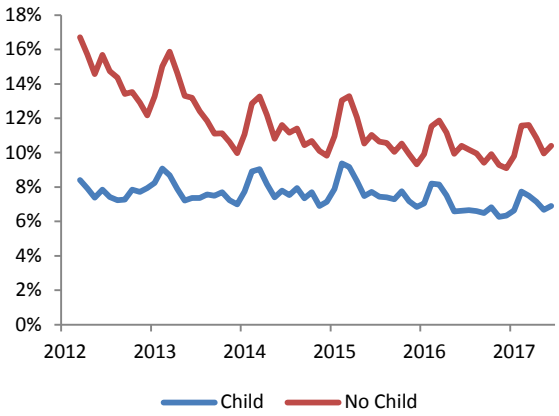
*Chart 4.7 – JS-WR exit rates – by region**



*Calculated as a 12 month average to smooth fluctuations

The reduction in exit rates since 2013 is similar for females and males. Over the same period females have consistently had a lower exit rate than males. We also see that exit rates have decreased more for JS-WR clients with children. In 2013 the benefit structure was changed so that sole parents whose youngest child was aged 14 or more were moved from the old equivalent of SPS (Domestic Purposes Benefit) to JS-WR. Chart 4.5 shows exit rates for JS-WR without making any adjustment for SPS clients prior to the 2013 benefit structure change, the subsequent reduction in exit rates can largely be attributed to this change as many of these clients had long tenure on benefit and hence a relatively low exit rate. This can be supported by Chart 4.8 below which shows the equivalent graphs if the benefit structure change in 2013 was backdated.

Chart 4.8 – JS-WR exit rates – by child/no child with 2013 benefit structure changes backdated



The gap between those with children and those without appears to have widened in early 2016, and remained relatively consistent since then in the last year. Establishing causality is difficult, though the widening of the gap appears to correlate with the introduction of the Child Material Hardship Package (CMHP) in April 2016. Benefit rates were increased by $25 for families as part of this package. This is likely to have impacted exit rates for these clients in two ways:

1. Clients can earn more income before their benefit is fully abated. This means that some people earning income retain a small benefit whereas previously they would have exited the system.
2. In some cases, there may be less financial incentive to exit the system, although changes were also made to the minimum family tax credit and the in-work tax credit to balance this.

Changes to the accommodation supplement from 1 April 2018 could have similar effects, although accommodation supplement is also available to low income families.

While it is hard to see clearly in Chart 4.6, exit rates for clients on a benefit for over two years have decreased relative to the rate for shorter duration clients. The longer a client receives a benefit the more we expect them to receive a benefit in the future. For example, 20-29 year old JS-WR clients who have been on benefit for at least two years are predicted to spend a further 14.8 years on benefit on average. This compares to 10.7 years for 20-29 year old JS-WR clients who have been on benefit for less than two years. This translates to an expected future cost of benefits for those with a current duration greater than two years of $200k, $71k higher than those whose current benefit spell is less than two years. Work capable clients who have spent a long time on benefit during strong labour market conditions are a concern as it implies they are not experiencing good outcomes which may relate to not having the skills the market needs or indicates other barriers for which specialised support may be needed.

Canterbury also stands out (see Chart 4.7). Canterbury clients exit rate increased during the main period of earthquake rebuild. The rate has dropped back significantly in the last few years. To some extent this is likely to be a return to a more normal level. However, historically Canterbury has had a higher exit rate than other areas, reflecting a low unemployment rate in the South Island. The rate is now more in line with other areas. This change may be due to residual effects of the earthquakes and their impact on the labour

market. Regardless, this should be closely monitored in case the rate remains at this historically low rate or decreases further.

JS-WR client numbers have not decreased as much as we might have expected given a falling unemployment rate, because the labour force has increased significantly

Typically we use high-level employment related measures, such as the unemployment rate, as barometers for labour market conditions. However, they do not always tell the full story.

The unemployment rate is calculated as the number of people in the labour force who are unemployed, divided by the number of people in the labour force. Over the last five years the labour force has grown by 14% (see Chart 4.9). This is due to two factors - an increase in the working-age population and an increase in the proportion of that population participating in the labour market (employed or unemployed). The number of people unemployed has decreased over this period, but to a lesser degree than the increase in labour force (see Chart 4.10). This means that the decrease in unemployment rate is largely the result of an increase in the labour force rather than a reduction in the number of unemployed people.

Chart 4.9 – Employment statistics

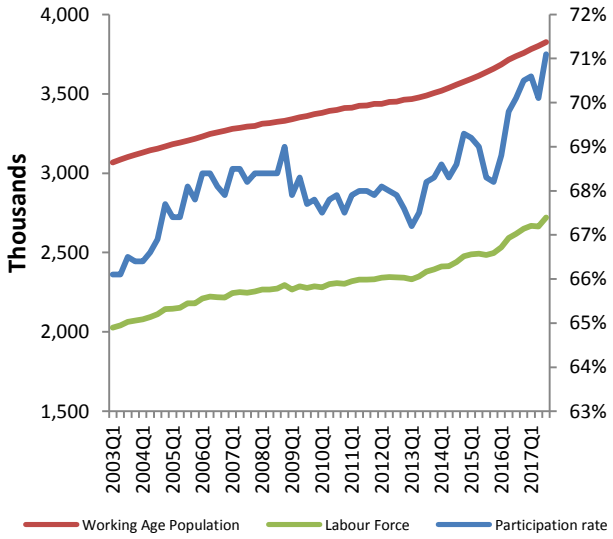
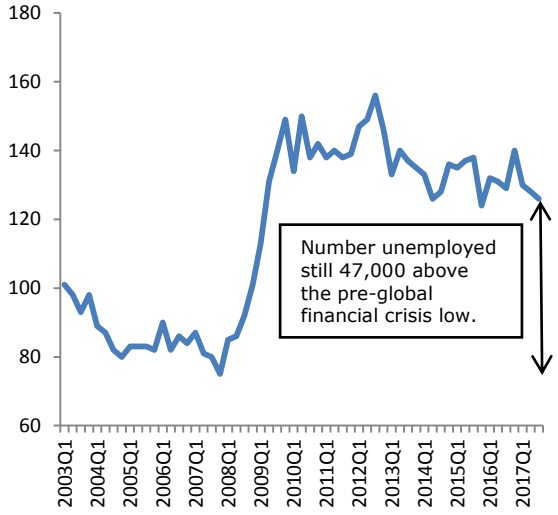


Chart 4.10 – Number of people unemployed



This is important, given that we expect the number of people receiving work obligated benefits to correlate with the number of people unemployed (or underutilised). It is possible that part of the reason why JS-WR client numbers are higher than predicted is because of the significant growth in the working-age population and participation rate. To the extent that this continues, it will increase competition for jobs, increasing the barriers to employment for some.

Job growth has also been skewed to skilled employment, making it relatively hard for low skilled workers to compete for employment

The type of jobs being created by the economy is also important. Using Statistics NZ's Household Labour Force Survey (HLFS) we have analysed the number of people employed in different industries. Based on the ANZSIC06 industry codes, we have grouped industries into principally manual labour, group A[3], and principally office based or service-oriented, group B[4].

Since the middle of 2007 the number of group A jobs has grown by 8.3% (1,070,000 to 1,160,000), whereas the number of group B jobs has grown by 24.7% (1,070,000 to 1,340,000). This represents a significant structural change in the labour market. Furthermore, the Ministry of Business, Innovation and Employment's employment forecast suggests that employment growth over 2017-2020 will be greatest for highly skilled occupations.

Jobseeker Support – Health conditions and disabilities

The 'Health conditions and disabilities' sub-category of JS refers to clients who have a health condition or disability that affects their capacity to work (JS-HCD). JS-HCD clients are not expected to look for full-time work, though if capable are expected to look for part-time work.

JS-HCD client numbers are higher than predicted (by about 2,000) and the average predicted future years on main benefit is 0.2 years lower than expected

Chart 4.11 – JS-HCD client numbers

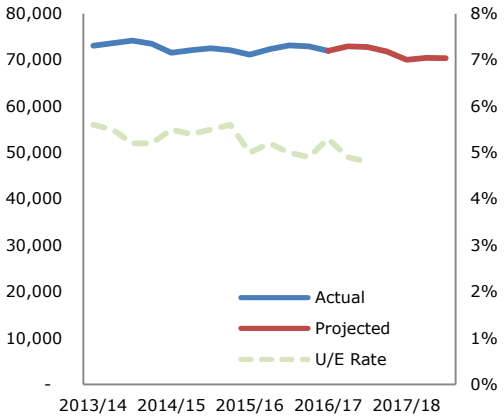
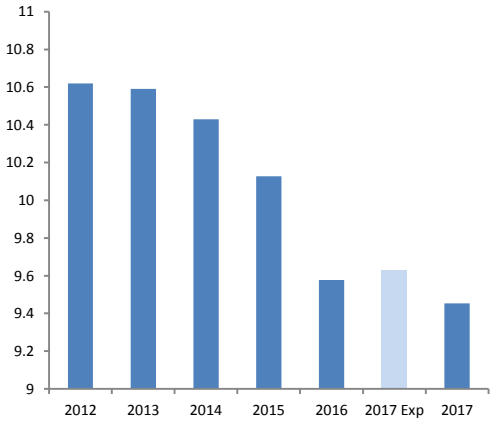


Chart 4.12 – Average predicted future years on main benefit – JS-HCD clients



There are two main reasons why JS-HCD client numbers are higher than predicted (see Table 4.2). Firstly, fewer JS-HCD clients exited the benefit system than predicted over the year. Secondly, fewer clients than predicted have transferred to SPS and SLP. Assumed exit and transfer rates have been changed in our modelling to reflect this. There has also been

[3] Agriculture, Forestry and Fishing; Mining; Manufacturing; Electricity, Gas, Water and Waste Services; Construction; Wholesale Trade; Retail Trade and Accommodation

[4] Transport, Postal and Warehousing; Information Media and Telecommunications; Financial and Insurance Services; Rental, Hiring and Real Estate Services; Professional, Scientific, Technical, Administrative and Support Services; Public Administration and Safety; Education and Training; Health Care and Social Assistance; Arts, Recreation and Other Services

lower than predicted transfer rates to and from JS-WR, though the net effect of this on JS-HCD client numbers is small.

SPS and SLP clients have a relatively high likelihood of long-term benefit receipt. So a lower rate of transfer to these benefit categories implies a lower number of future years on benefit. Whereas, a lower rate of exit from JS-HCD implies a higher number of future years on benefit. The net effect is relatively small (-0.2 years), although this is equivalent to a reduction of about $170m in future benefit payments for current clients.

Table 4.2 – JS-HCD inflows/outflows over the year to 30 June 2017

	Actual	Predicted	Difference
Inflows to JS-HCD			
New main benefit clients	28,239	27,730	509
Transfer from JS-WR	12,093	12,995	-902
Transfer from SPS	1,313	1,216	97
Transfer from SLP	1,070	1,204	-134
Transfer from Youth Benefits	38	56	-18
Outflows from JS-HCD			
Exits from main benefit	22,686	24,156	-1,470
Transfer to JS-WR	11,044	11,602	-558
Transfer to SPS	2,430	3,033	-603
Transfer to SLP	5,564	5,799	-235
Transfer to Youth Benefits	99	107	-8

Chart 4.13 – JS-HCD exit rates

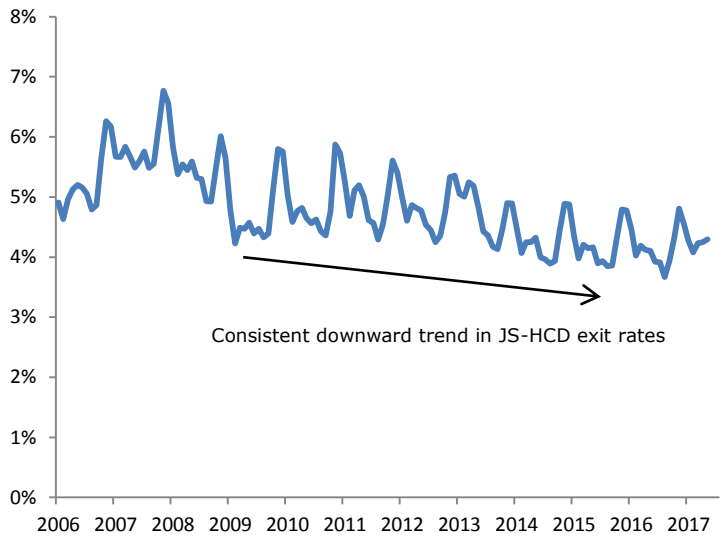


Chart 4.13 shows the downward trend in JS-HCD exit rates. Assumed rates of exit in our modelling have been decreased to reflect this.

Changes in client profile have influenced the decline in JS-HCD exit rates, with an ageing population and a higher proportion experiencing psychological conditions

As was the case for JS-WR, we also see some differences when looking at exit rates by gender and whether there was a child noted on the benefit application. The difference between male and female exit rates has widened slightly. The difference between those with and without a child has widened significantly, and this again appears to correlate with the introduction of the Child Material Hardship Package (CMHP) in April 2016.

Chart 4.14 – JS-HCD exit rates - by gender

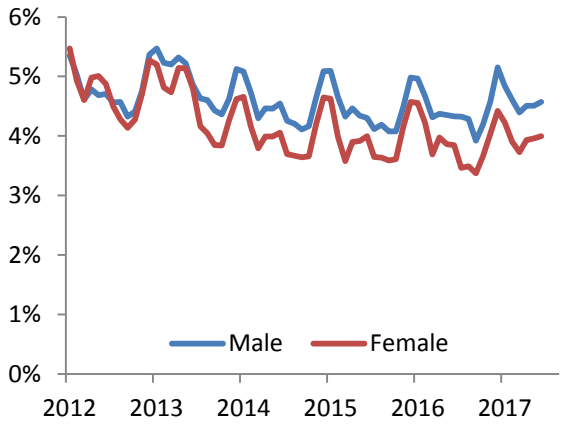
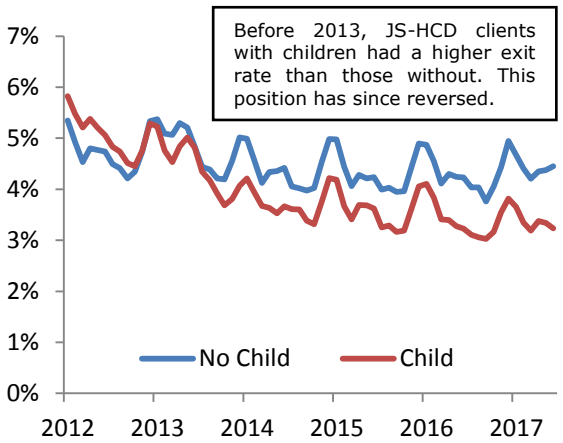


Chart 4.15 – JS-HCD exit rates – by child part of benefit application



The profile of the JS-HCD population also influences exit rates. Changes in the profile are part of the reason for the long-term downward trend in exit rates. Chart 4.16 to Chart 4.19 highlight the important changes over time.

Chart 4.16 – JS-HCD client profile – by age band

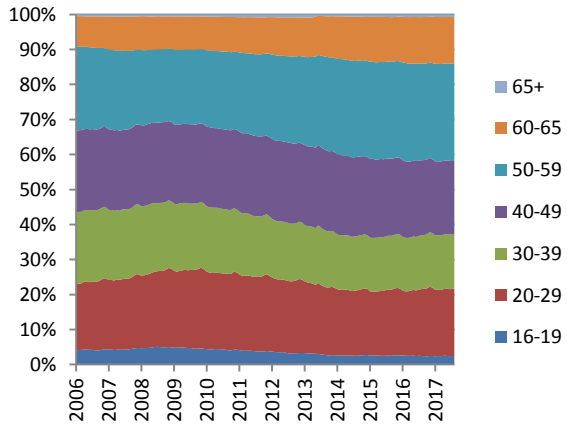


Chart 4.17 – JS-HCD client profile – by incapacity code

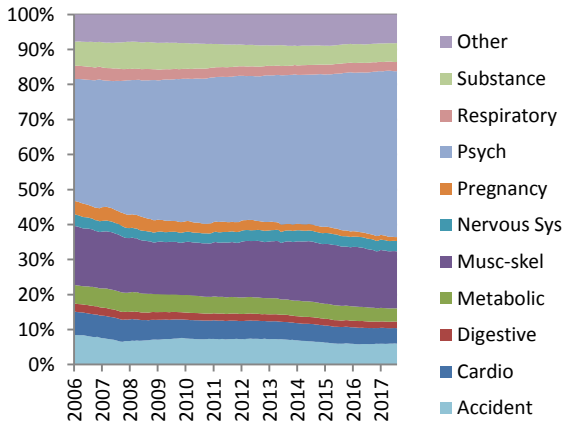


Chart 4.18 – JS-HCD client profile – by gender

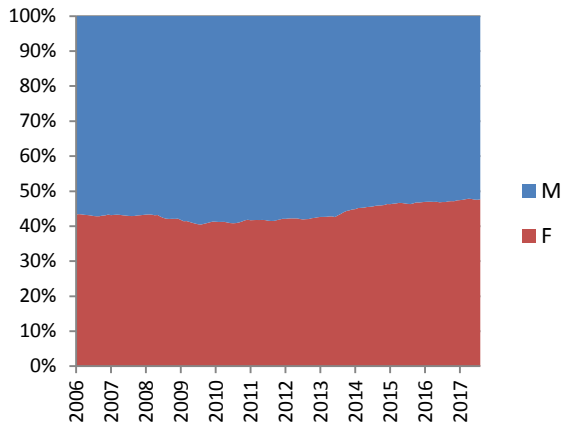
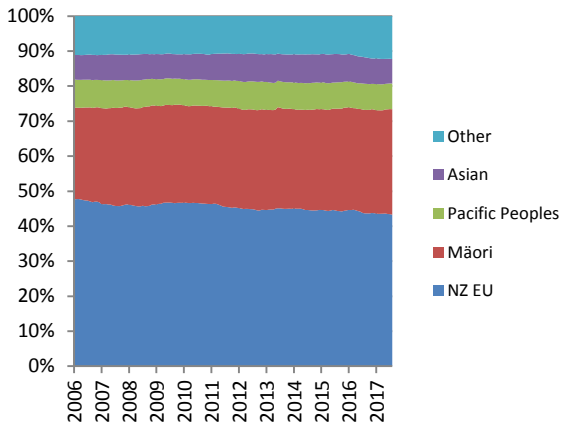


Chart 4.19 – JS-HCD client profile – by ethnicity



The key points are:

- The client population is much older than at the time of the GFC, with 42% now older than 50 years compared to 31% in 2008. Older JS-HCD clients exit at a lower rate - 3.3% per month for over 50 year olds compared to 4.9% for under 50 year olds.
- An increasing proportion of JS-HCD clients have a psychological condition as their main health reason preventing them from being able to work. This has grown from 35% in 2006 to 47% currently. The growth has been particularly pronounced for under 30 year olds, increasing from 47% to 66%. This means that two out of every three under 30 year old JS-HCD clients are unable to work due to psychological conditions. Clients with a psychological condition have a moderately lower rate of exit than other JS-HCD clients. These clients are expected to spend 2.6 more years on benefit, and have an expected future benefit cost $35k higher than HCD clients without a psychological condition.
- An increasing proportion of JS-HCD clients are female, currently 48% compared to 41% in 2010. Female JS-HCD clients exit at a lower rate – 3.9% per month compared to 4.5% for males.
- The proportion of JS-HCD clients who are Māori has increased from 27% in 2006 to 30% in 2017 with the NZ European proportion decreasing by a similar amount. Māori JS-HCD clients exit at a similar rate to NZ Europeans. This contrasts with JS-WR and SPS where Māori exit at a much lower rate.

These represent significant changes in the JS-HCD client profile. The growth in young people presenting with psychological conditions is particularly concerning. This has significant future cost implications. Future predicted benefit cost for current JS-HCD and SLP clients who have a psychological condition as their primary incapacity code is $11.5bn. This represents 23% of the total $50.2bn future predicted benefit cost for current main benefit clients. These clients are predicted to spend a further 12.5 years receiving a main benefit, implying that their health circumstances may have long-term implications for their employment prospects. The 2017 investment strategy focusses heavily on health and disability clients, specifically the growing proportions who report a psychological condition as their primary incapacity. The overlap of the finding of this report, and the analysis in the

investment strategy highlight the difficulties faced by these individuals and the level of tailored support required.

Recommendation 1

We recommend work is undertaken to arrest the growth in the number of clients under 30 with mental health conditions. This includes continuation of funding to trial new approaches to support clients with mental health conditions into employment and working with providers and other agencies.

Sole Parent Support

Sole Parent Support (SPS) is paid to people whose work capacity is limited because they are the sole parent or caregiver of one or more dependents aged under 14 years. If the youngest dependent is aged between 3 and 13, the client is expected to look for part-time work of at least 20 hours per week. Clients are also required to take reasonable steps to ensure their dependents are enrolled with a doctor and their school-age dependents are enrolled at school. Clients are required to re-apply after 52 weeks.

The SPS benefit category was a key focus of major welfare reform in 2012, with work obligations extensively expanded. Since June 2013, SPS clients have decreased by over 30%, primarily due to an increased rate of exit from benefits. This has been the most significant change in the system over the last five years. In order to understand the impact these exits have had on clients' wellbeing, further analysis would need to be carried out.

SPS client numbers have continued their consistent decline although average predicted future years on main benefit has increased

Chart 4.20 – SPS client numbers

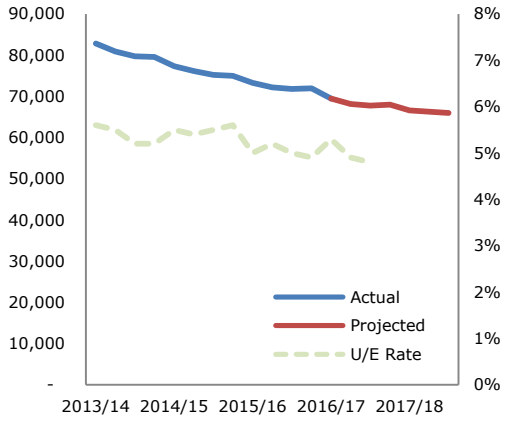
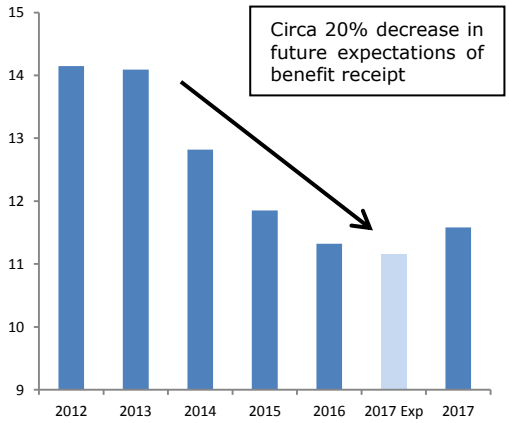


Chart 4.21 – Average predicted future years on main benefit – SPS clients



The steady decrease in client numbers is evident. In Chart 4.20, actual client numbers are in line with predictions. Table 4.3 shows that a higher than predicted number of new SPS clients was offset by fewer JS-HCD clients than predicted transferring to SPS and slightly more SPS clients than predicted transferring to JS-WR.

Table 4.3 – SPS inflows/outflows over the year to 30 June 2017

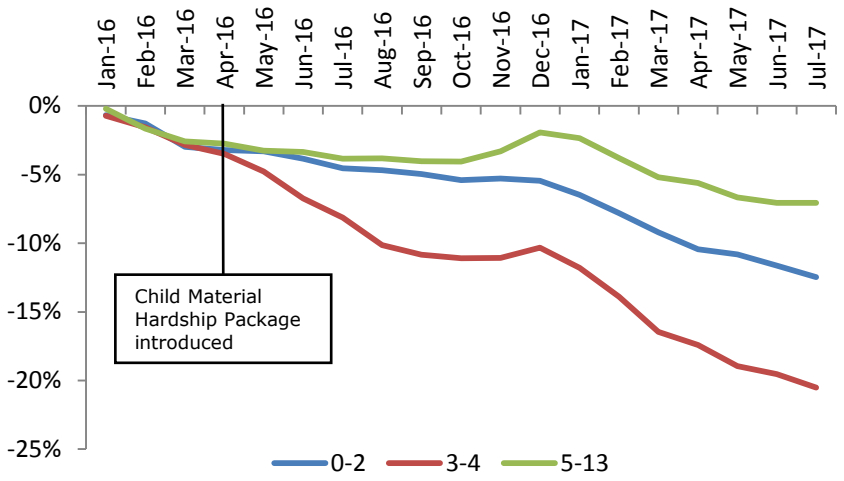
	Actual	Predicted	Difference
Inflows to SPS			
New main benefit clients	14,249	13,402	847
Transfer from JS-WR	3,209	3,267	-58
Transfer from JS-HCD	2,430	3,033	-603
Transfer from SLP	493	523	-30
Transfer from Youth Benefits	678	700	-22
Outflows from SPS			
Exits from main benefit	17,124	16,944	180
Transfer to JS-WR	5,412	5,150	262
Transfer to JS-HCD	1,313	1,216	97
Transfer to SLP	963	989	-26
Transfer to Youth Benefits	-	-	-

The increase in exit rate was allowed for gradually in our modelling between 2012 and 2016 as we became more confident the change was sustained. Hence, the average predicted future years on main benefit decreased over this period (see Chart 4.21). The 2017 prediction is 0.4 years higher than expected, which is equivalent to about $410m in future benefit payments for current clients. This is mainly due to lower rates of assumed exit from JS-WR and JS-HCD, following a transfer from SPS, impacting projected future spells in these benefit categories.

The child material hardship package has had a significant effect on client numbers

The child material hardship package came into effect from April 2016. Work obligations that already existed for SPS clients whose youngest child is school-age (5-13 years) were extended to SPS clients whose youngest child is eligible for early childhood education funding (aged 3-4 years). Chart 4.22 shows that this has had a significant impact on the number of clients in this segment.

Chart 4.22 – SPS by age of youngest child – change since 31 December 2015



The sustainability of exits for former SPS clients has decreased since welfare reform in 2012. This reflects changes in the SPS client population profile.

While SPS client numbers have decreased significantly in recent years, until recently little was known about what happened to clients once they had exited the benefit system. This is because people are not obligated to keep MSD informed of their status once they have left the benefit system. Research has been carried out in Statistics New Zealand's Integrated Data Infrastructure (IDI) on people's off-benefit outcomes. It uses a range of data (including tax information) to build a picture of people's primary activity once they leave the benefit system. This is explored further in chapter six. The key points in relation to SPS clients are:

- A much higher proportion of people exiting SPS do so because they have partnered up compared to other benefit categories. 19% of SPS clients exit for this reason (compared to about 1% for JS-WR).
- Exit sustainability tends to be higher for people who exit because they have partnered up. This could be part of the reason why former SPS clients have higher exit sustainability rates than other benefit categories.
- Since welfare reform phase 2 in 2012, the proportion of SPS exits that are due to finding employment has increased (43% for 2013/14 exits vs 37% for 2010/11 exits). This is likely to be related to the strengthening of work obligations as part of welfare reform.

Understanding the outcomes of former clients helps us understand the sustainability of their circumstances. Exiting SPS clients tend to have a higher rate of remaining off benefit than JS-WR and JS-HCD. However, this rate has consistently declined over the last few years (see Chart 4.23 to Chart 4.26). Chart 4.23 shows sustainability of exit by time since exit, averaged over up to five years of exits. Chart 4.24 to Chart 4.26 show how sustainability of exits has changed over time.

Chart 4.23 – Sustainability of exit SPS

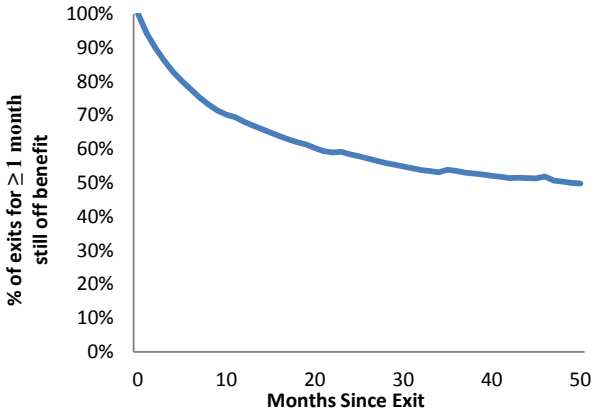


Chart 4.24 – % of exits sustained for 10 months

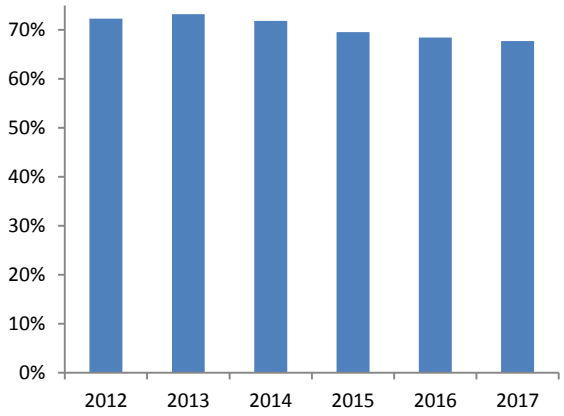


Chart 4.25 – % of exits sustained for 22 months

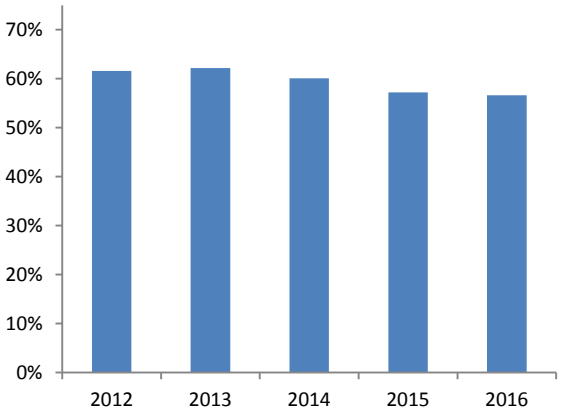
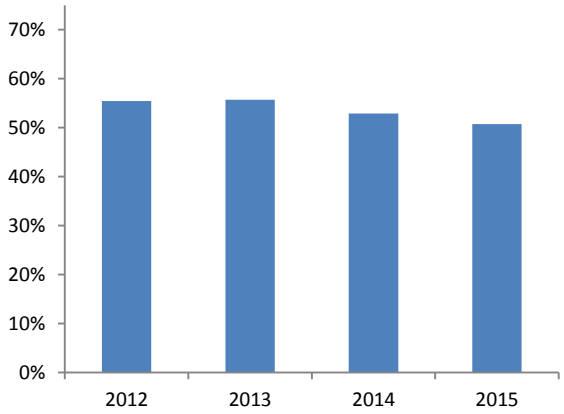


Chart 4.26 – % of exits sustained for 34 months



The total extent of the decline is not excessive, however there is a clear downward trend in sustainability over time which is worthy of further investigation. The extensive policy reform in 2012 has not only reduced the number of SPS clients, but also changed the profile of clients. Chart 4.27 to Chart 4.29 highlight a significant shift in the age, ethnicity and youngest child age profile.

Chart 4.27 – Profile of SPS clients – by age band

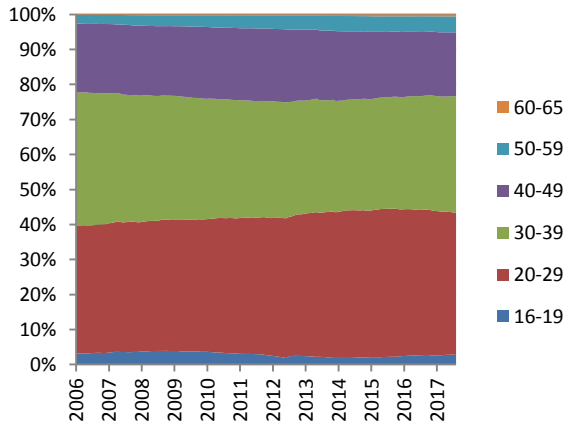


Chart 4.28 – Profile of SPS clients – by age of youngest child

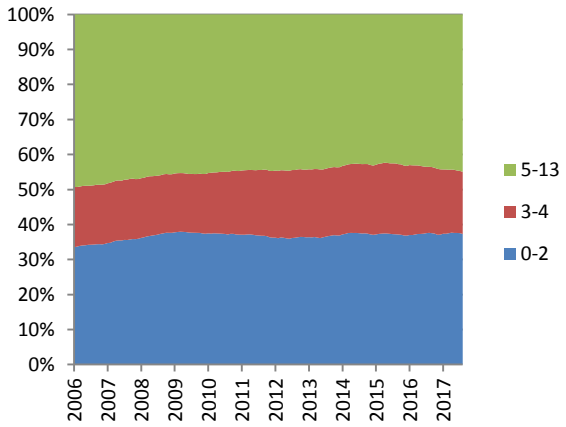
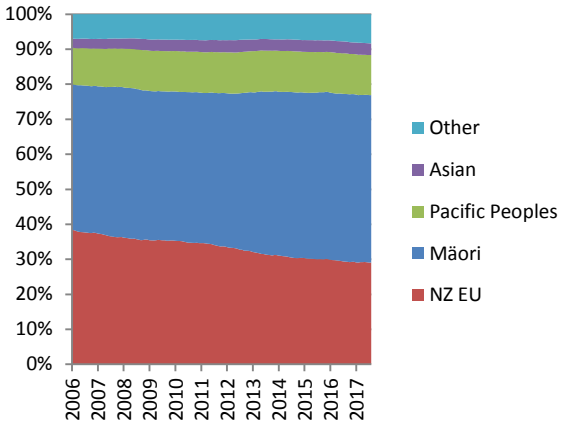


Chart 4.29 – Profile of SPS clients – by ethnicity



These changes in profile mean that clients exiting SPS today may be less likely to sustain an off-benefit outcome than previously. Should this trend continue, options to provide greater in-work support to exiting SPS clients may need to be considered.

Supported Living Payment

Supported Living Payment (SLP) is for people who are:

- permanently and severely restricted in their ability to work because of a health condition, injury or disability
- totally blind
- caring full-time for someone at home who would otherwise need hospital-level or residential care (or equivalent) and who is the spouse or partner.

Clients are not expected to look for work and, depending on their specific circumstances, may have their eligibility reassessed once every two years.

SLP client numbers remain stable and predicted future years on main benefit is as expected

Chart 4.30 – SLP client numbers

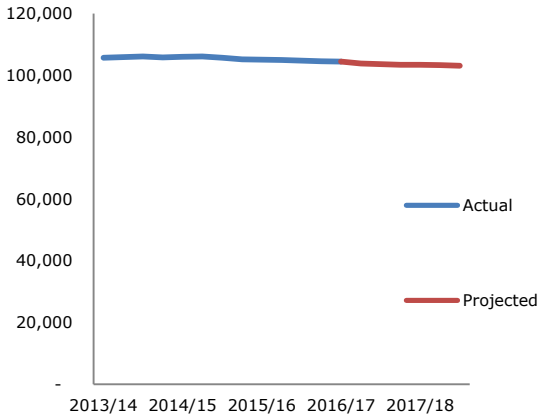
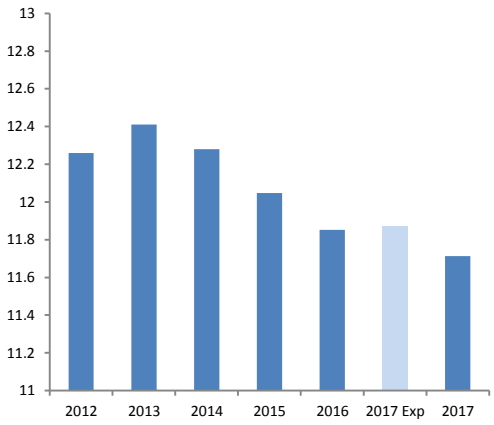


Chart 4.31 – Average predicted future years on main benefit – SLP clients



SLP client numbers tend not to change significantly over the short term, making them relatively predictable. In fact, the number of clients today is very similar to the number of clients in 2010. However, sustained small changes in the rate of people entering and exiting the benefit category can have a significant effect on the future cost. For example, in the decade to 2010 there was an increase of about 32,000 clients.

Table 4.4 shows that a lower than predicted number of new SLP clients was offset by a lower than predicted number of SLP clients exiting.

Table 4.4 – SLP inflows/outflows over the year to 30 June 2017

	Actual	Predicted	Difference
Inflows to SLP			
New main benefit clients	5,659	6,071	- 412
Transfer from JS-WR	1,438	1,625	- 187
Transfer from JS-HCD	5,564	5,799	- 235
Transfer from SPS	963	989	- 26
Transfer from Youth Benefits	6	12	- 6
Outflows from SLP			
Exits from main benefit	11,513	11,842	- 329
Transfer to JS-WR	1,173	1,191	- 18
Transfer to JS-HCD	1,070	1,204	- 134
Transfer to SPS	493	523	- 30
Transfer to Youth Benefits	1	4	- 3

SLP is the largest benefit category in terms of client numbers and predicted future benefit receipt, yet investment is minimal

Most SLP clients receive a benefit right through to retirement age, with very few transferring to other benefit categories. The range of health conditions experienced by SLP clients is vast. For some their capacity to work (now or in the future) is very limited. However, there is an opportunity to support some SLP clients who can or could work in some capacity, and are willing. Undoubtedly there are many clients who would like to work, but require significant assistance and connecting with supportive employers. The Ministry itself has several employees who were they not in work, would be eligible for SLP.

The SLP client population is not one that the Ministry has worked extensively with beyond providing income support. Our modelling tells us that on average an SLP client will spend a further 12 future years receiving a main benefit. For some people a lifetime receiving a benefit is appropriate. It is the financial support the system is designed to provide. For others though, there may be the potential to improve their wellbeing by supporting them into employment.

We reiterate our recommendation from last year's report:

Recommendation 2

We recommend trialing new approaches to support SLP clients into work, given the size of the population and the potential to improve wellbeing.

Youth Benefits

Two main youth benefits are provided. Youth Payment (YP) helps young people aged 16 or 17 who can't live with their parents or guardian and aren't supported by them or anyone else. Young Parent Payment (YPP) helps young parents aged 16-19 years. Clients are required to participate in the Youth Service. The Youth Service is a wrap-around service focussed on improving educational attainment and teaching life skills.

Youth client numbers continue to decrease, partly due to lower teen birth rates. The average predicted future years on main benefit is 1.1 years higher than predicted.

Chart 4.32 – YP/YPP client numbers

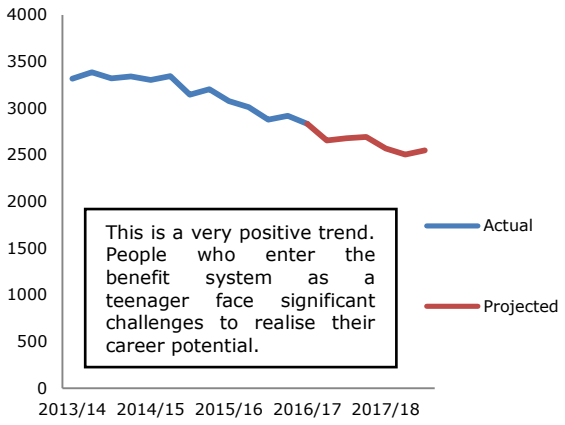


Chart 4.33 – Average predicted future years on main benefit – YP/YPP clients

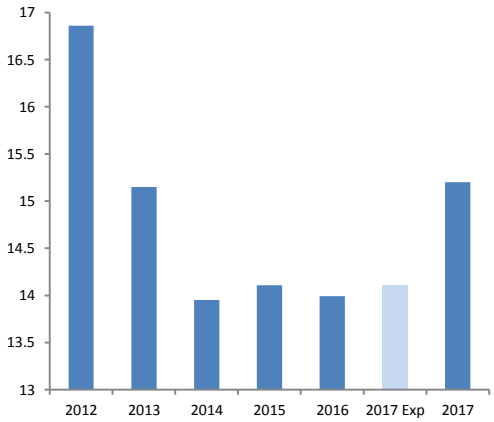
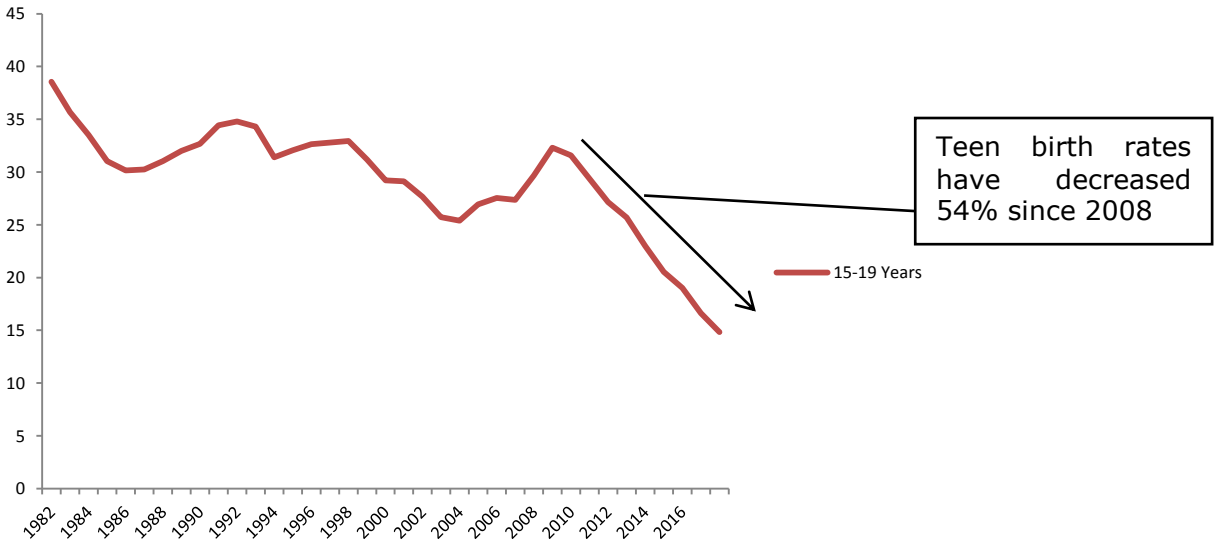


Chart 4.32 shows that the number of youth benefit clients has fallen. The numbers exclude 19 year old YPP clients because before 2016 these people were classified as SPS clients. This allows us to see underlying trend of decreasing client numbers. The decrease predominantly relates to lower numbers of new clients and to YPP in particular. This is at least partly explained by falling teen birth rates (see Chart 4.34).

Chart 4.34 – Birth rates per 1,000 females



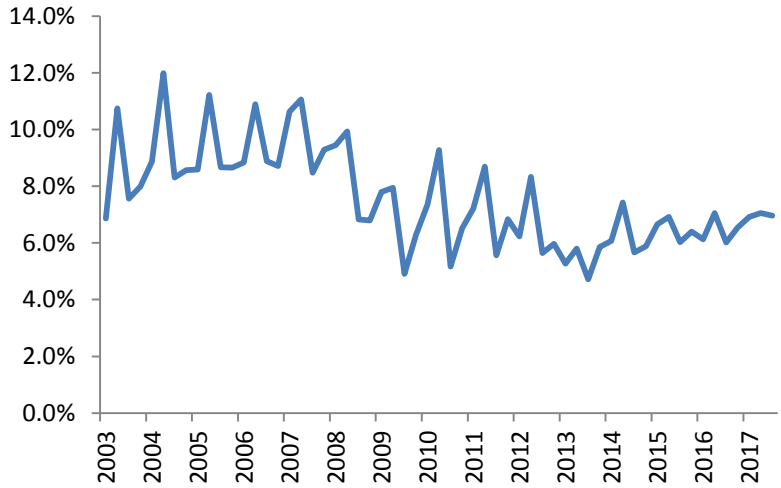
We estimate that if birth rates had remained at the 2010 levels, there would be up to 1,250 more YPP clients and 5,500 more SPS clients today. Some of these people will be receiving a non-child related benefit. Regardless, these estimates highlight that significant societal changes can materially influence the collective need for benefit system support. The trend towards childbirth later in life has undoubtedly had an impact.

The average predicted future years on benefit is higher for youth clients than other benefit categories. This is partly because they have more potential future years on benefit, but also

because entering the benefit system at an early age is predictive of high future benefit receipt. YP/YPP clients are predicted to spend a further 15.2 years receiving a main benefit. This is a significant component of young people's working lifetimes, at a time when we would hope that young people would be building plans for their careers. The modelling tells us that young Māori and young people who have interacted with child protection services spend a particularly long time on benefits. This highlights that investment in our young clients is necessary to help them realise their potential.

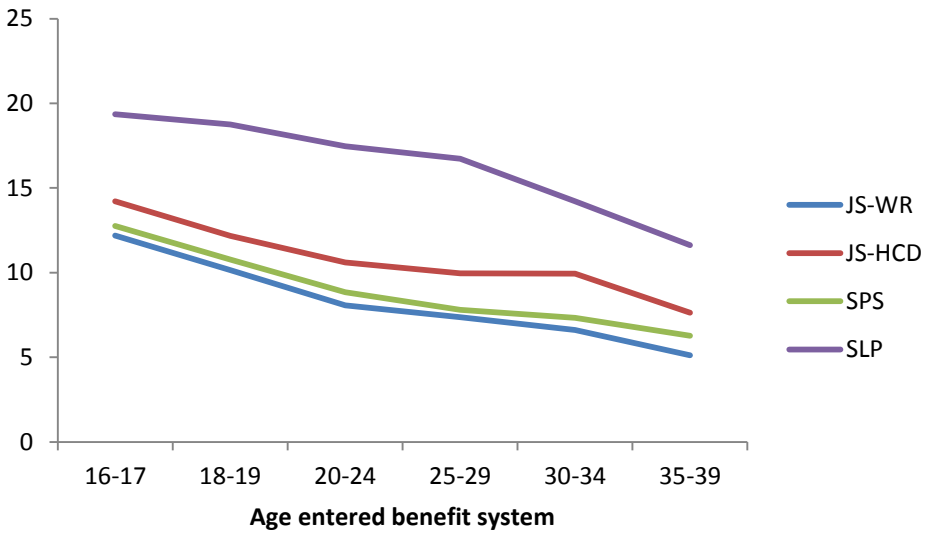
Despite a lower number of youth benefit clients than expected, the average predicted future years on main benefit is 1.1 years higher than expected (see Chart 4.33). This is equivalent to about $40m in future benefit payments for current clients. To understand this increase we consider benefit receipt while people are still young enough to receive youth benefits and subsequent benefit receipt while of working-age. In particular, we look at the rate which people exit from YPP and YP. Chart 4.35 shows a relatively stable rate of exit from youth benefits since 2009.

Chart 4.35 – YPP and YP Exit Rates



The majority of youth benefit clients transfer to a working-age benefit when they reach the age at which they are no longer eligible for YP or YPP. The effect of early entry into the benefit system on predicting future working-age benefit receipt is significant. Chart 4.36 shows the average predicted future years on main benefit for clients currently aged 35-39 years, and how this varies depending on the age a person first enters the benefit system. The significant reduction in future years on benefit for SLP clients who enter after age 30 is likely attributable to the types of conditions these clients have. Cancer, cardiovascular, conditions affecting the nervous system and muscular skeletal conditions comprise 42% of those who first enter aged 35-39 compared to 16% of those who first entered at age 16-17. These conditions likely have higher mortality than the other conditions, and thus reduce the average future time on benefit at later ages.

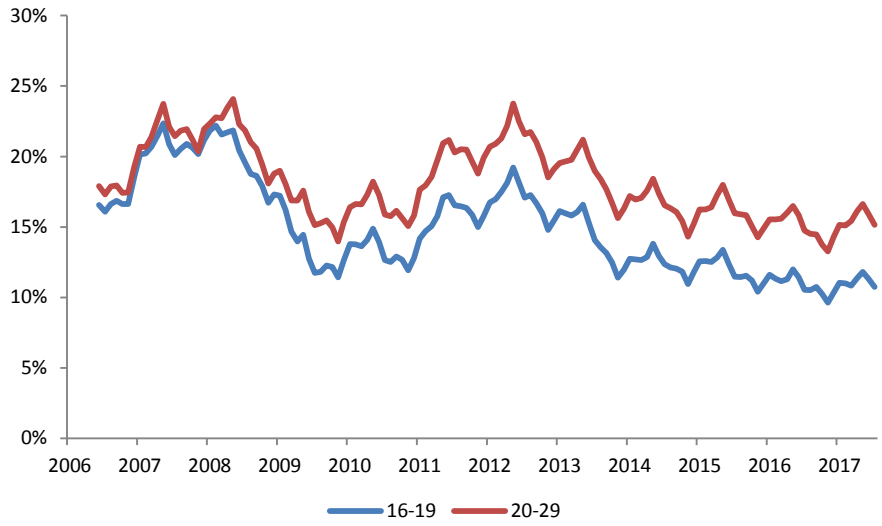
Chart 4.36 – Average predicted future years on main benefit for 35-39 year old clients – by age first entered the benefit system



Early entry to the benefit system is correlated to other factors that indicate high future need for benefit support. Early entry itself is not the reason. However, the chart highlights that by age 35-39 years a deficit still exists. The factors that were limiting their potential when they first entered the benefit in their teens have not been fully rectified to the extent that their future benefit need is the same as any other 35-39 year old clients. Addressing complex factors limiting resilience and potential is not straightforward. However, the case for maintaining or increasing investment in order to enhance or develop effective services for youth benefit clients is strong.

Chart 4.37 shows monthly exit rates for 20-29 year old JS-WR clients. Two lines are shown. One for those that first entered the benefit system during their teenage years, and one for those who first entered aged 20-29 years.

Chart 4.37 – 20-29 year old JS-WR exit rate - by age first on benefit*



* The above exit rates are six month averages

Youth who do not succeed through mainstream education and end up in the benefit system appear increasingly marginalised and distant from reaching their potential.

As discussed in sections 4.1 and 4.2 people are exiting from JS-WR and JS-HCD at a lower rate than before. This has implications for predictions of youth benefit clients' future benefit receipt. In fact, JS-WR exit rates have decreased more for early entrants into the benefit system than for those who enter after age 20 (see Chart 4.37). This is the main reason why we are now predicting youth benefit clients to spend more future time receiving a benefit.

In summary, the change in youth benefit client numbers and their predicted future years on a main benefit reflects three core factors:

1. A lower number of new youth benefit clients, partly driven by lower teen birth rates
2. A slightly lower rate of exit from youth benefits
3. An expectation of a lower rate of exit from working-age benefits for those that transfer to working-age benefits in the future.

This presents a mixed picture. On the one hand fewer youth are needing benefit system support. On the other hand, those that do require support appear to be finding it more difficult to transition into employment. Māori are particularly prominent in this group.

Recommendation 3

We recommend a focus on youth benefit clients who transition to working-age benefits. Where the Youth Service has not provided employment outcomes for these people, a different approach may be required. A specific focus on young Māori is appropriate given their overrepresentation in this group. Particularly those who transition to JS-WR and so don't have core health or child-related barriers to employment.

Young people with work capability who become entrenched in the benefit system undoubtedly have poorer life outcomes relative to their peer group. Generally, they have not come through mainstream education with good qualifications and may have other barriers to employment.

Investment in youth needs to be thought of in terms of the whole social sector. Most social sector agencies identify people using their services at a young age as a focus for investment (particularly Māori). However, unless collective investment recognises the potential of these people across a range of outcomes (and potential cost across a range of services) then its effectiveness may be compromised. Collective government consideration is likely to result in better targeted investment than if each agency focusses on this part of their population in relative isolation.

5. Key client groups

While no two client situations are identical, we can think of people fitting into one of three high-level group:

1. Short-termers – People who have a short-term need for main benefit support, perhaps because they have been made redundant from their job or have a temporary health condition. They may need some support to find alternative employment, but can broadly manage themselves. They have a relatively low likelihood of needing main benefit support again in the near-future.
2. Cycling clients – People who cycle in and out of the benefit system. They have, or will have, a number of spells receiving a main benefit. Their employment history may be characterised by relatively low-skilled employment through temporary or casual contracts. Or perhaps they have recurring health issues that limit their ability to work at times.
3. Sustained need clients – People who have a long-term sustained need for main benefit support, perhaps because of permanent health conditions, and/or other significant barriers to employment.

Table 5.1 below shows the number of clients, and the expected future duration on benefit for each key group. The cycling population has been defined first, using the population analysed below in section 5.1. Sustained needs clients have been defined as those:

- who are main benefit clients,
- currently under 25 who also entered the system before age 20,
- all SLP clients, including carers and partners
- Clients over the age of 25 who have spent over 75% of the last 3 years on a main benefit.

All other clients have been defined as short-termers.

Table 5.1 Client numbers and future years on a main benefit by key client groups

Key Cohort	Client numbers	Future expected years on main benefit
Short-termers	223,292	3.6
Cycling	140,841	9.9
Sustained needs	173,411	11.2

To maximize cost effectiveness of investment, the group a client falls into should influence the level of employment assistance investment the ministry makes in that client. Broadly speaking, clients in group one would receive limited investment. For group two, the focus of investment should be on finding permanent employment and improving client skills to increase the likelihood of this being sustained. Clients in group three are more likely to have complex needs requiring significant investment, potentially across multiple agencies. Some SLP clients have no future capacity to work and so any investment should focus on their quality of life.

Clients who cycle in and out of the benefit system

This group encapsulates a range of potential client scenarios with the unifying trait that they have (or will have) a history of cycling in and out of the benefit system. Common examples include:

- Seasonal workers – who perhaps work consistent seasons (such as fruit picking or freezing works) each year and/or move from one type of seasonal work to the next.
- Temporary workers – who work temporary and/or casual work contracts where the number of hours may be uncertain from week to week. Work contracts may be facilitated by agencies.
- Displaced workers – who may have a long history in a particular industry and/or using particular skills that have declined in demand. They may struggle to hold down employment in industries they are not familiar with.

These examples are not mutually exclusive. For example, seasonal workers are temporary workers and displaced workers may do seasonal work. However, they highlight that there is a variety of client scenarios.

In an economy where nearly 11% of jobs are temporary, it is understandable that people need benefit system support between jobs. Ideally though, people would progress in their careers and move towards more permanent and higher paid employment over time. This could be the focus of employment assistance programmes aimed at these clients.

The proportion of clients that cycle in and out of the benefit system has decreased for JS-WR and JS-HCD and increased for SPS

Understanding the degree of cycling in and out of the benefit system and what drives this is important. While there is no uniquely correct way to define it, a definition has been created to allow us to track the number of 'cycling' clients over time. We have also looked at the amount of investment we are currently making in these clients.

The definition we have used captures clients whose:

- current benefit spell is less than one year; and
- have had two other benefit spells in the last three years.

Two spells with less than 14 days in between are counted as one spell, and spells of less than seven days are ignored. A benefit spell encapsulating more than one benefit category (and hence transfers between benefit categories) is counted as one spell.

Chart 5.1 and Chart 5.2 show how the number of cycling clients and their proportion of all main benefit clients tracks over time. The different lines represent clients' benefit status at the time (and not necessarily their benefit status over the full three years the definition captures).

Chart 5.1 – Number of cycling clients

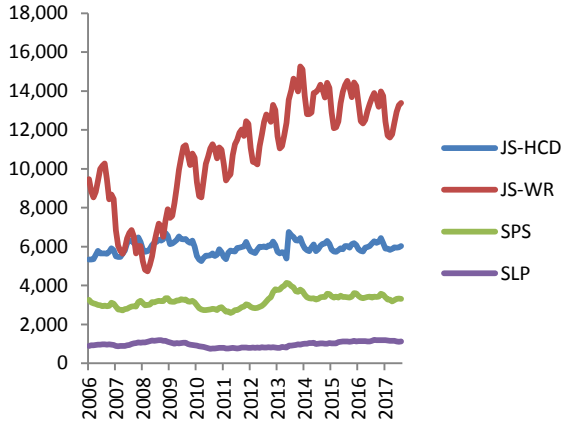
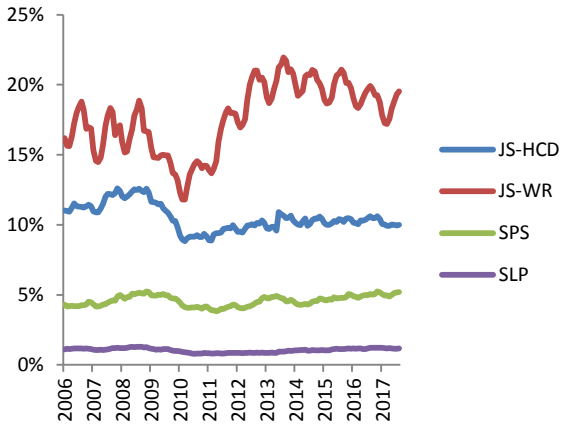


Chart 5.2 – Percent of main benefit clients that are cycling clients



About 20% of JS-WR clients, 10% of JS-HCD clients and 5% of SPS clients fit the cycling definition. There is a small number of SLP clients who fit the cycling definition. For the purposes of this analysis, SLP includes SLP carers and partners. There are a number of reasons as to why these clients are cycling. There is a clear economic effect in how these percentages vary, with decreases evident as people without significant past benefit history entered the system during the GFC. In the last five years the JS-WR and JS-HCD percentages have decreased slightly, whereas the SPS percentage has increased. The SPS increase has potentially been influenced by the strengthening of work obligations as part of Welfare Reform in 2012.

The SLP cycling percentage is low, reflecting the fact that most SLP clients remain on benefit until age 65 and so don't have multiple benefit spells.

Clients who are in receipt of JS-WR benefit, male, young, Māori and/or from Southern/East Coast/Bay of Plenty regions are more likely to cycle in and out of the benefit system than not cycle.

Chart 5.3 to Chart 5.6 highlight that clients who cycle in and out of the benefit system have a different profile to other clients.

Chart 5.3 – Client profile - gender

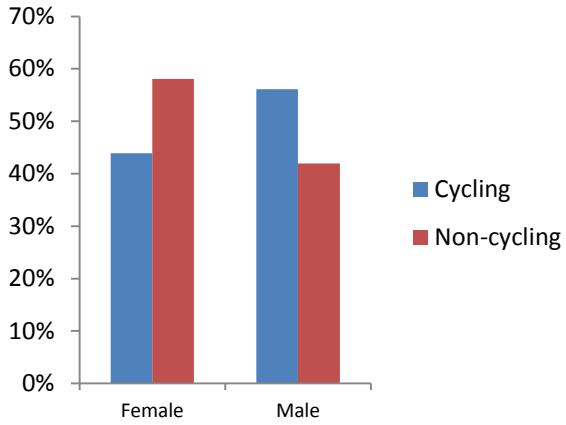


Chart 5.4 – Client profile - age

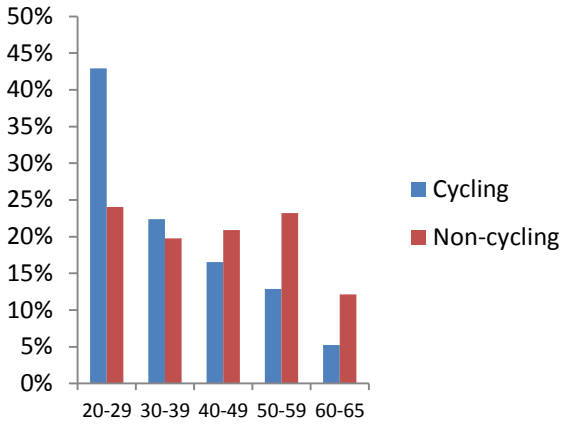


Chart 5.5 – Client profile - ethnicity

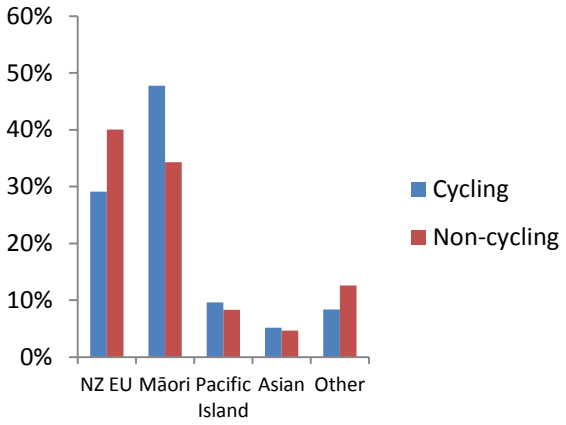
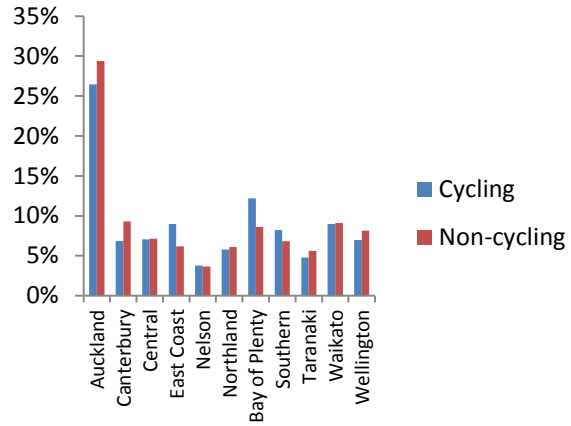


Chart 5.6 – Client profile - region



48% of clients who cycle in and out of the benefit system are Māori, compared to 34% of those that don't. 43% of clients who cycle in and out of the benefit system are aged 20-29, compared to 24% of those that don't. Cycling clients are also over-represented in particular regions. Most notably East Coast, who make up 9% of clients who cycle in and out of the benefit system, but only 6% of those that don't. Bay of Plenty also has an over-representation of cycling clients. This likely reflects the prominence of seasonal work in these regions.

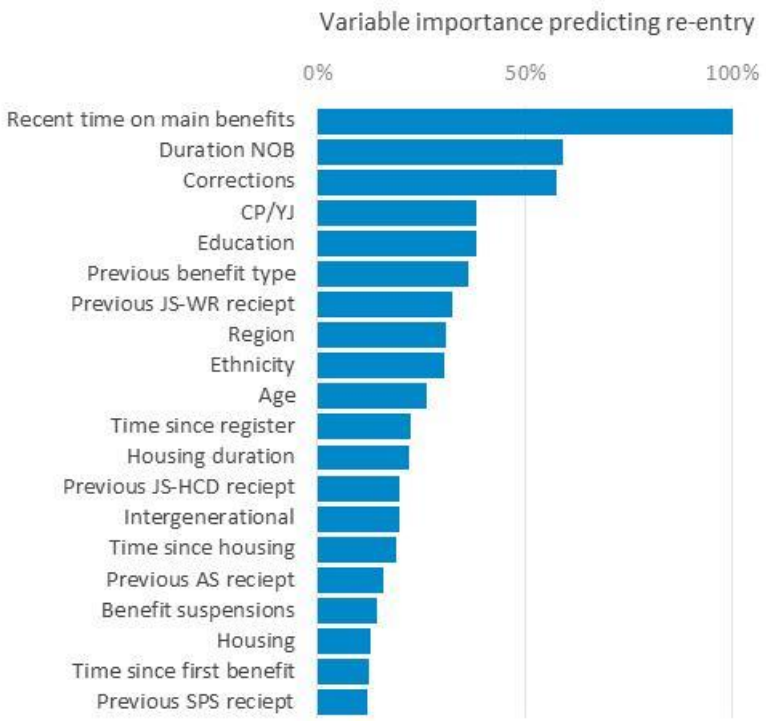
While the level of cycling in and out of the benefit system is non-trivial for all genders, age groups, ethnicities and regions, it is clearly more commonplace for some groups. For example, whereas only 18% of all JS-WR clients fit the 'cycling' definition, 43% of male, 20-29 year old Māori JS-WR clients in the East Coast region do.

Benefit history, criminal convictions, past interaction with child protection services and education status are key factors in predicting re-entry into the benefit system

Chart 5.7 ranks the importance of different variables in predicting re-entry into the benefit system, relative to the most important variable (in this case 'recent time on main benefits').

For example, whether a person has served a corrections spell in the last year is just under 60% as important (or predictive) as their recent benefit history.

Chart 5.7 – Variable importance for predicting re-entry into the benefit system



Source: Annual report on the benefit system for working-age adults as at 30 June 2017

The relationships between the top six variables and the likelihood of re-entering the benefit system are as follows:

- The more recent time receiving a benefit the more likely people are to re-enter.
- The more time a person has been independent of the benefit system the less likely they are to re-enter (NOB = Not on benefit).
- The higher the proportion of the last year a person has been serving a corrections spell the more likely they are to re-enter. Ex-prisoners have a particularly high propensity to re-enter the benefit system on leaving prison.
- If a client interacted with child protection services as a child they are more likely to re-enter.
- The lower a person's educational attainment the more likely they are to re-enter.
- Former JS-WR clients are more likely to re-enter than other benefit categories.

Whilst the above information does not provide any insights into the barriers to employment faced by these clients, nor the wellbeing of these clients, it is useful information when designing and targeting services aimed at sustaining former client's employment outcomes. It can also help with the targeting of investment in clients when they first enter the benefit system (particularly young clients).

Average spend on clients that cycle in and out of the benefit system is about twice that of other clients

Analysis of spend on clients who fit our cycling definition is also insightful. Table 5.2 shows average spend over the last three years for a subset of the benefit population. Spend includes case management and employment assistance programme costs, which we have classified as 'Work-related'. Everything else, including income support costs, are classified as 'Admin'. Costs have been sourced from the ministry's cost allocation model.

Table 5.2 – Spend on clients

benefit	cycle	Admin	Work-related	Total	Number
JS- HCD	no	$1,839	$1,193	$3,032	11,100
JS-HCD	yes	$4,054	$3,076	$7,130	4,694
JS-WR	no	$2,131	$1,710	$3,841	24,235
JS-WR	yes	$3,761	$4,162	$7,924	14,952
SPS	no	$2,783	$1,732	$4,516	10,116
SPS	yes	$4,441	$3,366	$7,807	3,238

For JS-WR, JS-HCD and SPS, spend is much higher on clients fitting the cycling definition. This is the case for both admin and work-related costs, and most apparent for JS-WR clients. To some degree this is to be expected. Clients with multiple spells on benefit will have more interaction with staff due to multiple applications and cancellations (reactive spend). We also know clients fitting the definition are younger on average, and younger clients are more likely to be allocated to the most intensive case management streams.

However, the difference in spend warrants further analysis to give management comfort that resources are being used efficiently.

Table 5.3 – Average future duration

Benefit	Cycle	Future expected years on main benefit
JS-HCD	no	8.5
JS-HCD	yes	11.2
JS_WR	no	8.0
JS_WR	yes	10.9
SPS	no	10.9
SPS	yes	13.2

Table 5.3 analyses the whole benefit population and shows the expected future duration for the whole benefit population and categorized by those who cycle in and out of the benefit system and those who do not. The table shows the expected future duration on benefit for those who cycle in and out of the system is between two and three years higher than those who do not. The table also identifies that the difference in the number of future years on benefit is highest for JS-WR clients.

Further analysis of clients that cycle in and out of the benefit system would be useful. Some things to consider are:

- The effectiveness of employment assistance programmes for clients fitting the definition compared to the effectiveness for those that don't.
- whether some clients are accessing the same employment assistance programme multiple times, and if so, whether that is appropriate.
- the types of employment clients fitting the cycling definition are taking up or being supported into.
- the extent to which returning clients are being streamed to the same case manager or not (if they are one-to-one case managed). There may be efficiencies in doing so, but also potential value in trying people with a different case manager. This could be tested.

Sustained need clients

Our modelling confirms intuition that those who have spent a long time receiving a benefit already have the highest average predicted future years on benefit. Table 5.4 below shows the differences in future benefit receipt expectations for 35-39 year old clients depending on how long they have currently been on benefit for.

Table 5.4 – Average predicted future years on main benefit 35-39 year old clients– by current duration

	Current Duration					
Benefit Category	**0-1 yrs**	**1-2 yrs**	**2-3 yrs**	**3-5 yrs**	**5-10 yrs**	**10+ yrs**
JS-WR	9.1	10.8	11.8	12.6	13.3	13.3
JS-JCD	11.0	12.7	13.4	14.1	14.1	15.8
SPS	9.2	10.0	10.6	11.2	12.1	13.8
SLP	14.5	15.3	16.5	17.3	19.0	21.0

Prolonged absence from the workforce can have a detrimental effect on confidence, skills, motivation and prospective employers' perception of a person.

83% of SPS clients whose youngest child is aged 3-13 have been receiving a main benefit continuously for at least one year. Based on existing benefit eligibility criteria these clients are deemed work capable and have the obligation to be looking for work. Understanding the barriers to work these clients face may enable the Ministry help more people into sustainable employment.

Low level investment may not fundamentally change the outcomes of long-term clients

Prolonged absence from the workforce may indicate the presence of issues beyond just loss of employment. These clients' needs can be complex and often span multiple government services. In many cases, a high degree of investment will be required to fundamentally change their long-term outcomes. With finite Ministry resources available, investment must be prioritised and allocated to those areas where it is most effective.

Investment is likely to be more effective at the point people first enter the benefit system, since barriers to employment can increase with time out of work

As a general statement, the longer a person remains out of the workforce, the harder it is to find suitable employment. It may prove beneficial to identify which work capable first-time clients are most likely to become sustained need clients, so that investment can be directed to them. The modelling suggests that the following factors are important:

- Age – particularly clients who first enter the benefit system as a teenager.
- Clients with a history of interaction with child protection services as a child.
- Low education achievement.
- Clients with criminal convictions.
- Clients who were supported by a parent or caregiver on benefit during their childhood.

Māori clients are also overrepresented in this group.

This further highlights the case for investment in young clients, and the identification of effective services to help improve their lives. This is particularly true for Māori clients where current services offered appear to have a lesser effect.

Māori clients

Māori are over-represented in the benefit system and are expected to spend more time receiving a benefit than other ethnicities.

They also feature prominently in the 'cycling' and long-term client populations discussed in sections 5.1 and 5.2. They represent about 15% of the general population and about 35% of main benefit clients. The degree of over-representation has only increased since the Global Financial Crisis (GFC). In 2007, 30% of main benefit clients were Māori, as was the case for many years prior. This tells us two things:

1. Non-Māori have been able to exit the benefit system in greater numbers than Māori, as labour market conditions improved post-GFC
2. No significant gains have been made in addressing the reasons why Māori are over-represented in the benefit system

Table 5.5 - Average predicted future years on main benefit for Māori and Non-Māori clients

Segments			Māori				Non-Māori				2017 % Maori clients
			Actual client number 2017	Avg future years 2017	Avg future years 2016	% Change	Actual client number 2017	Avg future years 2017	Avg future years 2016	% Change	
Under 25s	First ben aged < 20	YP/YPP	1,376	17.2	16.0	7.0%	1,090	12.7	11.6	9.8%	55.8%
		JS-WR/EB	7,888	15.2	14.1	7.9%	7,791	9.6	8.9	8.5%	50.3%
		JS-HCD	2,123	17.9	17.5	2.6%	4,180	13.4	12.7	5.6%	33.7%
		SPS	6,047	16.2	15.0	7.6%	4,653	11.9	11.1	6.9%	56.5%
	First ben aged > 20	JS-WR/EB	1,095	9.8	9.6	1.9%	2,201	5.4	5.2	3.5%	33.2%
		JS-HCD	336	12.3	13.0	-4.9%	1,112	8.9	8.5	5.1%	23.2%
		SPS	600	11.8	11.7	1.4%	911	8.5	8.4	1.3%	39.7%
	SLP		2,134	24.3	24.1	0.6%	5,771	24.3	24.2	0.5%	27.0%
Over 25 and on a main benefit	>75% of last 3yrs on main benefits	JS-WR/EB	13,774	11.6	11.7	-0.9%	15,549	8.2	8.1	1.2%	47.0%
		JS-HCD	11,321	11.3	11.8	-4.0%	25,962	8.9	9.0	-1.1%	30.4%
		SPS Chd 0-2	5,391	15.5	15.4	0.3%	3,889	12.1	12.2	-1.0%	58.1%
		SPS Chd 3-13	13,412	13.0	12.8	1.6%	14,722	9.9	9.6	3.4%	47.7%
	<75% of last 3yrs on main benefits	JS-WR/EB	9,820	8.8	9.1	-3.2%	16,851	5.5	5.6	-1.4%	36.8%
		JS-HCD	5,502	9.1	9.5	-4.5%	14,710	6.7	6.8	-1.7%	27.2%
		SPS Chd 0-2	1,990	11.0	10.7	2.8%	3,158	8.1	7.9	1.9%	38.7%
		SPS Chd 3-13	3,203	9.6	9.4	2.1%	5,546	6.9	6.7	2.7%	36.6%
	Supported Living	Carer	3,163	10.9	10.9	-0.7%	5,187	8.9	9.1	-1.9%	37.9%
		Partner	1,547	8.7	9.3	-7.2%	5,527	7.1	7.4	-3.1%	21.9%
		No reassessment	5,964	12.1	12.3	-2.0%	24,058	11.6	11.7	-0.6%	19.9%
		2yr Mental health	5,402	15.1	15.8	-4.3%	14,798	12.9	13.0	-0.7%	26.7%
		2yr Other	8,109	9.0	9.4	-4.2%	20,502	8.4	8.6	-2.1%	28.3%
NOMB	>33% last 5 yrs on main benefit		10,304	5.7	6.0	-4.2%	20,612	3.6	3.7	-4.0%	33.3%
	<33% last 5 yrs on main benefit		10,336	3.3	3.6	-7.0%	64,192	1.8	1.9	-6.6%	13.9%
Recent Exits	>33% last 5 yrs on main benefit		26,667	8.8	8.6	2.2%	37,055	4.8	4.7	2.3%	41.8%
	<33% last 5 yrs on main benefit		13,622	4.4	4.6	-5.2%	46,391	2.1	2.1	-3.7%	22.7%

Table 5.5 above shows that Māori are over represented in the benefit system, and are predicted to spend longer in the benefit system compared to non-Māori.

The table also shows that for many segments of the benefit system, Māori appear to have had lower increases in the average predicted future years on main benefit compared to 2016 than Non-Māori clients. The change in future duration between 2016 and 2017 in the table above includes impacts from methodology changes, changes to the composition of the group of clients, and recent experience. When we adjust the 2016 values for methodology changes the increase is higher for Māori than Non-Māori.

Over-representation could be symptomatic of a skew towards temporary employment. Pacific People are also significantly over-represented. What sets Māori apart though, and is concerning, is the fact that they are over-represented and expected to spend a more time receiving a benefit in the future.

Collectively the labour market and the benefit system appear to not be performing well for Māori clients. They have not benefited from the post-GFC economic recovery to same extent as other ethnicities. As mentioned in the 2017 investment strategy, services offered to beneficiaries have not been as successful with Māori clients compared to other ethnicities.

Chart 5.8 – Māori vs non-Māori client numbers

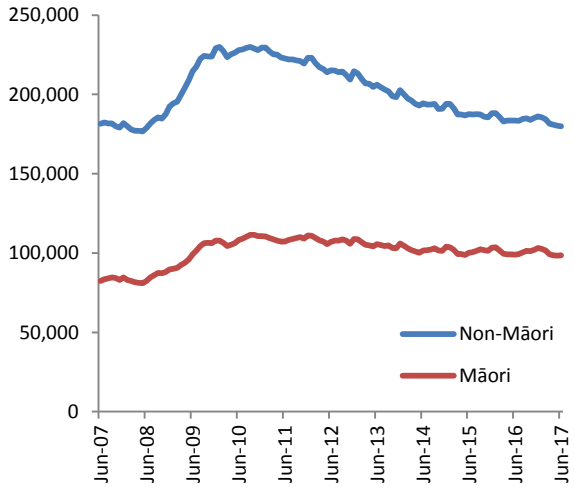
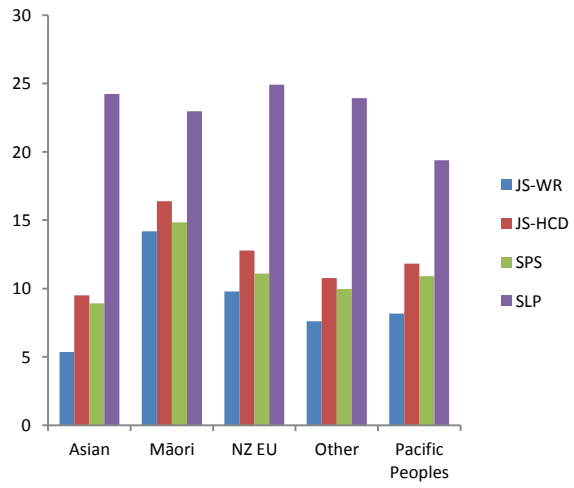


Chart 5.9 – Average predicted future years on main benefit – by ethnicity (20-29 year olds)



Since client numbers peaked in 2009, Māori client numbers have decreased slightly by 9%. Non-Māori client numbers have decreased by 22%.

Chart 5.9 is limited to 20-29 year olds because the Māori client population has a different age profile to other ethnicities and this would otherwise skew the comparison. The differences are significant. For example, Māori JS-WR clients are predicted to spend an average of 14.2 future years on benefits, compared to 9.8 years for NZ Europeans and 8.2 years for Pacific People.

It is unclear why Māori spend more time on benefits. Regional mix, mainstream educational attainment and levels of deprivation do not appear to be significant factors.

Our modelling allows us to attribute differences to each variable used to inform the models (see Chart 5.10 and Chart 5.11). This analysis is framed around the expected future benefit

cost output of the modelling. Expected future benefit cost is highly correlated to expectations for future time on benefit, so it is useful for understanding differences by ethnicity.

Chart 5.10 – Factors contributing to differences in future benefit cost – Under 25 year old Māori JS-WR clients

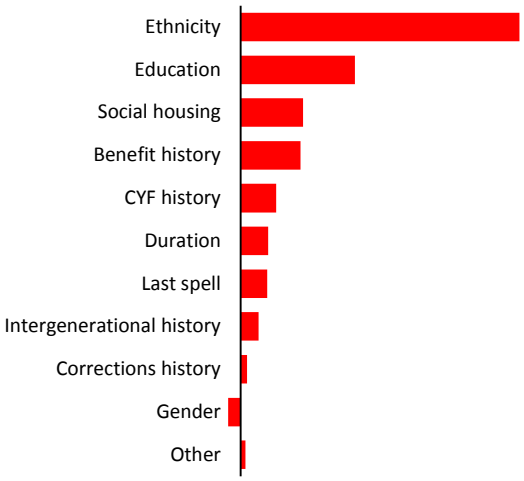
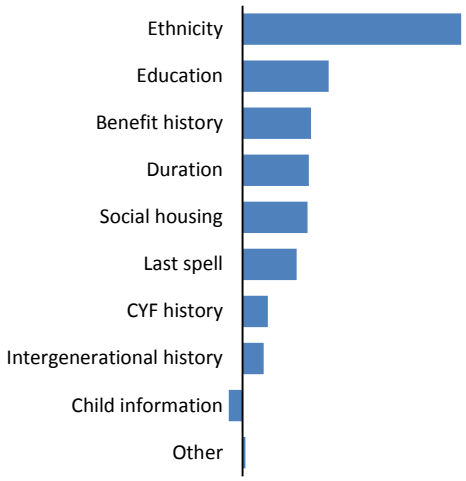


Chart 5.11 – Factors contributing to differences in future benefit cost – Under 25 year old Māori SPS clients



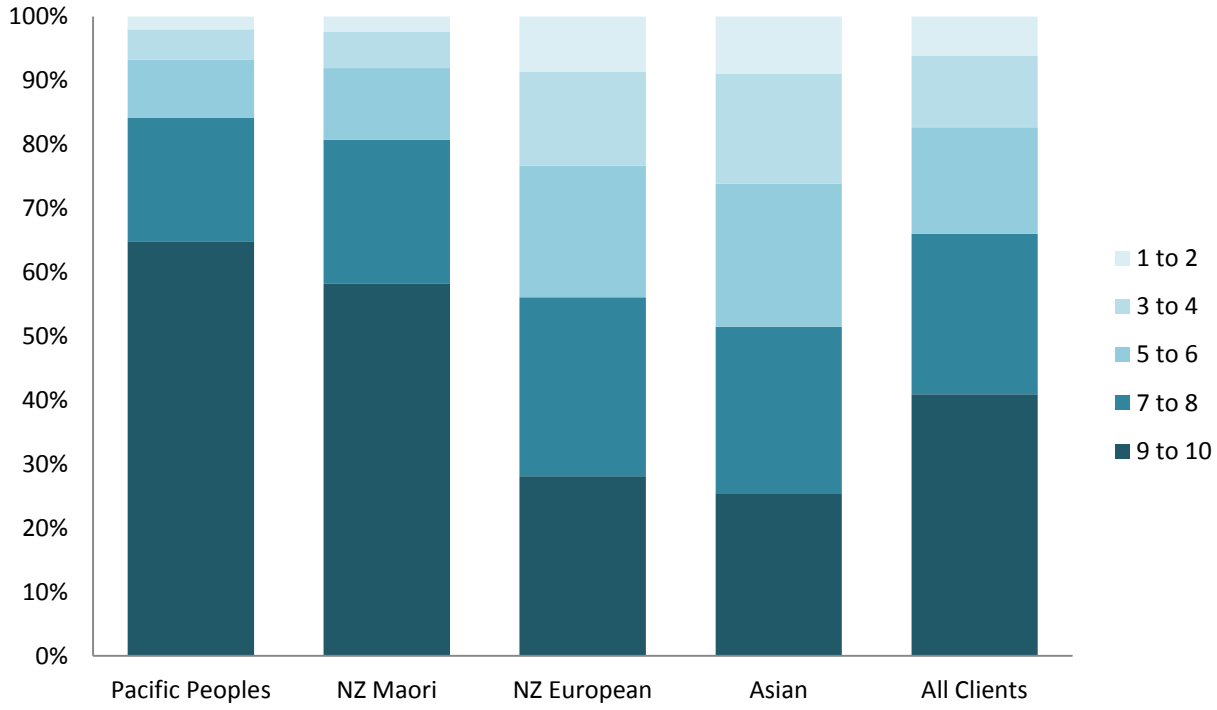
Each bar in Chart 5.10 and Chart 5.11 represents how much differences between Māori and non-Māori in respect of that variable contribute to differences in future expected benefit cost. For example, in Chart 5.10 for under 25 year old JS-WR clients, the second red bar titled 'education' represents how much the differences in levels of educational attainment contribute to differences in future expected benefit cost. Māori on average have a lower level of educational attainment, which is associated with higher future expected benefit costs on average. So this variable serves to increase our expectation of future expected benefit cost relative to non-Māori.

The ethnicity variable that informs the model is the single biggest contributing factor to differences in expected future benefit cost, even after controlling for other variables. This does not mean that the differences are specifically driven by people's ethnicity but rather that a large part of the differences relate to unknown factors correlated to ethnicity.

We have also considered the extent to which Māori experience high levels of deprivation. This is not a factor directly captured in the modeling. However, using 2013 census data we can build up a picture of deprivation by ethnicity. The deprivation index[5] combines a number of factors based on the 2013 census to determine an area's extent of deprivation on a scale from 1 to 10. 1 indicates an area that is in the least deprived 10% of areas in NZ, 10 indicates an area that is in the most deprived 10% of areas in NZ. Some of the factors relate to potential barriers to finding and sustaining employment e.g. poor access to transport and the internet.

[5] Refer to the following link for further information on the deprivation index
http://www.otago.ac.nz/wellington/departments/publichealth/research/hirp/otago020194.html

Chart 5.12 – Deprivation index rating distribution – by ethnicity



Approximately 40% of main benefit clients live in an area with a deprivation index rating of 9 or 10. A further 25% live in an area with a rating of 7 or 8. However, Pacific People, who have low expected future benefit cost, live in areas with the highest degree of deprivation on average. So, while living in an area of high deprivation has some impact, it is unlikely that deprivation is the core reason why Māori have high predicted future benefit receipt relative to other ethnicities.

Differences in average future benefit cost by ethnic group are only partly explained by differences in age, gender, region and education level. The modelling attributes most of the differences to unknown factors correlated to ethnicity. Ideally we'd know specifically what these factors are. However, it is plausible that the answer is not contained in available data. Management should focus on the fact that the disparity exists and explore service changes that may help improve outcomes for Māori clients.

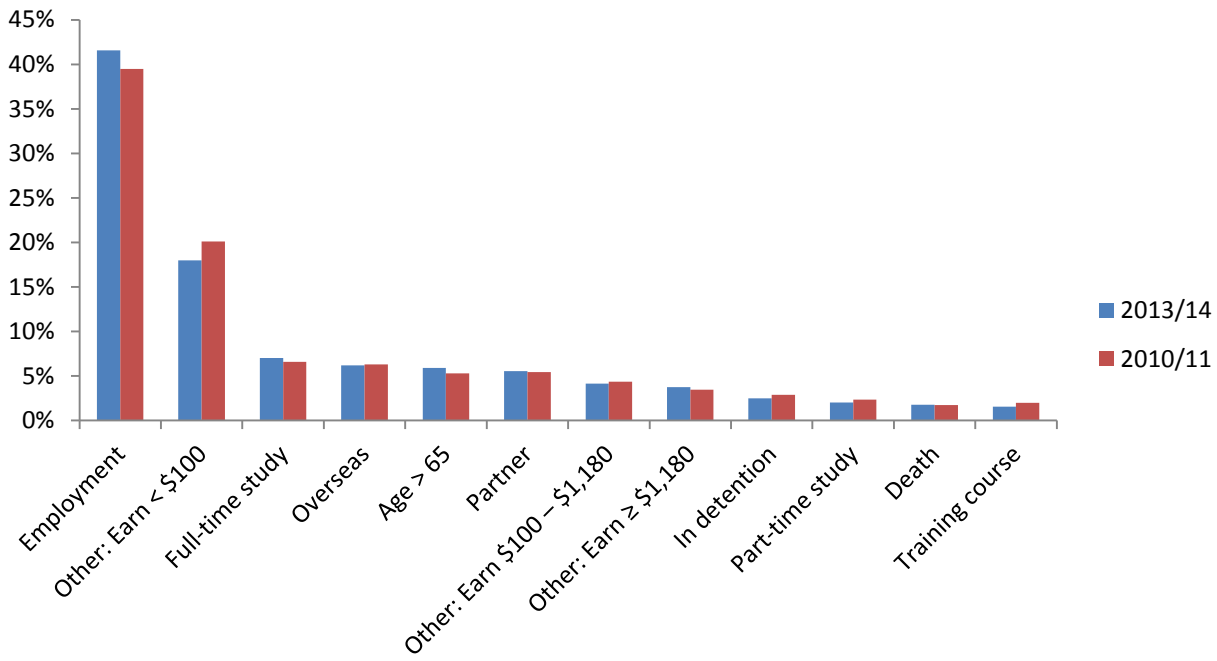
6. Off-benefit outcomes

This report uses modelling of future years on benefit to help understand the groups of people at risk from negative effects of sustained unemployment. To complement this view of benefit receipt, research has been carried out on people's outcomes once they stop receiving a main benefit. The research has been performed in Statistics New Zealand's Integrated Data Infrastructure, using a range of data (including tax information) to build a picture of people's primary activity in the 18 months after they stop receiving a main benefit.

In this chapter we summarise some of the key findings of the research and how they help us form judgments on whether people are better off when they stop receiving a main benefit. Further detail can be found in the full research report[6]. The intent is to repeat the research on an annual basis so that changes in outcomes can be identified. The research will focus on a broader range of outcomes in the future and integrate with the development of our modelling work.

People stop receiving a main benefit for a variety of reasons. While employment is the most common reason, more than half stop for other reasons.

Chart 6.1 – Reason for stopping receiving a main benefit



About 40% stop receiving a main benefit due to employment. Some people who stop for other reasons (e.g. full-time study) also earn income, but employment does not appear to be the primary reason. The difference in reasons between 2013/14 and 2010/11 is relatively small, albeit there are some more material differences at benefit category level. In particular, the proportion of SPS client stopping receiving a main benefit due to employment increased from 37.2% to 42.8%. Welfare reform phase II (2012) strengthened work

[6] Judd E., Sung J. (2018) *What happened to people leaving the benefit system during the year ended 30 June 2014*, Ministry of Social Development

obligations for SPS clients with school-aged children. This is likely to have influenced this increase.

Reasons for stopping receiving a main benefit vary significantly by benefit category

*Table 6.1 – Reason for stopping receiving a main benefit (2013/14) - by benefit category**

Exit Reason	2013/2014				
	JS-WR/YP	JS-HCD	SPS/YPP	SLP*	All
Death	0.2%	1.2%	0.2%	19.9%	1.8%
Age > 65	2.3%	5.4%	0.2%	41.5%	5.9%
Overseas	5.3%	8.2%	7.0%	4.7%	6.2%
In detention	2.1%	5.0%	1.1%	3.6%	2.5%
Training course	2.1%	0.7%	1.3%	0.3%	1.5%
FT Student	9.3%	7.1%	4.7%	0.3%	7.0%
PT Student	2.4%	2.0%	1.9%	0.2%	2.0%
Employment	49.0%	33.7%	42.8%	7.9%	41.6%
Other earnings >=1180 per month	3.4%	2.6%	6.3%	1.4%	3.8%
Other - Partner	1.2%	3.9%	19.2%	1.9%	5.5%
Other, earning $100 to $1180 per month	4.9%	4.0%	3.4%	0.8%	4.1%
Other, earning <$100 per month	17.8%	26.2%	11.7%	17.6%	18.0%

*Includes SLP-HCD only (does not include SLP carer)

About half of JS-WR clients stop receiving a main benefit due to employment. This is much higher than other benefit categories. Also a relatively high proportion of JS-WR clients go into some form of study or training. So most instances of people stopping receiving a main benefit appear to be a positive outcome.

30% of JS-HCD clients who stop receiving a main benefit fall into the 'Other, earning <$100 per month' or 'Other, earning $100 to $1180 per month' categories. For these categories we do not have a good understanding of the person's circumstances and how they are financially supporting themselves or being supported by others. This is a concern, given the high prevalence of mental illness amongst JS-HCD clients.

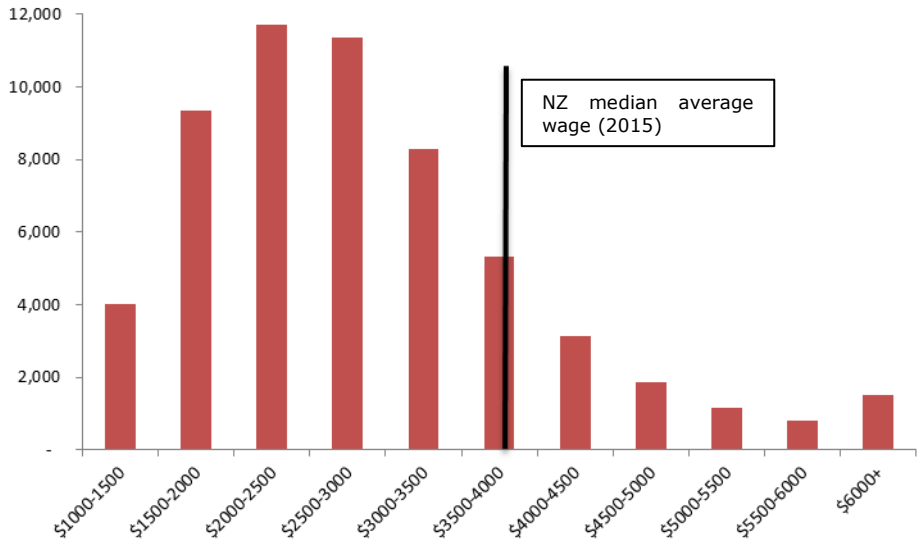
Clients who fall into one of the two categories above are not necessarily experiencing poor outcomes. However, qualitative research could help us understand if there are vulnerable people not receiving the support they need.

19% of SPS clients stop receiving a main benefit because they are financially supported by a partner. This is significantly higher than for other benefit categories.

Over 40% of SLP clients stop receiving a main benefit because they reach age 65 and are eligible for NZ Super. A further 20% pass away, highlighting the severity of health conditions that some clients experience. About 8% of SLP clients stop receiving a main benefit due to employment. While this is much lower than for other main benefit categories (and the exit rate from SLP is relatively low), it does highlight that employment is possible for some. The 8% is achieved with relatively little operational focus on SLP clients and could conceivably be much higher with increased investment. As stated in recommendation 2 in section 4.4, we recommend an ongoing source of funding to trial new approaches to support SLP clients into work, given the size of the population and the potential to improve wellbeing.

Former main benefit clients' taxable income is relatively low. Taxable income varies significantly by industry.

Chart 6.2 – Initial taxable monthly income for those stopping receiving a main benefit due to employment (2013/14 exits)



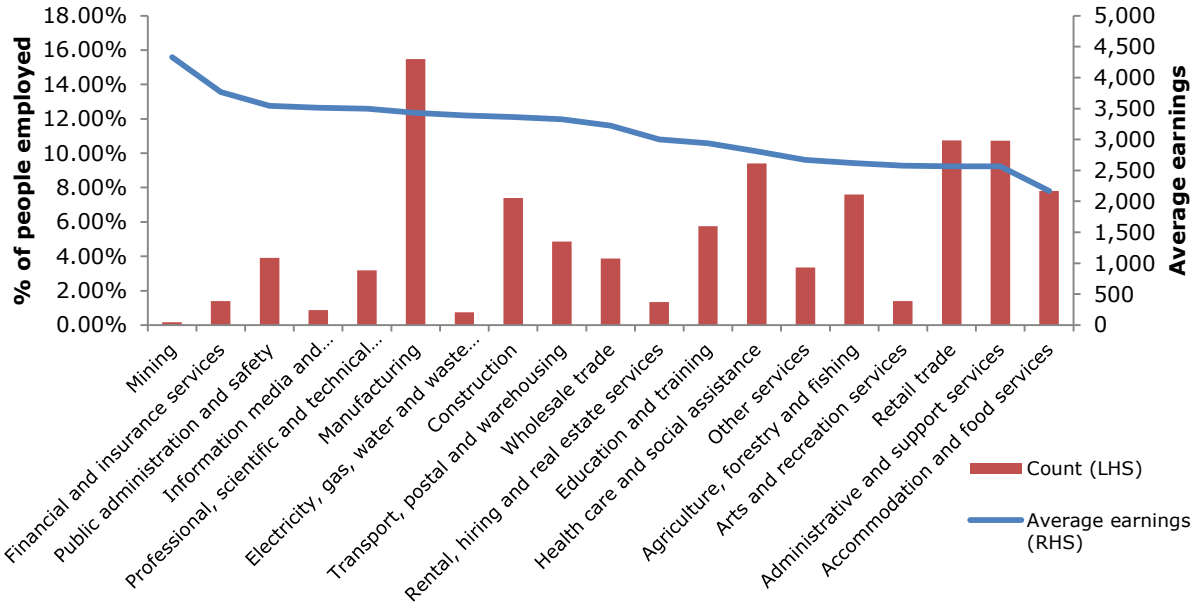
The remainder of this chapter defines people exiting to employment as people identified as exiting to employment, as well as those exiting to an income greater than $1,180 (the equivalent of 20 hours per week at minimum wage). The median average taxable income, for those in employment was $2,700[7] a month (or $32,000 annualised), with 76% earning below $3,500 a month. For comparison, the median average wage for New Zealand as a whole in 2015 was $45,760 and the minimum wage was $14.75 an hour (or $30,680 if working 40 hours per week). This indicates former main benefit clients' taxable income was relatively low.

Future versions of this research are expected to include supplementary benefit payments and tax credits to enable a comparison of total income before and after stopping receiving a main benefit.

Chart 6.3 shows the average taxable income for those stopping receiving a main benefit due to employment, split by industry type. The proportion of those moving into employment in each industry is also shown.

[7] For the purposes of this off-benefit research, the income figures are indexed to December 2015.

Chart 6.3 – Average monthly taxable earnings over 18 months for those stopping receiving a main benefit due to employment (2013/14 exits) – by industry type



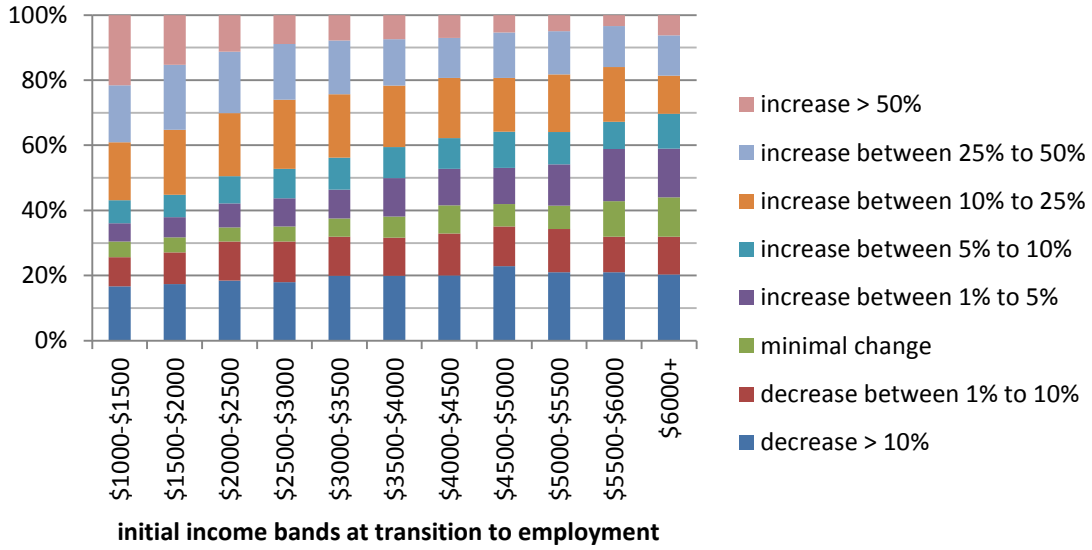
The range is significant. Amongst industries with more than 5% of those moving into employment, average taxable income varies from $2,170 per month (Accommodation and food services) to $3,429 (Manufacturing).

69% of those who sustain employment for the 18 months increased their taxable income in line with or by more than inflation

58,500 people stopped receiving a main benefit in the year to 30 June 2014 and were earning substantial income[8]. Of these, 21,500 (or 37%) sustained substantial income for the next 18 months. This is a relatively low proportion and as noted in chapter five, a lot of clients cycle in and out of the benefit system, or some may have had reduced income for a period and so were not included.

[8] Substantial income was assumed to be at or above $1,180 per month

Chart 6.4 – Taxable income growth over 18 months for those sustaining employment for the full 18 months (2013/14 exits) – by initial taxable income band



The proportion of people in each real taxable income growth band (i.e. growth above inflation) varies depending on the initial taxable income band. Broadly speaking, the lower the initial taxable income, the more likely somebody was to experience real taxable income growth. Conversely, the higher the initial taxable income, the less likely somebody was to experience real taxable income growth. Therefore the range in incomes, for those who sustained employment for 18 months following an exit, has decreased over the 18 months. Collectively this represents a reduction in income variation over the period.

It is likely that a high proportion of income growth shown in Chart 6.4 stems from increased hours rather increases in hourly income. However, the available data does not allow us to conclude this for sure. Similarly, instances of decline in income are likely to stem from decreased hours.

18 months after stopping receiving a main benefit due to substantial employment, about 58% were employed and about 23% were receiving a main benefit.

Chart 6.5 – Main activity in 18 month period after stopping receiving a main benefit due to substantial employment (2013/14)

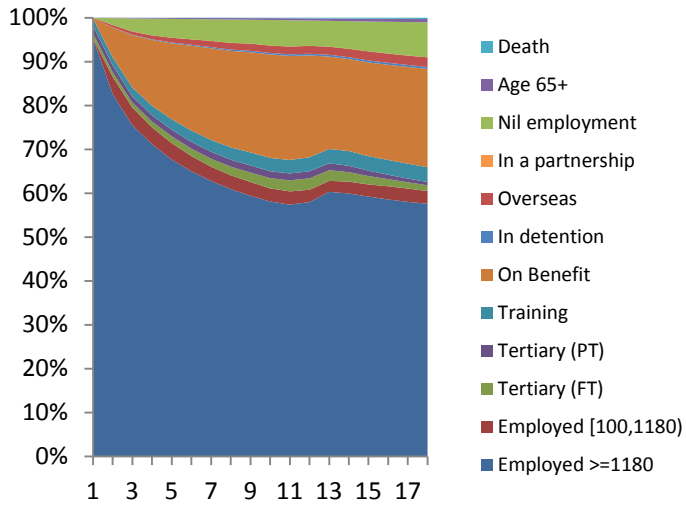
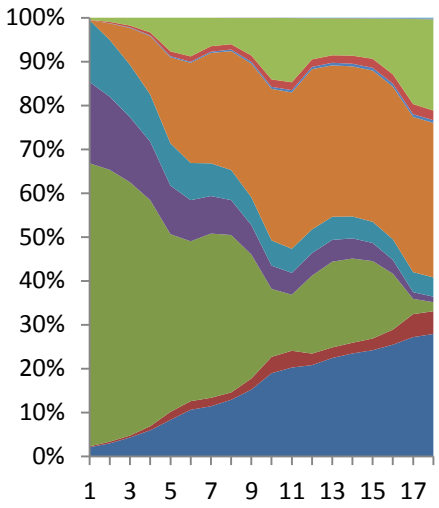


Chart 6.6 – Main activity in 18 month period after stopping receiving a main benefit due to study or training (2013/14)



The research tracks people for 18 months after they stop receiving a main benefit. Chart 6.5 shows, for the 58,500 people who stopped receiving a main benefit in the year to 30 June 2014 as a result of earning substantial income, the different activities they were engaged in over that period.

Chart 6.6 shows the same for people who stopped receiving a main benefit due to study or training. After 18 months, only 8% have study or training as their primary activity. Also, compared to those who stopped receiving a main benefit due to employment, relatively few have employment as their primary activity (28% vs 60%). In fact, a higher proportion are back receiving a main benefit (35%). It is hard to judge if this is a reasonable level or not, and it is not clear from the data whether it relates to the quality and applicability of some courses being taken. An element of those returning to benefit may be as a stop gap after finishing education while seeking employment. Nevertheless, intuitively, the proportion returning to benefit feels high. The courses are an investment in people's future, so we would hope to see a higher proportion employed once they have completed their courses.

Recommendation 4

We recommend work is undertaken to understand why a relatively high proportion of people who stop receiving a benefit to study or train return to benefits. This may include qualitative and further quantitative research.

Overall from this research we can conclude that initially most off-benefit outcomes appear positive. Most people (56%) who stop receiving a main benefit are in substantial employment or study/training. The primary poor outcome appears to be return to benefit, which is particularly noteworthy for those who exit benefits into education. There are some areas where it would be useful to develop this research to further understand outcomes, most notably in respect of JS-HCD clients who exit to apparently low income and the nature of salary progression for some clients.

7. Public housing

MSD has been modelling expected future benefit receipt for clients as an annual exercise since 2011. In 2015 the modelling was expanded and enhanced to include expected future public housing use. These two modelling outputs have been reported on separately, though they are modelled together.

The quality of public housing data does place some limitations on the conclusions we can draw from the modelling. In particular, system changes, gaps in historical data and challenges in matching to the benefit system population have all created material data issues. In some cases this makes it difficult to be certain whether changes in the data reflect genuine changes in the system or not. We have taken this into account when drawing conclusions in this chapter. Assuming no significant system changes going forward, we expect data quality and consistency to improve.

The inclusion of public housing was the first step towards a person-centric consideration of broader outcomes. The future intent is to move the modelling into Statistics New Zealand's Integrated Data Infrastructure (IDI) so that a broader range of outcomes and wellbeing measures can be considered.

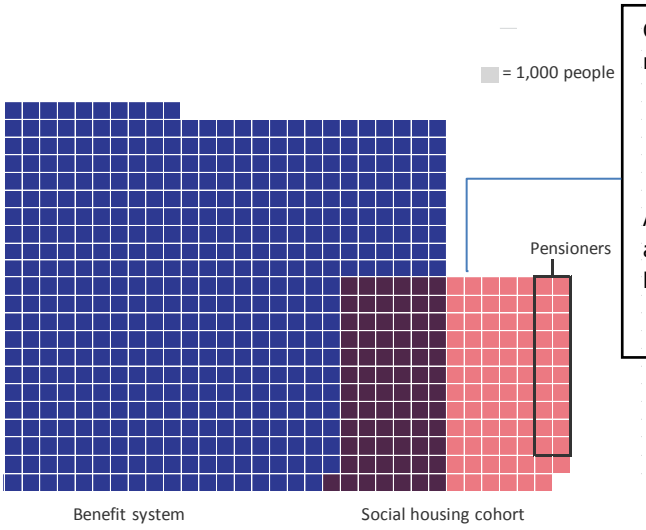
Relationship with the benefit system

The benefit and public housing systems are linked in many ways. They both provide a safety net for people who need support in providing the basic necessities of life (food, shelter etc). The need is often, though not always, because people can't afford basic necessities, perhaps because they are unemployed or their income is relatively low. Both systems specifically target affordability of accommodation costs. The public housing system provides a supply-side solution, offering accommodation directly. The benefit system provides demand-side solutions, principally through the Accommodation Supplement (AS) and the Temporary Additional Support (TAS) benefits.

About 50% of working-age tenants do not receive a benefit and appear to have less financial need for public housing than those on the register

While people cannot be a public housing tenant and receive AS, there is a significant overlap between the two systems. Chart 7.1 visually represents the size of the two systems and the overlap between them.

Chart 7.1 – Benefit and public housing system populations



Of working-age people in public housing, but not currently receiving a benefit:

- 11% received a benefit 1-3 years ago
- 7% received a benefit 3-5 years ago
- 8% received a benefit 5-10 years ago

A high portion are Pacific people and in Auckland, with larger average household size and lower average age than public housing tenants on benefit.

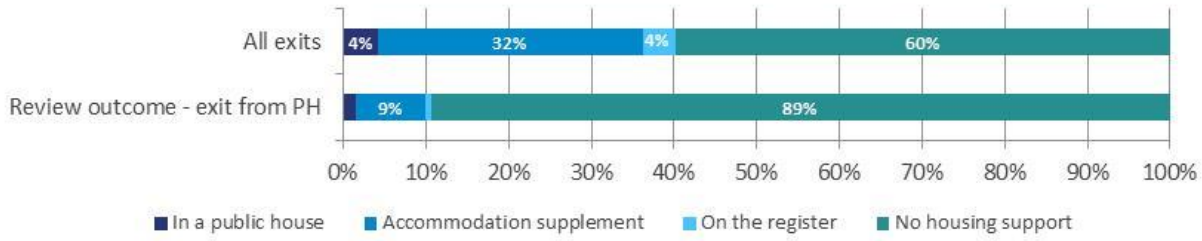
Source: Annual report on the public housing system as at 30 June 2017

With social outcomes in mind for New Zealand overall, it is sub-optimal to have people in public housing with less need than those on the register. Public housing supply is relatively fixed in the short-term and can't respond quickly to demand. Hence, until more stock becomes available, to free up public housing for those on the register, services are needed to support those close to the private market out of public housing.

Tenancy reviews appear to have been effective in freeing up public houses for high need people on the register

Tenancy reviews have resulted in a number of households exiting public housing. A limited housing stock means that a transition to private housing allows another household to be placed. The reviews have typically been targeted at those who are closest to being able to afford the private housing market. Particularly, 'market renters' who pay the full market rent on their public house and so do not benefit from any Income Related Rent Subsidy (IRRS). Around 1,200 households exited housing prior to 30 June 2017 as a result of a tenancy review. With an expected future duration in housing of 12 years, this results in 14,000 years of re-directed public housing support. Observing exits associated with a tenancy review and comparing them to other exits we see the following mix of statuses one year after exit.

Chart 7.2 – Housing status one year after exit (exits prior to 30 June 2016)



While it is too early to draw firm conclusions, exits associated with a tenancy review have to date had a relatively low rate of re-entry into public housing and relatively few are in receipt

of Accommodation Supplement. This implies that the reviews have been effective in identifying people with a lower need for housing support

Performance of the public housing system

A segmentation structure has been created for reporting public housing modelling results. The segmentation focusses on a number of dynamics including age, IRRS level, the existence of children in the household and benefit status of the primary tenant. This is represented in Table 7.1.

The register has grown in size significantly. Particularly for priority A households. The financial gap to affording private housing has increased for most tenants.

Table 7.1 – Public housing modelling results by segment

Segment				2017 Modelling		2016 Modelling		% Change	
				# Households [Inidividuals]	# future years in social housing	# Households [Inidividuals]	# future years in social housing	# Households [Individuals]	# future years in social housing
On register	Priority A			4,520	11.6	2,808	10.7	+61%	+8%
	Priority B and other			1,955	7.8	1,494	7.1	+31%	+11%
	Sub-total			6,475	10.5	4,302	9.4	+51%	+11%
IRRS recipients, primary aged < 65	Less close / IRRS > $150	Child in the household	Work obligated	9,028	20.0	8,575	19.9	+5%	+0%
			Not work obligated	8,733	20.2	8,405	20.4	+4%	-1%
			NOMB	8,345	19.9	7,577	19.5	+10%	+2%
		No child in the household	Work obligated	1,833	16.8	1,757	16.6	+4%	+1%
			Not work obligated	10,725	17.2	9,647	17.9	+11%	-4%
			NOMB	3,698	16.8	3,309	16.6	+12%	+2%
	Closer / IRRS ≤ $150	Child in the household	Work obligated	1,020	14.6	1,351	14.6	-25%	-0%
			Not work obligated	856	15.1	1,227	15.5	-30%	-3%
			NOMB	2,695	15.2	3,239	15.0	-17%	+1%
		No child in the household	Work obligated	316	12.9	417	12.7	-24%	2%
			Not work obligated	1,730	13.9	2,336	14.8	-26%	-6%
			NOMB	1,810	12.4	2,216	12.4	-18%	+0%
	Sub-total			50,789	18.1	50,056	18.0	+1%	+1%
IRRS recipients, primary aged 65+	Less close / IRRS > $150	Child in the household		1,484	11.6	1,402	10.4	+6%	+12%
		No child in the household		9,704	9.8	9,119	9.4	+6%	+4%
	Closer / IRRS ≤ $150	Child in the household		150	9.5	220	9.3	-32%	3%
		No child in the household		2,289	8.3	2,735	8.3	-16%	1%
	Sub-total			13,627	9.7	13,476	9.3	+1%	5%
Recent exit from housing	Receiving AS			[3,089]	6.6	[3,140]	6.9	-2%	-3%
	Not receiving AS	Aged <60		[17,000]	1.6	[14,308]	2.8	+19%	-43%
		Aged 60+		[1,373]	0.2	[1,325]	0.4	+4%	-44%
	Sub-total			[21,462]	2.2	[18,773]	3.3	+14%	-33%
Recent exit from register	Receiving AS			[3,953]	5.5	[3,110]	5.5	+27%	+0%
	Not receiving AS			[2,906]	2.8	[2,566]	2.9	+13%	-1%
	Sub-total			[6,859]	4.4	[5,676]	4.3	+21%	1%
Total				70,891	13.4	67,834	13.8	+5%	-3%

*NOMB = Not on Main Benefit

The table highlights a number of key insights about our expectations for tenants' future public housing use:

- For all segments currently in public housing there is a high expectation for future public housing use. For some segments we expect people to spend up to 20 future years in public housing. Time already spent in housing is also high, averaging 10 years for people currently in a public house. The differentiation in expected future public housing use between sub-segments is not particularly high. Whether the primary tenant is receiving a work obligated main benefit, non-work obligated main benefit or no main benefit at all seems to have relatively little impact. This implies that employed people in public housing do not find it easy to exit into the private market. It would be useful to understand why this is so as this is contributing to the slowing of the system discussed in the next sub-section.
- There is a significant increase in both the size of the social housing register, and the proportion of households on the register who are assigned priority A continues to grow

strongly. The priority system is based on assessment scoring of five domains - sustainability, suitability, accessibility and adequacy of their current housing circumstances, and affordability. While the register is not necessarily a perfect barometer of demand, the inference is that there has been a significant increase in need for public housing, particularly those whose need is more acute.

- Comparing the 2017 and 2016 modelling results, we see a large shift from the 'Closer' segments to the 'Less close'. This is a direct consequence of rents growing faster than incomes. IRRS is the difference between the full rent on the property and the tenant's income-related contribution. The proportion of public housing households benefiting from IRRS above $150 per week has grown from 78% to 83%. This is important as IRRS represents the financial gap between market rents and what tenants can reasonably afford. As discussed in section 7.3, this contributes to an overall slowing of the public housing system, limiting the potential for people on the register to move into a house.

The slowing of the system and the increasing barriers to exit increase demand for a system where the supply of housing is relatively fixed (in the short term at least).

We can think of the performance of the system in meeting people's housing needs in three ways:

The social housing register is likely to remain elevated in size and increasingly skewed to priority A households

Firstly, in terms of the dynamics of the register. Clearly the register has grown and is becoming more heavily weighted towards priority A households. More specifically we have seen the average application scores in 4 of the 5 domains (Affordability, Accessibility, adequacy and sustainability) increase. The growth in the register has not yet translated into increased wait times, with the median time to house priority A households holding relatively steady at 47 days. However, an increase in wait times seems likely in the absence of a large increase in public housing supply.

Demand-side policy options could be considered to compensate for the difference between public housing stock and demand (by no. of bedrooms required)

Secondly, matching of house size to household size[9]. We track the proportion of public houses that appear well matched to the size of the household based on the number of bedrooms required. We do this for new placements into public houses and for the system as a whole. While each household's situation is different, at a system level this gives us a view on whether the public housing stock is being used effectively and whether we are adjusting with people's changing needs (e.g. children leaving home). The modelling also gives signals as to where and what size housing is needed most in future.

For the system overall, 45.0% of public houses were matched to the size of the household[10] at 30 June 2017, an increase 0.1% from last year. The small change in this measure reflects the fact that the population in public housing is largely unchanged from last year. Of those not matched, 80% are within +/- one bedroom. 1% represent over-crowding (fewer bedrooms than required) and 12% represent under-utilisation (more bedrooms than

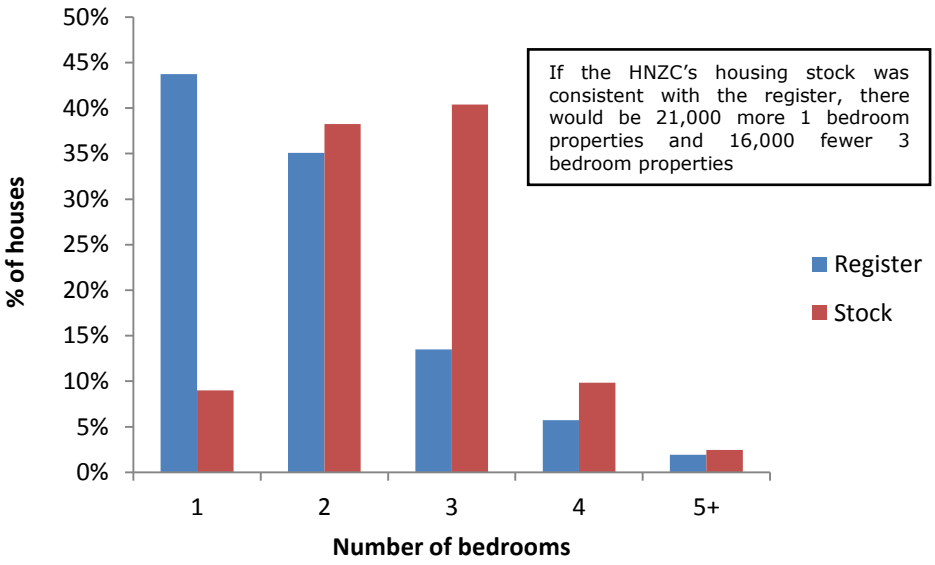
[9] Based on data available for known occupants.

[10] The number of bedrooms required is calculated using Canadian rules (http://www23.statcan.gc.ca/imdb/p3Var.pl?Function=DEC&Id=100731) and degree of match based on what we know about the people in the household.

required). The remaining 7% of unmatched houses relate to both those households who are waiting to be moved to a new house (for any reason) and those houses which are unoccupied.

For new placements into public houses the match rate is at 61.3%. By size of house required, the profile of those applying for public housing is significantly different to the current stock of public houses (see Chart 7.3).

Chart 7.3 – Register housing need compared to public housing stock (HNZC only) – by number of bedrooms



The demand for one-bedroom accommodation far outstrips supply, whereas there is an over-supply of three-bedroom properties. Housing supply adjusts slowly so this problem is likely to persist for many years. Demand-side policy options could be considered.

The rate of exit from public housing is lower than expected even when the ageing tenant population and increasing average IRRS level is taken into consideration

Thirdly, the degree to which tenants are achieving independence from the public housing system. Over the year to 30 June 2017 the rate at which people exit public housing decreased more than predicted. Consequently, we have decreased the assumed rate of exit in our modelling. This has increased the number of future years we predict people will spend in public housing. In last year's modelling exercise we predicted that those then in public housing would spend a further 16.2 years in public housing. We predicted that 8.6% would exit public housing over the year and those that remained at the end of the year would spend a further 15.9 future years in public housing. In fact, 8.5% exited public housing over the year, and of those that remain we now predict they will spend a further 16.3 years in public housing i.e. an increase of 0.4 years. This varies by segment (see table 7.2).

Table 7.2 – Predicted future years in public housing by household– by segment

Housing Segment				Predicted exit rate	Actual exit rate	Predicted future years at 2017 (using 2016 projection)	Expected future duration at 2017 (2017 modelling)	Increase
IRRS recipients primary aged <65	Less Close / IRRS > $150	Child in household	Work Obligated	7.7%	7.4%	19.6	20.2	0.7
			Not Work Obligated	7.5%	7.5%	19.9	20.3	0.4
			NOMB	7.6%	7.2%	19.1	20.0	0.9
		No child in household	Work Obligated	8.3%	7.7%	16.3	16.6	0.3
			Not Work Obligated	5.7%	6.5%	17.2	17.1	-0.1
			NOMB	7.9%	7.9%	16.0	16.9	0.8
	Closer / IRRS < $150	Child in household	Work Obligated	15.1%	10.5%	14.1	15.1	0.9
			Not Work Obligated	12.6%	11.4%	15.3	15.9	0.6
			NOMB	12.1%	14.7%	15.3	16.1	0.8
		No child in household	Work Obligated	16.1%	12.9%	12.9	13.3	0.4
			Not Work Obligated	9.9%	9.2%	15.2	14.2	-1.0
			NOMB	12.7%	15.6%	13.3	13.2	-0.1
IRRS recipients primary aged >65	Less Close / IRRS > $150	Child in household		9.4%	7.4%	10.0	11.4	1.3
		No child in household		9.1%	8.7%	9.2	9.6	0.4
	Closer / IRRS < $150	Child in household		8.6%	12.3%	9.2	9.5	0.3
		No child in household		10.9%	9.5%	8.7	8.3	-0.4
Total				**8.6%**	**8.5%**	**15.9**	**16.3**	**0.4**

The table above shows that the experience of exit rates and future duration varies significantly by segment. The key insights from the table are:

- The actual exit rate for work-obligated working age primary householders closer to the market with children was 4.6 percentage points lower than predicted. This has resulted in an increase of 0.9 years in the expected future duration in public housing.
- Actual exit rates were greater than expected for four segments, the largest of these was for households with children where the primary tenant is greater than 65, and they are closer to the market. The actual rate for these clients was 3.7 percentage points greater than predicted. Despite this, these clients are expected to spend 0.3 more future years in a public house than predicted. This highlights the impact of other factors on these tenants such as increasing rental costs.

Slowing of the system

The highlighted performance issues are all influenced to some degree by the slow turnover of the system. The rate at which people exit public housing is relatively slow making it difficult to for the system to respond to changing demand for public housing. This has been exacerbated in recent years as rents (and house prices) have grown faster than incomes, decreasing housing affordability.

The public housing system is slowing as the tenant population ages and the financial gap to affording the private market increases for most tenants

There is a balance that needs to be established between encouraging turnover in public housing use, so that people in critical need on the register can be supported, and providing public housing as a long-term accommodation solution. This is a key trade-off for government, particularly given that public housing supply does not change quickly.

The importance of the trade-off is exacerbated by the profile of the population in public housing. In effect, the system is slowing down and likely to continue to do so. The modelling tells us that the rate at which people exit public housing is likely to decrease. This has a significant impact for housing people from the register going forward.

The slowing effect is caused by three main factors:

1. IRRS levels have increased significantly in recent years as rents have grown faster than incomes (see Chart 7.4 below). The higher the level of IRRS in any particular area, the lower the rate that people exit from public housing.
2. The public housing population is ageing (see Chart 7.5). The proportion aged 45-65 has grown significantly.
3. The average duration of tenants has been increasing (see Chart 7.6). The longer the duration, the lower the rate of exit from public housing. This has a compounding effect. The more the system slows down, the longer the duration of tenants, the more the system slows down etc.

Chart 7.4 – IRRS levels

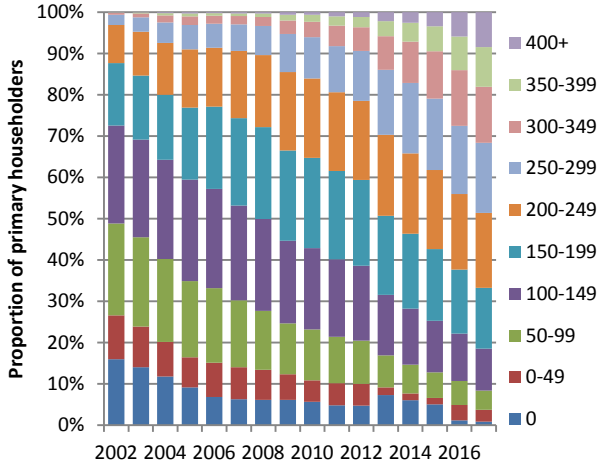


Chart 7.5 – Age of primary tenants

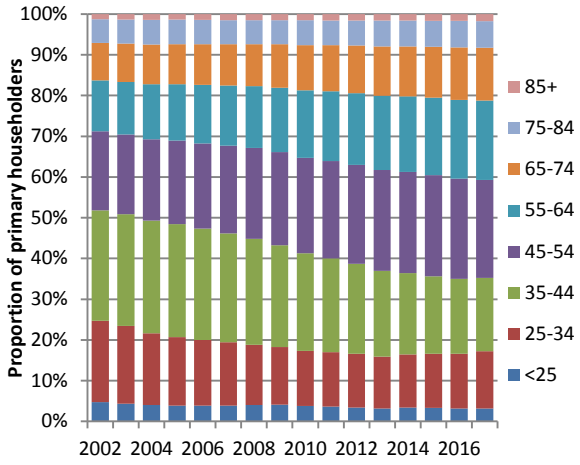


Chart 7.6 – Duration in public housing – primary tenants

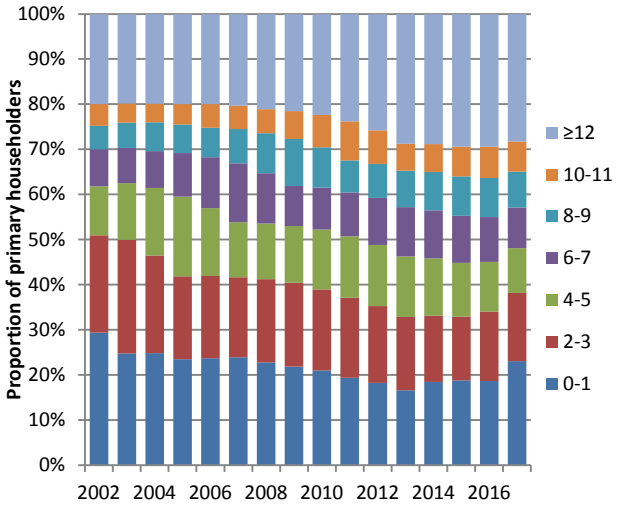
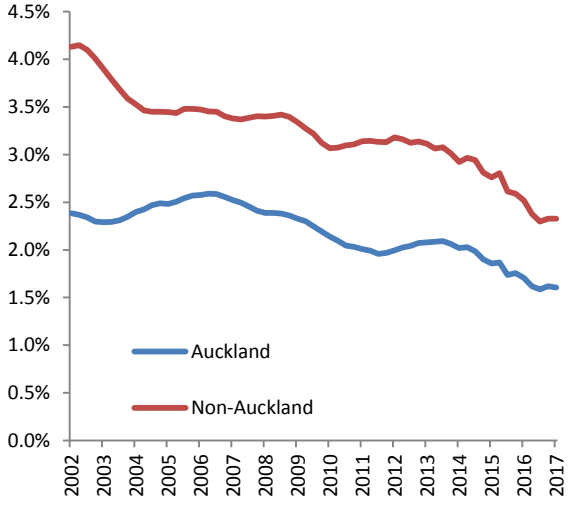


Chart 7.7 – Public housing exit rates



The combined effect of these factors on exit rates is shown in Chart 7.7. The decrease is significant and started from a slow rate to begin with. Between 2002 and 2017, the exit rate decreased by 1.8%, from 4.1% to 2.3%, for Non-Aucklanders and by 0.8%, from 2.4% to 1.6%, for Aucklanders. A fundamental decrease in public housing demand seems unlikely in the foreseeable future given population growth and housing affordability dynamics. Hence,

in the absence of action it is likely that the social housing register will continue to grow in size (and/or people in need will be discouraged from applying). This will increase register wait times and effectively raise the eligibility threshold for public housing as those most in need are housed first.

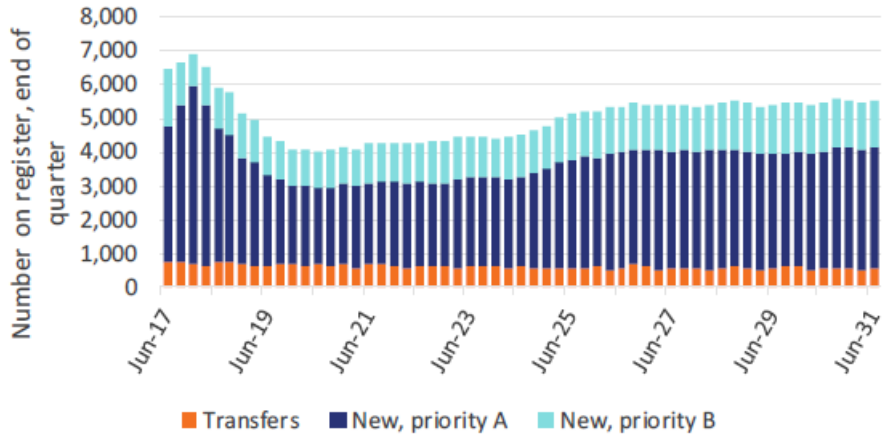
There is no easy solution to averting the consequences of a slowing system.

Increasing supply of public housing will help alleviate register growth. However, given the dynamics discussed above, this may not be a sustainable longer term solution in and of itself. Other ways to help people on the register into public housing more quickly include:

1. Increasing the turnover of public houses by providing greater support for those in public housing to move into the private market.
2. Improving the utilisation of public houses.
3. Providing alternatives to public housing to those on the register.
4. Improving private housing affordability.

Chart 7.8 shows a projection of the register size. It is very sensitive to the assumed level of new applications and assumed rate of people exiting the register but not being placed in a public house. The initial decrease reflects an assumed increase in public housing places of 1,899 over the next three years. However, beyond this the model projects the register to increase.

Chart 7.8 – Projection of the social housing register size



Projecting the register size is inherently difficult. The number of households who are potentially eligible for public housing, but do not apply for public housing is likely to be much larger.

The point is that underlying demand is increasing and effective supply (number of houses becoming available to place new households into public housing) is relatively stable.

People's circumstances change over time. The profile of people in public housing is different to the profile of people applying for public housing today. On average those in public housing are older, have larger households and have different levels of benefit receipt. Chart 7.9 and Chart 7.10 show the proportions of current tenants and applicants over six month to 30 June 2017 receiving a main benefit or NZ Super.

Chart 7.9 – Current public housing tenants – by main benefit status

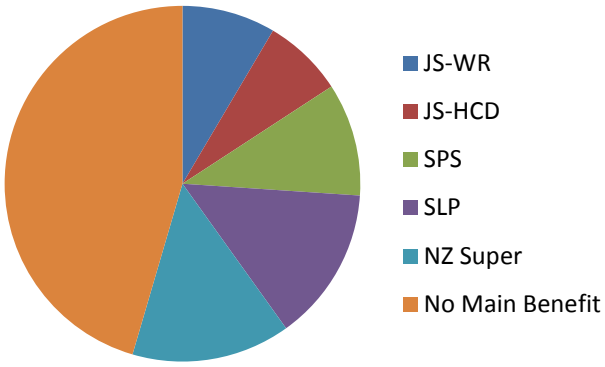
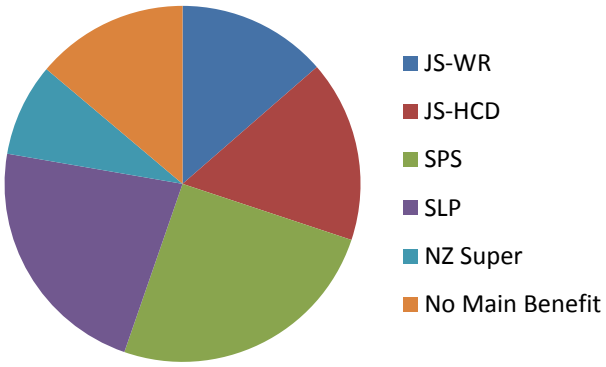


Chart 7.10 –Successful public housing applications 2016/17 – by main benefit status



The difference is significant. The vast majority (78%) of public housing applications accepted on to the register are receiving a main benefit. Affordability is clearly a key driver. This compares to 32% of public housing tenants. Earning an income does not imply a person can afford the private housing market. However, the profile comparison suggests there is a fundamental difference in the needs of those in public housing and those applying for public housing. This further highlights the importance of the trade-off between encouraging public housing turnover and public housing as a long-term accommodation solution.

The broader housing continuum

Public housing is one part of the broader continuum of housing supports. AS and TAS benefits provide direct monetary support. As does emergency housing special needs grants. Emergency housing special needs grants are paid to provide short-term accommodation (e.g. motels) if we are unable to provide one of the Ministry's contracted transitional housing places. Transitional housing also provides short-term accommodation along with tailored social support. It is led by MSD and Housing New Zealand and involves local councils and emergency housing providers. Data on transitional housing is not systematically collected and stored. So this element of the continuum is not able to be captured in our modelling.

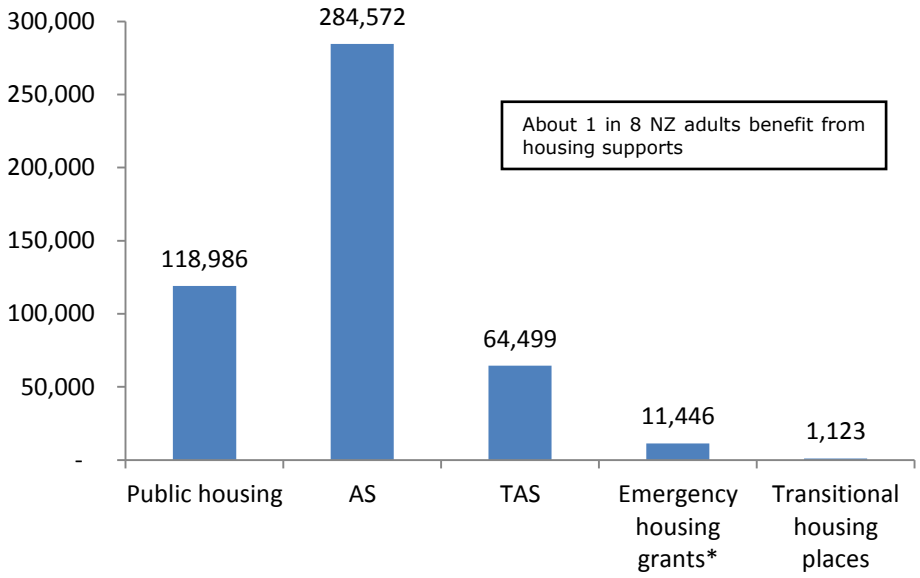
Recommendation 5

We recommend that information relating to people accessing transitional housing is collected and stored in line with our core data-warehousing procedures.

Collecting and storing the data will improve management reporting as well as our ability to model the full public housing continuum.

There is imbalance amongst the different forms of housing support. In particular, IRRS is more generous than AS and can act as a poverty trap.

Chart 7.11 – Housing supports



*over the quarter to 30 June 2017 to 3,108 unique people

Chart 7.11 highlights the scale of different housing supports. The public housing, AS, and TAS totals refer to people, noting that most people who receive TAS also receive AS. The emergency housing total refers to specific grants, and transitional housing refers to available places for households. As at 30 June 2017 there were also 8,500 adults on the social housing register.

These numbers do not include the children and broader family dynamic assisted by these housing supports. Regardless, they demonstrate that a significant proportion of New Zealanders (in the region of 10%) receive government housing support. There are also likely to be others who are eligible, but for a number of potential reasons, do not receive support.

The financial level of support is not uniform. In particular, public housing (or specifically IRRS) is more generous than AS and TAS. This gap has increased in recent years as rent levels have grown faster than incomes, significantly increasing IRRS, and AS maximum rates have not increased. 46% of AS clients receive the maximum rate.

In previous reports we highlighted that the design of IRRS, AS and TAS creates financial disincentives for clients to move out of public housing and into the private market and employment. To some degree, it acts as a poverty trap. While AS maximum rates are due to be increased and AS area boundaries changed from 1 April 2018, we still consider this to be important. We therefore reiterate our recommendation from previous reports that the design of IRRS, AS and TAS should be reviewed.

8. Investments

Overall investment

MSD is provided with appropriations to fund the administration of the benefit system and to meet its responsibilities to help people find work. Crucial to being able to direct investment funds towards interventions that will most benefit clients are the Multi-Category Appropriations (MCAs). These provide funding flexibility. Flexibility is provided by the delegation of decision-making rights from Ministers to the CE of MSD.

In the year to 30 June 2017, $0.67bn was set aside in the 'Improved Employment and Social Outcomes Support' MCA for income support administration, and employment assistance and work-readiness programmes aimed at upskilling people and/or supporting them into employment.

The total $0.67bn MCA is broken down as follows:

Table 8.1 – Breakdown of the 'Improved Employment and Social Outcomes Support' MCA 2016/17 appropriation

Category		Appropriation ($m)
Administering income support		289.48
Improving employment outcomes, comprising:		299.25
Flexi-wage	*24.50*	
Employment placement or assistance	*27.70*	
Training for work	*15.70*	
Skills for industry	*14.60*	
Youth services	*30.60*	
Limited services volunteer	*5.50*	
Work to wellness	*1.90*	
Intensive client support	*0.50*	
Work confidence	*1.00*	
Transition to work	*15.90*	
$3k to work	*3.70*	
Other	*157.65*	
Improving work readiness outcomes		84.97
Total		**673.69**

'Administering income support' covers assessing, paying, reviewing entitlements and collecting balances owed by clients for income support, supplementary assistance, grants and allowances. These costs are variable in nature, and are mainly demand-driven, therefore, in the short term, MSD has relatively limited influence on the amount spent on this category and who it is spent on.

'Improving employment outcomes' covers services to support people who are work-ready to move into sustainable employment. It includes a range of programmes, most of which are listed in Table 8.1, many of which are performed by external providers. Existing contracts with external providers may limit MSD's ability to flexibly move funding around in the short-term. More broadly, however, MSD can control how much is spent on different programmes and which clients (or potential clients) the programmes are targeted to.

'Improving work-readiness outcomes' covers services to address people's barriers to employment (such as literacy, numeracy, health, skills, drug or alcohol use, confidence and motivation) so they can become work-ready. Again, MSD can control how much is spent on different programmes and which clients the programmes are targeted to.

As part of our modelling, we project future benefit payments for current clients. This enables us to express predicted future benefit system need in dollar terms. This is useful when thinking about how appropriations are spent. Table 8.2 below details total and average per client predicted future benefit payments[11] for clients at 30 June 2016 and 30 June 2017

Table 8.2 – Predicted future benefit payments by benefit category

	2017 Modelling			2016 Modelling		
Benefit Category	Number of Clients	Total future benefit payments	Average per person future benefit payments	Number of Clients	Total future benefit payments	Average per person future benefit payments
JS-WR	74,969	$8.99 bn	$120 k	76,957	$9.35 bn	$121 k
JS-HCD	65,246	$8.89 bn	$136 k	64,468	$9.12 bn	$141 k
SPS	63,522	$13.34 bn	$210 k	67,732	$14.3 bn	$211 k
SLP	102,162	$18.47 bn	$181 k	102,870	$19.3 bn	$188 k
YP/YPP	2,466	$0.53 bn	$214 k	2,752	$0.57 bn	$206 k
Supplementary benefits only	105,444	$6.17 bn	$59 k	106,473	$6.58 bn	$62 k

Chart 8.1 and Chart 8.2 below compare the breakdown of employment assistance and work-readiness programme spend with predicted future benefit payments.

Chart 8.1 – Split of 2016/17 employment assistance and work-readiness programme spend by benefit

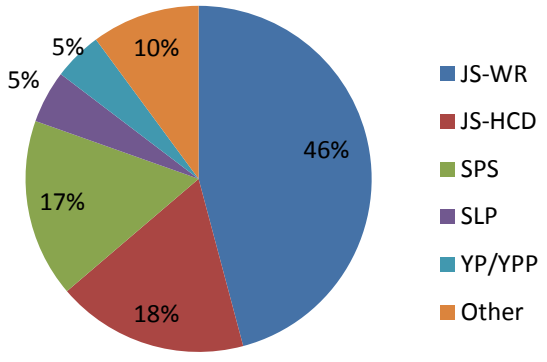
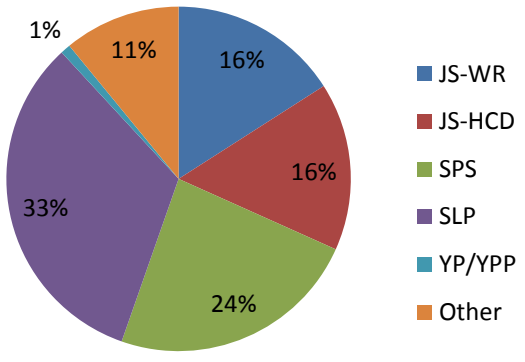


Chart 8.2 – Split of total predicted future benefit payments by current benefit category



[11] Future benefit payments are discounted back to the present day using interest rates

The charts show that significantly more is spent on JS-WR clients than current JS-WR clients' predicted share of future benefit payments. Comparatively less is spent on JS-HCD and particularly SLP clients. This is to be expected given that under current legislation SLP and JS-HCD are not deemed 'work-ready', and employment assistance programmes are directed at work-ready clients.

More fine-grained information on where, and on whom money is being spent on would help ensure management are better placed to make judgements about whether the targeting of employment assistance and work-readiness spend is appropriate or not.

To make a judgement about the appropriateness of spend we also need to understand its effectiveness. MSD evaluates a range of its programmes and services. We have calculated the 'welfare return on investment' (wROI) for these programmes. The wROI is the ratio of a programme's outcomes to total cost. Outcomes are measured by the financial savings made when MSD no longer needs to pay a client a benefit due to the impact of the programme. This proxy is not perfect. There are likely to be other broader fiscal and social impacts associated with these programmes and services that are not currently factored into the calculations. Hence, wROI should be considered as an incomplete/indicative measure of value for money, rather than conclusive.

In the future, the intent is to perform ROI assessments in Statistics New Zealand's IDI. This will enable a broader set of fiscal and social outcomes to be included in the calculation, giving more confidence in whether a programme is delivering value.

Evaluating effectiveness of employment assistance programmes

The 2016 Benefit System Performance Report evaluated seven employment programmes with a total spend of $122m. We have re-evaluated these seven programmes. In the 2017 year, $128.5m was spent on these same programmes.

For consistency with the 2016 evaluation, we have measured the effectiveness of employment assistance programmes through the Predicted wROI. Clients who are helped into employment might not require a benefit for many years – so much of a programme's success may lie in the future. The Predicted wROI reported here includes a prediction of future fiscal savings.

We do not allow for non-participant effects as these are difficult to reliably estimate:

- Substitution effect – Where helping participants into employment is at the expense of non-participants' employment prospects
- Displacement effect – Where a programme helps improve a firm's competitiveness leading to the loss of employment among competing firms

Both effects can reduce the value of a programme, although the impact of substitution effect is likely to be greater that the displacement effect. The impact of each effect will differ between programmes. A greater understanding of these effects would allow for more robust analysis as to the effectiveness of these programmes on the wider population, not just on those individuals involved.

Table 8.3 provides an update of the seven programmes which were evaluated in 2016.

Table 8.3 - 2017 update to 2016 predicted wROI

	2016				2017			
	Predicted wROI	Number of participants	2015/16 Investment	Break-even	Predicted wROI	Number of participants	2016/17 Investment	Break-even
Flexi-wage	5.0 - 7.0	6,984	$30m	<1 year	6.0 - 8.0	6,703	$24m	<1 year
Training for Work	2.5 - 3.5	7,968	$28m	3-5 years	2.0 - 3.5	4,240	$17m	3-4 years
Vocational Services Employment	0.8 - 2.5	6,380	$31m	5+ years	1.3 - 2.3	5,027	$31m	5+ years
Employment Placement or Assistance Initiative	2.5 - 5.0	9,977	$19m	2-3 years	2.5 - 7.5	10,985	$30m	2 years
Skills for Industry	3.0 - 5.0	3,540	$11m	1-2 years	3.0 - 5.5	5,024	$20m	2 years
Limited Service Volunteer	1.5 - 2.0	667	$5m	5+ years	0.8 - 1.7	628	$5m	5+ years
Work Confidence	3.0 - 6.0	3,666	$3m	5+ years	1.5 - 7.0	1,029	$1.5m	5 years

The 2016 BSPR recommended that vocational services employment, limited service volunteer and work confidence programmes be reviewed due to the high performance volatility and long average period to break-even. Over the 2017 year, the performance volatility for work confidence and limited service volunteer has increased, and the break-even point remains high. These programmes are still operational despite our 2016 recommendations and the deterioration in performance.

Employment placement, and work confidence have seen the largest changes in the predicted wROI for the programmes between 2016 and 2017.

The range of predicted wROI increased for both employment placement and work confidence. This indicates an increase in the volatility of predicted results. For the employment placement programme this increase in volatility has only impacted the upper end of the range, signaling that the increased volatility is having a positive impact. The increased volatility for work confidence programmes has impacted both the upper and lower ends of the predicted wROI.

In general the change in the cost per participant has remained relatively stable. The only exception to this is Vocational Services Employment. Despite a decrease in the number of participants, there was no corresponding decrease in the cost of the programme. Despite this increased cost per participant, the expected ROI has improved, and the range of predicted wROI has reduced over the year, indicating increased confidence in the outcomes.

Return on investment of intensive case management services

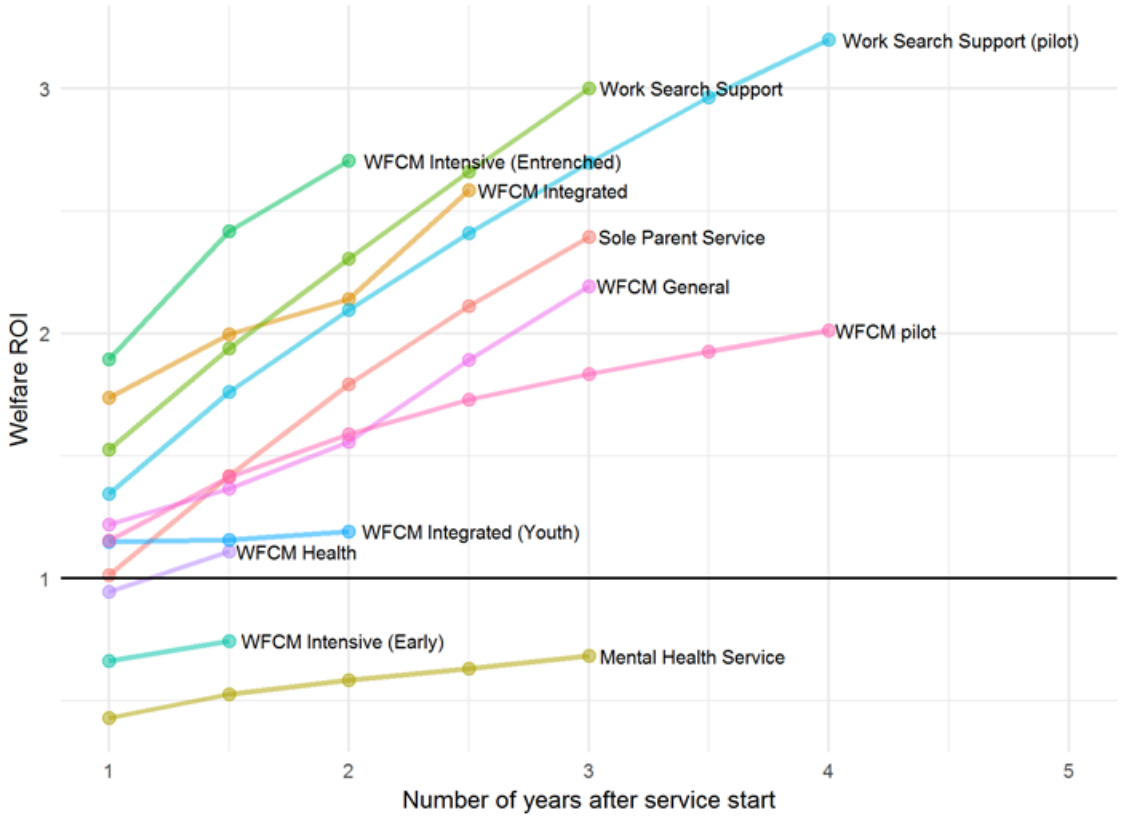
The ministry also calculates wROI for its intensive case management services. Intensive case management services comprise Work-Focussed Case Management (WFCM) services (one-to-one interaction with a focus on seminars) and Work Search Support (WSS) services (many-to-one interaction). The first variations of these services were introduced in 2013. There are several variations of WFCM services, with differences in the case load and case load make-up for case managers. The evaluation also includes two contracted-out case management services – the Mental Health Employment Service (MHES) and the Sole Parent Employment Service (SPES). The alternative to these services is General Case Management (GCM). GCM is a reactive service that manages clients' requirements as they arise through one of the ministry's contact channels. All clients are streamed into one of these services, with GCM being the lowest intensity service.

The calculation methodology used is slightly different to that used for evaluating employment assistance programmes. In particular, it does not include a prediction of future

savings because this is overly complicated for these services. So the ROIs are based on accumulated costs and benefits to date only.

Most intensive case management services deliver a wROI significantly above 1

Chart 8.3 – wROI for case management service by time after service start



Almost all services have returns to date in excess of 1. The two exceptions are the 'early entrant' cohort of the WFCM intensive client support service and the MHES. MHES is now closed and replaced with a new service called Work to Wellness. The new service shares some characteristics with MHES, but it is too early to assess its effectiveness.

The WFCM intensive client support service (early entrant) focussed on those who first entered the benefit system at the age of 16 or 17, or as young parents, and were aged 18 – 29 when selected into the service. This service has now been closed, and replaced with WFCM intensive client support expansion, which is directed at those who first entered the benefit system before the age of 20, and were aged 25 – 29 when selected into the service.

These exceptions aside, the results imply that intensive case management services are adding value.

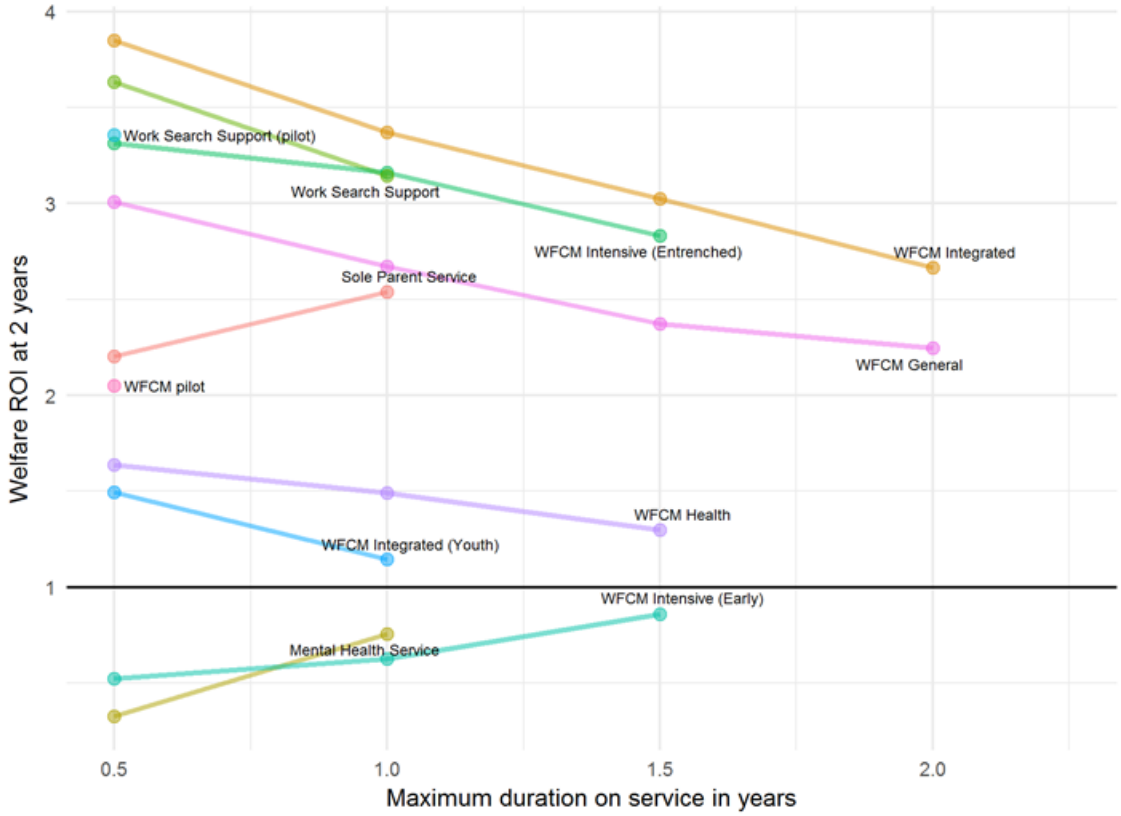
Intensive case management is most effective in the first six to 12 months after participants start a service

Chart 8.4 shows that the wROI of most services generally fell as we allowed participants to remain on the service for longer periods. This is an important finding. It implies that services might be more effective overall if clients are replaced in that service after six to 12 months.

It would be important to consider the impact on these clients if they were to be moved out of intensive case management services after six to 12 months. The effect of moving from intensive support to general case management could severely hinder their progress.

Similarly, for those clients who do not respond to intensive case management, it could be that the service they have been assigned to is not working for them, rather than the notion of intensive case management in general. Therefore it may be beneficial to invest further into other services, rather than place them into general case management. With finite resources available to the Ministry, the benefits of this approach need to be considered along with the additional cost.

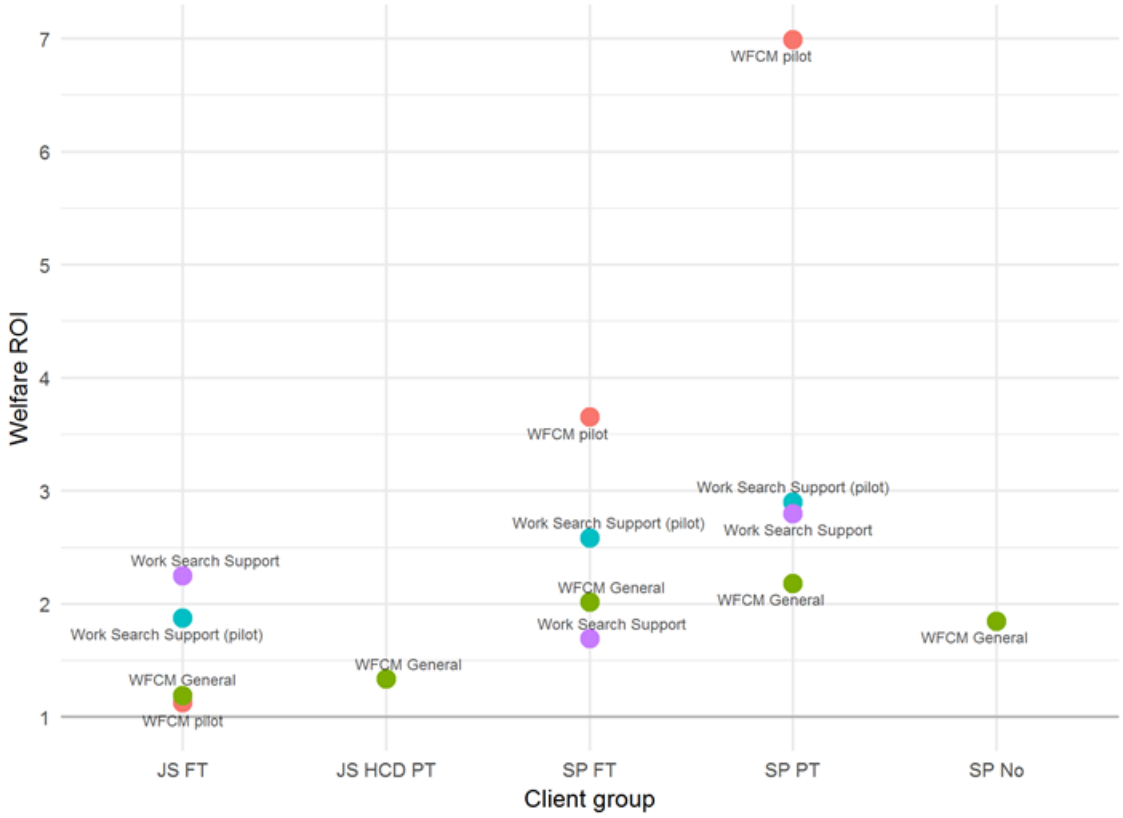
Chart 8.4 – wROI at two years after the service start by maximum duration on the service



Results vary by client cohort for each service. The main WFCM General service appears most effective for SPS clients.

Chart 8.5 shows that wROI outcomes vary depending on what type of client is receiving a service. The main services by number of clients are WFCM General and WSS. For WFCM General, wROI is higher for SP (single clients with children) clients than JS FT and JS HCD PT (clients in receipt of JS-WR/ JS-HCD either with a partner or with no children, or both). For WSS, wROI is highest for SP PT (single clients with children and part time work obligations) clients.

Chart 8.5 – Welfare ROI by client group and work obligations at two years after starting the service



Note – FT – Full time, PT – Part time, No – No work obligations

This analysis determines which service each client is placed in and the results help inform the ministry's service effectiveness model.

Overall, intensive client management services appear to be working effectively, especially for clients' first year in the programme.

9. Progress against previous recommendations

This section details progress MSD has made against the recommendations from previous Benefit System Performance Reports. Many of these recommendations related to broad areas of focus and were not necessarily expected to be completed within a short space of time. Therefore, some are carried forward for the next year.

Recommendation 1

Management consider the design of policy settings and services for JS-HCD clients, noting that the core benefit purpose is to provide temporary support. We also recommend that greater connectivity between medical practitioners and the Ministry of Social Development be considered, including better sharing and utilisation of data (2016 BSPR).

Management comment:

Phase one of the JS-HCD deep dive work provided information regarding people on JS-HCD including their experiences and barriers to work. We plan to extend the scope of the work programme for phase two beyond people on JS-HCD, as this does not represent the entire health and disability population on benefit, and to allow us to address transfers and interactions between different types of health and disability benefits. The work programme will focus on the following three key areas:

1. *Undertaking a review of the system design as a whole:* including policy settings and gateways to benefit to understand if the original policy intent of the welfare reforms has been achieved for HCD clients, if the current HCD benefit structure is fit for purpose and identify opportunities for improvement.
2. *Improve clients' experience through the benefit system:* through service design and improved engagement with medical practitioners. We are also looking to find alternative ways to engage with HCD clients earlier through a range of service interventions and channels.
3. *Analysis of the whole health and disability population in receipt of a benefit:* Further data analysis to understand flows onto different benefits and the different factors between disabled people and people with health conditions who obtain work and those who do not.

This recommendation is still in progress and has been held over for the following year.

Recommendation 2

An ongoing source of funding to trial new approaches to support SLP clients into work, given their high risk of long-term benefit dependency (2016 BSPR).

Management comment:

The 2017/18 Employment Outcomes Investment Strategy, which sets the direction of travel for the cohorts of clients that MSD will focus on more intensively, identified three main priority groups. Using the 2016 modelling exercise as the basis for cohort identification, clients with a health condition or disability (mainly JS-HCD), Not in Employment, Education or Training clients (specifically 18-24 year-olds) and Māori clients are the cohorts that MSD

will focus on. As with SLP clients, these cohorts are at risk of long-term benefit dependency but are arguably closer to the labour market than SLP clients.

While SLP is not a specific priority group, there are opt-in spaces with case management services in most service centres, and we have initiated 3 small trials to test specific interventions and support for our clients including:

- PeerZone Peer Support – a co-designed pilot programme to support SLP clients with a mental health condition to receive peer support, opt in to active case management and prepare for employment. A final evaluation is due in May 2018.
- IPS (Individual Placement Support) – a pilot integrating employment services with mental health services to support clients with mental health conditions to return to work. The IPS approach is an internationally recognised model which MSD is testing in a New Zealand context. IPS will be prototyped with two cohorts; 18-19 year olds in Canterbury with mild-to-moderate mental health conditions and 18-35 in Waitemata with severe mental health conditions. The nine month prototypes will go live from May 2018. Initial fidelity review findings will be available by February 2019, and will inform a planned extension to a full trial.
- RESTORES (Reablement from Stroke via a Rehabilitation and Employment Service) – Supporting up to 20 patients admitted to Auckland City, Waitakere or North Shore Hospitals to return to work following a stroke through the support of intensive case management. This prototype aims to increase the proportion of stroke patients able to live independently, participate in their community and return to work, as well as an overall improvement in health related quality of life. An initial review will take place in May 2018.

This recommendation is still in progress and has been held over for the following year.

Recommendation 3

Review the vocational services employment, limited service volunteer and work confidence programmes in the context of the overall mix of investment in employment assistance programmes (2016 BSPR).

Management comment:

The limited service volunteer (LSV) programme is likely to be expanded in line with Government coalition agreements. The basis on which to evaluate all programmes is currently being revisited alongside the new Governments repackaging objectives for social investment, which is likely to broaden the outcomes being measured in terms of overall effectiveness. Once this has been completed then programmes will be reassessed against these revised criteria and this will be used to inform future investment decisions.

This recommendation is still in progress and has been held over for the following year.

Recommendation 4

Analysis is performed to understand the reasons why (2016 BSPR):

1. SPS exit sustainability is so much higher than for JS-WR and JS-HCD, noting that exit rates for JS-WR and JS-HCD has been relatively stable since the introduction of welfare reform.
2. People who move off benefit into tertiary education have a relatively high rate of return back on to benefits.
3. Such a high proportion of people receiving JS-HCD transfer from another benefit category.
4. JS-HCD clients' type of health condition is not particularly important for estimating their future benefit cost i.e. liability does not vary significantly according to the client's type of health condition.
5. Half of the working-age population in public housing do not receive a benefit and what their drivers are for needing public housing.

Management comment

Items '1' is covered in section 4.3 of this report.

Item '2' is referred to in chapter 6 of this report. The analysis has not been able to explain why these people have a high return rate back on to benefits.

Items '3' and '4' have not yet been considered –

Initial analysis on item '5' has been performed. Insights from this work include that:

- A high proportion are Pasifika and in Auckland, with larger average household size and lower average age than social housing tenants on benefit.
- Of working-age people in social housing, but not currently receiving a benefit:
    - 11% received a benefit 1-3 years ago
    - 7% received a benefit 3-5 years ago
    - 8% received a benefit 5-10 years ago

This recommendation is still in progress and has been held over for the following year.

Recommendation 5

Consider whether differentiated services are appropriate for benefit system clients living in public housing (2014 BSPR – recommendation wording changed marginally).

Management comment

Since 1 April 2017, operational functions for housing returned to Service Delivery. This recognises the significant overlap between the benefit and housing systems, and establishes a centre of expertise for developing and delivering client-centric services across both systems within Service Delivery.

The first Social Housing Investment Strategy was finalised in August 2017 and identifies six priority areas for investment. These were identified using information from the 2015 social housing modelling exercise and the Social Investment Agency's social housing test case, and is aimed at achieving the best possible outcomes for people receiving (or who may need) housing assistance. The priorities identified for 2017/18 are as follows:

- Increasing the range and supply of social housing options.
- Responding to need for emergency and transitional housing.
- Supporting people who may be at risk of an adverse exit to remain as successful social housing tenants.
- Supporting people who are homeless into sustainable housing.
- Supporting people who are close to the private market to exit social housing.
- Supporting people exiting prison into sustainable housing.

The seventh priority, below, was added later.

- Supporting people with secure accommodation and wrap-around services to provide a stable platform for mental wellness.

Both the first and seventh priorities are no longer progressing.

New initiatives are underway or are in the planning and design phases to address these priority areas. In addition, the Ministry is continuing to build a robust knowledge base of how housing can be used to achieve broader social and economic outcomes, which will inform future trial development – this includes an independent research project into how addressing people's housing needs can also support them in achieving employment outcomes. Evaluation of the initiatives that are currently underway will also help to build this understanding.

Work is now underway to develop the next Investment Strategy. The development of the Strategy will involve analysis of potential cohorts of interest for further investment, including crossover between the benefit and housing systems.

This recommendation is still in progress and has been held over for the following year.

Recommendation 6

The design of Income Related Rent Subsidy (IRRS), Accommodation Supplement (AS) and Temporary Additional Support (TAS) is reviewed to ensure that incentives are aligned with benefit system and public housing objectives. (2015 BSPR).

Management comment

As part of the Families Package, increases to the AS maximas and updates to the AS Area boundaries will be implemented from 1 April 2018. These changes will reduce the gap in affordability between social housing and the private rental market and help to alleviate the risk that AS recipients experience financial hardship as a result of rising housing costs and declining residual incomes.

This recommendation is still in progress and has been held over for the following year.

Recommendations closed over the year

1. Management explore opportunities to work more closely with health providers to ensure that clients suffering from mental illness receive appropriate care and support. The viability of MSD directly purchasing mental health services for clients should also be explored.

   Management should consider the introduction of specialised resources or further contracting-out of services to best manage the specific needs of client groups such as those suffering from mental illness.

   This recommendation was closed as a result of the strategic focus on HCD clients and associated work programmes.

2. A link to education data from the Ministry of Education (MoE) is needed to inform the valuation and to understand better the correlations between education and benefit dependency (2013 BSPR).

   This recommendation was closed as the 2017 modelling incorporated education data.

3. Further investigation into segmentation and whether segmenting the client base using the current continuous duration approach gives the best separation for understanding the drivers of the liability. Possible alternatives include age at entry into the benefit system or proportion of time spent on benefit since first benefit receipt (2013 BSPR).

   This recommendation was closed, a new segmentation came into effect for the 2017 modelling.

Appendix A: Background

Responsibilities under the Act

Service Delivery is an operational arm of MSD, tasked with administering the benefit system for working age adults. The role of Service Delivery is to help people throughout New Zealand find work and to provide income support based on entitlements set out in the *Social Security Act 1964* (the Act).

Some of the key responsibilities outlined in the Act are:

- to provide financial support to those not in paid employment and help them find employment where they are able to work
- to provide financial support to those unable to work because of sickness, injury, disability or caring responsibilities
- to provide financial support to help alleviate financial hardship
- to provide services to encourage young people to receive education, training or employment
- where appropriate, to impose work requirements on those receiving financial support or in the case of young people, requirements relating to education, budget management and parenting.

In carrying out duties under the Act, the following general principles, outlined in section 1B, are to apply:

- work in paid employment offers the best opportunity for people to achieve social and economic well-being
- the priority for people of working age should be to find and retain work
- people for whom work may not currently be an appropriate outcome should be assisted to prepare for work in the future and develop employment-focused skills
- people for whom work is not appropriate should be provided support in accordance with the Act.

Governance

The Act confers powers and authorities on the Chief Executive (CE) of MSD to oversee the administration of the benefit system and requires the CE to follow written directions from the Minister. Reporting to the CE are several Deputy Chief Executives (DCE) including a DCE of Service Delivery.

Ministers established Treasury as an external monitoring function, tasked with giving an independent view of the progress of implementation of the investment approach and MSD's performance.

There are currently no actuarial professional standards which strictly apply to the valuation of unfunded social welfare liabilities. Where relevant, this report and the modelling have been carried out consistent with the professional standards of the New Zealand Society of Actuaries.

In particular, the modelling has been carried out consistent with standards that apply to the valuation of accident compensation liabilities, namely the New Zealand Society of Actuaries Professional Standard No. 30 entitled *Valuation of general insurance claims* and this report complies with relevant sections of Professional Standard No. 31 entitled *General Insurers – Financial Condition Reports*.

Benefit structure

From 15 July 2013, the benefit structure was consolidated into three main benefit types plus two youth benefits (which started from August 2012). The benefit structure is summarised below:

Table A.1 – Benefit Structure

Benefit Type	Purpose
Jobseeker Support	To provide financial support to those not in full-time work but actively seeking and available for work and those who are temporarily exempt due to a health condition or disability but who will soon be able to work
Sole Parent Support	To provide financial support for single parents with school age or under school age children Part-time work obligations start once the youngest child is aged three Note: If another child is born while on the benefit, once that child turns one, the obligations are dependent on the next youngest child's age
Supported Living Payment	To provide financial support to people unable to work because they are permanently and severely restricted due to a health condition or disability or are totally blind or caring for a person who requires full-time care and attention at home
Youth Payment	To provide financial support to people aged 16 to 18 years old (subject to education, training or work obligations)
Young Parent Payment	To provide financial support to people aged 16 to 19 years old with a dependent child (subject to budgeting and early childhood education obligations)
Supplementary Benefits	Additional financial assistance depending on circumstances: • Accommodation Supplement to help with rent, board or home ownership costs • Childcare Subsidy to help with the cost of pre-school care • Disability Allowances to help with ongoing costs relating to a disability • Unsupported Child's Benefit to help carers support a child or young person whose parents are unable to care for them because of a family breakdown

Benefit payment amounts are income tested. Abatement rates vary by benefit type.

Recent reforms

Child Material Hardship Package

As part of Budget 2015 a Child Material Hardship Package was announced incorporating a number of changes to benefits and policy settings:

- A $25 a week (after tax) increase in benefit rates for families with children
- Strengthened work obligations for beneficiary parents, including:
- Introduction of part-time work obligations to SPS clients with youngest child aged three and four
- An increase in part-time work obligations from 15 to 20 hours a week
- An increase in childcare subsidy rate from $4 to $5 for low-income families

These changes were effective from 1 April 2016.

Operational Service Model

Service Delivery is the largest service line of MSD, with 11 regional offices, more than 140 service centres, a contact centre located in five sites, and a centralised processing unit.

The service delivery framework incorporates three main internal case management services:

- Work-Focussed Case Management (WFCM - General): provides intensive one-to-one, face-to-face case management support for clients likely to remain on benefit for a long time without intervention. The goal of this service is to address a client's barriers to employment and find them work.
- Work Search Support (WSS): is a service for work-ready JS clients that increases in intensity with time on benefit. It starts with clients doing self-directed job search and progressing to support from outbound calls to the client then to Work Search Assessment and various Work Development Workshops to help clients who have more connections to the labour market stay focused on finding employment.
- General Case Management (GCM): is a one-to-many service to provide income support and support to prepare for work. This service is for clients for whom employment is not a short-term goal, who are receiving non-beneficiary assistance, or who are yet to be assigned to a more intensive service.

Clients are allocated into services depending on a range of eligibility factors. Streaming rules are reviewed to ensure appropriate allocation of clients to services.

A separate case management service (the Youth Service) is targeted at clients receiving a youth benefit i.e. those aged under 18 (and parents up to age 20). The Youth Service is co-managed by contracted providers and MSD. It is more focused on educational and training goals than on immediate work outcomes.

MSD partners with employers, training providers, and social support providers, to help deliver tailored services, such as ongoing mentoring and wrap-around support, to clients to help them into training or work.

Benefit payment administration is a major function of MSD, along with fraud prevention and detection. The business unit also handles Emergency Management (preparation and response for welfare responsibilities) on behalf of the Government.

Appendix B: Return on investment methodology

The return on investment (ROI) is a ratio of savings to costs, calculated by comparing two groups of clients, according to their past and predicted financial relationship with MSD.

Return on Investment

A ratio allows us to measure the impact of a programme regardless of its size, which is particularly useful for comparing programmes of different sizes.

The return on investment is:

$$\frac{\textbf{Net Benefit Payments} + \textbf{Net Other}}{\textbf{Total Programme}}$$

Where:

- Net Benefit Payments – is the difference in benefit payments between the treatment and comparison groups. This includes the difference in benefit system liability.
- Net Other – is the difference between the treatment and comparison groups in utilisation of other programmes and case management services.
- Total Programme – is the total cost of the programme (excluding overheads).

Treatment and comparison groups

To calculate savings caused by a programme, we want to know how much MSD would have paid to participants had they not participated in the programme. To estimate this, we compare the costs of the participants in the programme (the treatment group), with a group of similar clients who are not in the programme (the comparison group).

We use the method of propensity matching to find a comparison group with similar characteristics to the treatment group at the time the programme starts. We want two groups such that the only difference is that one group is in the programme. Then we conclude that the difference in benefit costs between the groups must be a result of the programme.

Financial outcomes

Outcomes are measured by the financial savings made when MSD no longer needs to pay a client a main benefit, supplementary benefit, or a one-off payment. There are also savings in administrative costs, as MSD no longer needs to administer income support, or provide intervention programmes.

Clients who are helped into employment may not require a benefit for many years - so much of a programme's success may lie in the future. It would be impractical to wait for these savings to be realised before assessing the impact of a programme, so the outcomes for employment assistance programmes also include a prediction of future savings as well as observed savings. This predictive element was not possible for the case management service evaluations.

Savings and costs do not include a share of indirect costs and overheads. The cost of the employment programmes is relatively small in the context of total Ministry costs and is unlikely to materially influence indirect costs and overheads.

There are other costs and benefits that are not included. For example, supporting people into sustainable employment is likely to have an impact on their use of other social services and well-being more broadly.

Limitations

We are reliant on a number of factors, including:

- Data – We have applied broad reasonableness checks, this does not rule out the possibility of quality issues.
- Model risk – As with any model of future outcomes, there is a risk that future savings estimates are not an adequate representation of the complex, real-life system they represent, and/or there is a risk of future external changes that materially influence actual experience e.g. legislative, policy or economic changes.
- Comparison group selection – With any comparison between groups there is the risk that unobserved differences in profile cause differences in observed experience that are mistakenly attributed to programme performance.

Appendix C: Terms, definitions & glossary

Terms and definitions

Client numbers

Client numbers noted in this report, except where otherwise specified, are based on the modelling methodology and differ to official counts because:

- client numbers in the modelling include all clients who have received a benefit in the quarter whereas official reporting is at a point in time
- client numbers in the modelling count partners as separate clients whereas official reporting does not
- the modelling includes 16-17 year olds whereas the working age count is for 18-64 year olds
- the modelling includes recent exits (anyone not receiving a benefit but who has within the past 12 months) and people receiving orphan benefits and/or supplementary payments that are not included in the main benefit numbers
- the extraction dates for the modelling data and the official count data are different. The modelling data is collected one month after the reporting date to allow for any back-dated changes to be made.

A brief reconciliation is given below:

Table C.1 – Client number reconciliation

Main working age benefits at 30 June 2017	**276.041**
Quarterly count definition and back-dating of data	+10,853
Partners	+43,484
16-17 year olds	+2,451
Clients receiving supplementary benefits only*	+76,770
Clients receiving the orphans benefit	+5,427
Recent exits**	+35,306
Total receiving benefits in the quarter to 30 June 2017	450,332

*** The main working-age benefit count only includes main benefit clients**
**** The valuation current client liability definition includes people not currently receiving benefits but have done in the previous 12 months**

All projections in this report come from the modelling and will differ to Treasury forecasts because they are used for a different purpose and adopt different methodologies and assumptions.

Glossary

AS – Accommodation Supplement

BPS – Better Public Services

CE – Chief Executive

CMHP – Child Material Hardship Package

Corrections – Department of Corrections

DCE – Deputy Chief Executive

FIAA – Fellow of the Institute of Actuaries of Australia

FIA – Fellow of the Institute of Actuaries (UK)

FNZSA – Fellow of the New Zealand Society of Actuaries

GCM – General Case Management

GFC – Global Financial Crisis

HCD – Health Conditions and Disabilities

HNZC – Housing New Zealand Corporation

IDI – Integrated Data Infrastructure

IRRS – Income Related Rent Subsidy

JS – Jobseeker Support

JS-WR – Jobseeker Support-Work Ready

JS-HCD – Jobseeker Support-Health Conditions and Disabilities

MCA – Multi-Category Appropriation

MSD – Ministry of Social Development

NOMB – Not on Main Benefit

OB – Orphans Benefit

ROI – Return on Investment

SLP – Supported Living Payment

SPS – Sole Parent Support

SUP – Supplementary Benefits Only

TAS – Temporary Additional Support

TFW – Training for Work

WFCM – Work-Focused Case Management

WSS – Work Search Support

YP – Youth Payment

YPP – Young Parent Payment

MINISTRY OF SOCIAL DEVELOPMENT
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New Zealand Government