THE INTRODUCTION OF COMPULSORY INCOME MANAGEMENT INTO NEW ZEALAND’S SOCIAL SECURITY SYSTEM: THE CASE OF THE YOUTH SERVICE PACKAGE

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Abstract

As part of its 2012 Youth Service package, the Government has introduced compulsory income management for recipients of the new Youth Payment and Young Parent Payment benefits. The scheme involves dividing beneficiaries’ payments between automatic redirections for rent and other bills, an electronic payment card that can only be used for food and groceries and a cash payment of no more than $50 per week. The only other country to operate comparable programmes is Australia which introduced income management in 2007 as part of the Northern Territory Emergency Response.

This paper presents a preliminary assessment of the income management scheme introduced in the Youth Service package. We examine the design of, and apparent rationale for, the policy and consider some of its implications. We also compare the New Zealand policy with the way income management operates in Australia.

We conclude that there is no evidence of widespread poor expenditure patterns amongst the two target groups that might justify the blanket application of the policy; that the design of the scheme inhibits people’s ability to budget optimally; and risks a number of negative and perverse outcomes. It appears that the rationale underlying the use of income management is to deter benefit receipt rather than to assist with financial management. In our view, this is not an appropriate use of the policy, especially if in doing so the scheme also risks negative outcomes.

Introduction

The Government’s welfare reforms being implemented in 2012/13 include the introduction of a number of policies new to New Zealand’s social security system. One of these is compulsory income management – a system where welfare recipients have a proportion of their benefit income quarantined so it can only be spent on certain goods and services. Income management – or ‘money management’ as it is called by the Ministry of Social Development (2012) – is being applied compulsorily to recipients of the new Youth Payment and Young Parent Payment benefits as part of the Government’s Youth Service package.

The only other country to implement comparable income management measures is Australia, where it was originally introduced in 2007 as part of the Northern Territory Emergency Response (NTER) following the report of the Board of Inquiry into the Protection of Aboriginal Children from Sexual Abuse which linked alcohol and drug abuse in some rural Northern Territory communities to the abuse and neglect of Indigenous children (Buckmaster & Ey, 2012).
This paper presents a preliminary assessment of the income management scheme introduced in the Youth Service package. We examine the design of, and apparent rationale for, the New Zealand policy and consider some of its implications. We also compare the New Zealand policy with the way income management operates in Australia.

The Youth Service Package

Youth Service is an intensive case management programme targeted at three groups of young people. One group is youth who are not on a benefit but who are identified as at risk of being not in employment, education or training and who choose to participate voluntarily. Because they are not on benefit, income management does not apply to these people and this part of the programme is not discussed further here. The other two groups are recipients of the new Youth Payment (YP) and Young Parent Payment (YPP). The YP is for 16-17 year old youth and the YPP for 16-18 year old parents who, in both cases, are in need of income support and who meet certain eligibility requirements. In broad terms, 16 and 17 year olds on either benefit must meet ‘exceptional circumstances’ criteria relating to being unable to be supported by their parents or guardians or, in the case of young parents, have parents who are themselves on low incomes. Eighteen-year-old parents, who up until the reforms may have been entitled to the Domestic Purposes Benefit, can qualify for the YPP without the exceptional circumstances or parental income tests. Young people who are or have been married or in a civil union or de facto relationship may also qualify.

The programme came into force in July 2012, with a budget of $148.8m over four years (Minister for Social Development, 2012a). As at 31 October 2012 there were 1,260 YP and 1,381 YPP recipients.

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The Young Payment (YP) and Young Parent Payment (YPP) were introduced as part of the Government’s suite of reforms to welfare services in 2012. The Youth Payment (YP) is for 16-17 year old youth who are in need of income support and who meet certain eligibility requirements. In broad terms, 16 and 17 year olds on either benefit must meet ‘exceptional circumstances’ criteria relating to being unable to be supported by their parents or guardians or, in the case of young parents, have parents who are themselves on low incomes. Eighteen-year-old parents, who up until the reforms may have been entitled to the Domestic Purposes Benefit, can qualify for the YPP without the exceptional circumstances or parental income tests. Young people who are or have been married or in a civil union or de facto relationship may also qualify. The programme came into force in July 2012, with a budget of $148.8m over four years (Minister for Social Development, 2012a). As at 31 October 2012 there were 1,260 YP and 1,381 YPP recipients.

The youth income management system was intended to be a “high threshold” for release from income management (Minister for Social Development, 2012b, para 24). Recipients may be returned to income management if they fail to meet a required obligation or if they demonstrate “poor financial management” such as “…not [using] their part-time earnings in a way that is appropriate for their situation (for example, bought very expensive clothing items when they should have saved for their car registration)” (Work and Income New Zealand, 2012, see “Returned to money management”).

Income management in the Youth Service package

Under the Youth Service income management system a person’s benefit, family tax credits, Accommodation Supplement and certain other supplementary payments such as Temporary Additional Support are divided three ways. Payments for rent, utilities and lawful debts are deducted from the young person’s benefit by the YSSU and paid directly. An “In-hand Allowance” of up to $50 per week is paid into the recipient’s bank account. The amount can be less if recommended by the service provider, or if less than $50 remains after redirections. The remainder is paid onto an electronic “Payment Card” which can be used to buy food and groceries at participating stores. The $50pw maximum for the In-hand Allowance is stipulated in legislation and can therefore only be altered by Act of Parliament.

A person’s assigned case manager can recommend that they be released from income management if they have met certain conditions. These include having ‘demonstrated financial competence’ for at least three months, having complied with all expectations and obligations and having earned all the incentive payments available to them. Complying with all obligations includes meeting with their provider when required and not having had any activity obligation failure in the preceding six months. A Cabinet paper on the Youth Service package indicated that it was intended there should be a “high threshold” for release from income management (Minister for Social Development, 2012c, para 24). Recipients may be returned to income management if they fail to meet a required obligation or if they demonstrate “poor financial management” such as “…not [using] their part-time earnings in a way that is appropriate for their situation (for example, bought very expensive clothing items when they should have saved for their car registration)” (Work and Income New Zealand, 2012, see “Returned to money management”).

Income management in Australia

Australia is the only other jurisdiction with comparable income management schemes for welfare recipients. In the US some welfare is paid through Electronic Benefit Transfer (EBT) cards but these can be used in EFTPOS machines to withdraw cash. The Australian schemes

1 The threshold is set at the cut-off point for the main family assistance measure, the Family Tax Credit. For a family with one child under 16, this equates to $59,000 per annum.

2 The success fee comprises two parts: $1000 if the young person achieves an NCEA level or equivalent while in the programme and a further $1000 for each young person who does not apply for a main benefit (and is not incarcerated or deceased) within three months of exiting the programme.

began in 2007 as part of the Government’s Northern Territory Emergency Response (NTER) to the report of the Board of Inquiry into the Protection of Aboriginal Children from Sexual Abuse, *Little Children Are Sacred*. Although the Board of Inquiry decided not to recommend income management, the Government opted to introduce the measure in 73 predominantly Indigenous communities and 10 town camps and suspended the application of the Race Discrimination Act 1975 which the move would have contravened (Buckmaster & Ey, 2012). Following the change of Government in 2010, income management was amended. By moving away from blanket application to all beneficiaries in specified communities to a more targeted approach, the ‘New Income Management’ (NIM) measures have permitted the full reinstatement of the measure in 73 predominantly Indigenous communities and 10 town camps and suspended the application of the Race Discrimination Act 1975 which the move would have contravened (Buckmaster & Ey, 2012). Following the change of Government in 2010, income management was amended. By moving away from blanket application to all beneficiaries in specified communities to a more targeted approach, the ‘New Income Management’ (NIM) measures have permitted the full reinstatement of the measure in 73 predominantly Indigenous communities.

There are currently five NIM schemes in operation, involving approximately 20,000 recipients. The proportion of benefit income that is quarantined varies across the schemes but is 50 percent for most people. Quarantined funds can be used to pay for rent, utilities and food as well as for other needs. Recipients are free to spend the non-quarantined money as they choose.

**Problems with the New Zealand scheme**

The New Zealand scheme raises a number of issues. First, income management is applied automatically to virtually all new YP and YPP recipients irrespective of circumstances. Young people are subject to the constraints of the scheme even where there is no evidence of inability to manage their own finances or of spending behaviour that is harmful to them or their child. In Australia, use of income management is on the basis of assessed individual need in three of the schemes and on the basis of benefit type and duration in one. Even in the latter case, there are provisions for exemption and the types of behaviours which are required of YP/YPP recipients in New Zealand – being in full-time education, ensuring children’s attendance at school, demonstrated ability to manage money, and so on – would be likely to be grounds for exemption. As at September 2012 over 2,500 exemptions had been granted in the Northern Territory, and over one third of the sole parent Parenting Payment recipients potentially subject to income management have been exempted (Bray et al., 2012).

Second, and crucially, the New Zealand payment card covers only a subset of essential daily items. Items the card cannot be used for include:

- Medical bills
- Dental bills
- Pharmaceuticals
- Clothing and footwear (other than those sold at participating grocery stores)
- Petrol, diesel
- Public transport (except where transport cards/concession passes are sold by participating stores)
- Household furniture, furnishings, (other than those sold at supermarkets)
- Appliances and electric/electronic goods, even if sold at a participating store
- Purchase, and maintenance of motor vehicles and bicycles, including registration or warrant of fitness of motor vehicles
- Childcare costs, outside of that covered by the childcare subsidy
- Toys, books not available at participating stores
- Recreational activities

In Australia the BasicsCard can be used at a wide variety of retailers and the definition of ‘priority needs’ covers nearly all basic items, including vehicle purchases and repairs and occasional expenses such as funerals.

The practical effect of the design of the New Zealand scheme is illustrated in Table 1 which shows hypothetical budgets for YPP and YP recipients. The budgets assume a low-end rent for a private sector two-bedroom and one-bedroom flat respectively in Accommodation Supplement Area Two (ie, the main cities, other than Central Auckland and Auckland’s North Shore). Table 1 highlights the impact on YPP recipients in particular. After deductions for rent and utilities, the young parent has about $170pw quarantined on the Card to spend on food and groceries but only $50pw to spend on all their and their child’s other needs. The YP recipient, whose benefit income is lower, has the $50 In-hand Allowance but only another $20pw on the payment card.

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4 Although the majority of those subject to income management are still Indigenous people, for example, in the Northern Territory approximately 89 percent of those subject to NIM are Indigenous, as are 68 percent in Western Australia (administrative data provided by Department of Human Services, as at 7 September 2012).

5 The exceptions are the small number of people who have a partner who is over 17 years old (YP) or 18 years old (YPP); these people can opt out of income management.

6 Rents are assumed to be 20 percent below the lower quartile private sector flat (not house) using June 2011 rental data. In fact the figures are not very sensitive to the rent assumption because of the 70% Accommodation Supplement subsidy which means, for example, that even a $50pw reduction in rent would only raise after-housing-cost income by $15pw.

7 The In-hand Allowance proportion may be reduced if the assigned provider recommends this.
Table 1: Illustrative examples of YP and YPP budgets under Income Management

<table>
<thead>
<tr>
<th>Income</th>
<th>Youth Payment (dollars per week)</th>
<th>Young Parent Payment (one child)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core benefit</td>
<td>$170.80</td>
<td>$293.58</td>
</tr>
<tr>
<td>Accommodation Supplement</td>
<td>$70.70</td>
<td>$88.90</td>
</tr>
<tr>
<td>Family Tax Credit</td>
<td>-</td>
<td>$92.73</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$241.50</strong></td>
<td><strong>$475.21</strong></td>
</tr>
<tr>
<td>Distributed between:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct deduction: rent*</td>
<td>$152.00</td>
<td>$224.00</td>
</tr>
<tr>
<td>Direct deduction: power and water</td>
<td>$20.00</td>
<td>$30.00</td>
</tr>
<tr>
<td>In-hand Allowance</td>
<td>$50.00</td>
<td>$50.00</td>
</tr>
<tr>
<td>Payment Card</td>
<td>$19.50</td>
<td>$171.21</td>
</tr>
</tbody>
</table>

* See footnote 5.

The sole parent example highlights the problem created by restricting the payment card to food and groceries sold at a narrow range of stores. The policy divides the income they need for essentials into two pots and constrains their ability to transfer funds between those pots. It is not possible to economise on food and groceries in order to meet other costs such as transport, clothing or footwear. Nor is it possible to defer or reduce household grocery spending to meet a one-off bill such as for a dentist or doctor or to cope with an unexpected or emergency cost such as a taxi to take a sick child to a medical centre.

Even within the food and grocery category, the scheme prevents people from making best use of their money because of the limited number of shops where the card can be used. In Porirua City, for example, the card is accepted at the three main supermarkets, one clearance grocery store and two butcheries. It cannot be used at other low-cost Porirua retailers including The Warehouse, K-Mart, Dress-smart, Nappies-for-Less and the $2-Shop. Similarly, the card cannot be used at weekend markets where fruit, vegetables and other food are often cheaper. The *New Zealand Herald* quoted one young mother pointing out that, while she can buy nappies at the supermarket, they were much cheaper at another, non-participating store (Collins, 2012). The Minister herself has been reporting referring to cases where people are apparently on-selling goods bought at the supermarket in order to increase the cash available to them for other purchases: “I can’t stop individual practice really, we have some bizarre things that happen; you know people buy 10 cooked chickens and then go and sell them in the car park.” Batteries were the most purchased item on the cards because they were easily on-sold, while food was being swapped for cash, she said” (Chapman, 2012). Far from being ‘bizarre’, this seems a rational response to the policy.

A third issue with the income management component of the scheme is that it clashes with the service providers’ role. Government has invested heavily in the intensive case management services, with an estimated $137 million of the total budget to be allocated to funding the service providers. Yet, two conflicting forms of income management are effectively being superimposed on each other – the electronic money management scheme on top of the case managers’ budget oversight role. Providers are required to have detailed budgeting discussions with their clients but, at times, their best advice will be constrained by the income management rules. There is, for example, no way a provider can assist a client to have more money for non-grocery items by helping them find cheaper accommodation or by advising on how to save on electricity. Less efficient still is the situation where the provider agrees that their client needs additional cash in hand to buy a specific item. Even if the beneficiary has spare funds on the Payment Card, the only way these can be accessed is for the provider to apply on the recipient’s behalf for a recoverable benefit advance which, if accepted by the YSSU, is then repaid in instalments from the payment card allocation. Moreover, it is possible that applications for benefit advances could be seen as evidence of ‘poor budgeting’ and therefore a reason not to release a person from income management. Income management payment cards are essentially a ‘hands-off’ technological mechanism to restrict some expenditure to essential items. They are inconsistent with the very hands-on close budgetary supervision that is part of the service provider’s role.
The Government’s rationale for the Youth Services money management policy: Assistance or deterrence?

The Government has not set out any explicit rationale for including income management as part of the Youth Service package. The Social Security (Youth Support and Work Focus) Amendment Act 2012 contains only a general purpose statement relating to the Youth Service package as a whole by including a sub-section to the purposes of the Act stating:

To provide services to encourage and help young persons to move to education, training, and employment rather than to receiving financial support under this Act. ⁹

Furthermore, as noted above, Government has also not provided evidence of widespread mismanagement of money among the two targeted groups which could potentially be used as a justification for the blanket imposition of income management. The Regulatory Impact Statements accompanying the legislation state only that⁹:

Managing money, particularly for those on low incomes, can at times be difficult and can result in debt or lack of essential items. Direct payment of benefit to third parties could have positive benefits, assisting young people to manage their finances better. Coupled with budget training, this could prevent these young people accumulating debt or being evicted because of rent arrears. These positive outcomes justify the different treatment of these young people.

(Ministry of Social Development, n.d. para 38)

Even if there were strong evidence that money management problems were common, it would be more logical to use the assigned service providers’ budgetary oversight role as the default, reserving income management for individual cases where this proved ineffective.

In the absence of evidence that the rationale for the policy is to help young people who have budgeting problems, it appears that one of the Government’s primary motivations for including income management in the Youth Package is to deter benefit receipt. Official and

Ministerial statements reinforce this view. The Youth Package Cabinet paper states that the Youth Package will:

- discourage an early reliance on benefit receipt by replacing benefits with a new form of financial support, distributed through redirections, payments and a small cash allowance.

(Minister for Social Development, 2011, para 4)

The Minister made this objective clear in her First Reading speech when the Bill was introduced:

I will be frank: we want to make welfare a less attractive proposition for many young people. We will not continue to dish out money to young people and ten parents and just hope that they will be OK. Instead, with the youth payment for 16- and 17-year-olds, and the young parent payment for 16-, 17- and 18-year-old teen parents, we will help them manage their money into their being less dependent.

(Minister for Social Development, 2012b)

There are several problems with this. First, in respect of Youth Payment applicants there is little need for a disincentive. Most YP applicants, unless their parents or guardians are absent or deceased or the applicant is transitioning out of State care, cannot be granted the benefit without first going through a Family Breakdown Assessment designed to test whether in fact they are able to be supported by family. In respect of the YPP, once they become parents, these are young people who are in need of income support while they continue in education. There is no evidence to suggest that the income management provisions of the Youth Package will reduce the rate of teen pregnancies, increasing the likelihood that pregnant teenage women will choose to terminate their pregnancies or reduce the rate of sole parenthood among teen mothers.

Another possibility is that making ‘welfare a less attractive proposition’ is intended to encourage young people to exit the YP or YPP benefits by taking employment. If so, this conflicts directly with the explicit – and commendable – objective of the package to maintain young people in full-time education or training.

A second problem with the use of income management as a disincentive is that to achieve that objective it must materially interfere with how the person would prefer to spend their income. In the context of New Zealand levels of benefit payments relative to living costs, a $50 In-hand Allowance purely for personal discretionary spending would be unlikely to be a significant disincentive. The great majority of young beneficiaries would be pleased to have that much discretionary income. Any disincentive impact can only be engineered by requiring that the In-hand Allowance also cover a wide range of basic living expenses. As discussed earlier, it is this aspect of the package that risks causing a number of negative, undesirable effects, particularly for teen parents and their children.

It is possible that the disincentive effect is intended to operate simply through perceptions – the idea being to “reframe” the benefit so that potential applicants perceive

⁹ In contrast, the Australian Social Security (Administration) Act 1999 lists six purposes for income management, all of which relate to the wellbeing of the individual affected and his or her family (Australian Social Security (Administration) Act 1999 S123TB, cited in (Bray et al., 2012).

⁸ Five paragraphs of the publicly-released version of the Regulatory Impact Statement have been withheld under the Official Information Act 1982 (for unspecified reasons) but judging from their position in the document it does not appear these paragraphs relate to the rationale for income management.
that they will have only a “small cash allowance” without actually denying them the income needed to get by. We are not aware of any evidence that young people would be influenced by a misunderstanding of this sort and certainly none has been provided by Government. Moreover, it would seem unlikely that such an effect would be significant in comparison to the other changes such as the requirements, which did not exist with the previous benefits, to be in full-time education or training and to engage in a programme of intensive case management. More fundamentally, if the objective is simply reframing, the policy should be designed in a way that ensures it does not interfere with good budgeting and the living standards of those who are subject to income management.

Conclusions

The purpose of this paper is to provide a preliminary critical examination of the income management component of the Youth Services package and to compare its design with comparable schemes operating in Australia. Compulsory income management is a new development in New Zealand’s social security system, one that is rare internationally. For these reasons, and its inherently intrusive nature, it warrants close attention and will need rigorous, arms-length evaluation.

The policy as implemented raises a number of concerns. First, there is no evidence of widespread poor expenditure patterns amongst the two target groups sufficient to warrant the blanket application of the policy. Second, and unlike in Australia, the fact that a wide range of ordinary necessary expenses cannot be bought with the quarantined component of the benefit and must be funded from the $50 In-hand Allowance actually reduces people’s ability to budget optimally and risks a number of negative and perverse outcomes. Third, in light of the role given to service providers to oversee recipients’ budgeting and spending, there is no budgeting-related reason to also impose compulsory money management. Fourth, from official and Ministerial statements it appears that one motivation for the money management policy is to deter benefit receipt. This, in our view, is not an appropriate use of compulsory income management, especially if the design of the scheme also risks negative outcomes.

References


