CONFIDENTIAL

GF No: 509
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5 November 1996

RESERVE BANK ACT

On 31 October 1996 you requested answers to the following set of questions.

Questions

Both National and New Zealand First share a common objective of a high and sustainable rate of low-inflationary economic growth.

The current Reserve Bank Act is fundamental to the National Government's economic policies. The Act contains a single objective for monetary policy (namely price stability). The current Policy Targets Agreement sets a target for the underlying rate of inflation of 0-2%.

New Zealand First has expressed reservations on the current framework for monetary policy, given the current high real interest rate and the problems for exporters created by the strong exchange rate. It has proposed:

a) *amending the Act to add the objective for monetary policy of supporting sustainable economic growth;*

b) *changing the PTA target from 0-2% to that of an inflation rate below New Zealand's major (top ten) trading partners.*

The new objective for the Act is intended to have a significant impact on current monetary conditions. It is based on the premise that low inflation is not the only contribution that monetary policy can make to economic growth. The overall intention of changes to the Act and to the PTA is to reduce the current pressure on the exchange rate and on real interest rates, so as to boost the productive and export sectors of the economy.

1. Please comment on the extent to which the current policy framework has contributed to improving New Zealand's growth performance.

2. Please discuss the major implications of New Zealand First's proposals, including for inflation and sustainable growth.

3. Please also comment on what else could be done to change monetary policy, so as to contribute to the growth objective; and on what other steps could be taken, particularly in the non-tradeable sector, to reduce inflationary pressures.

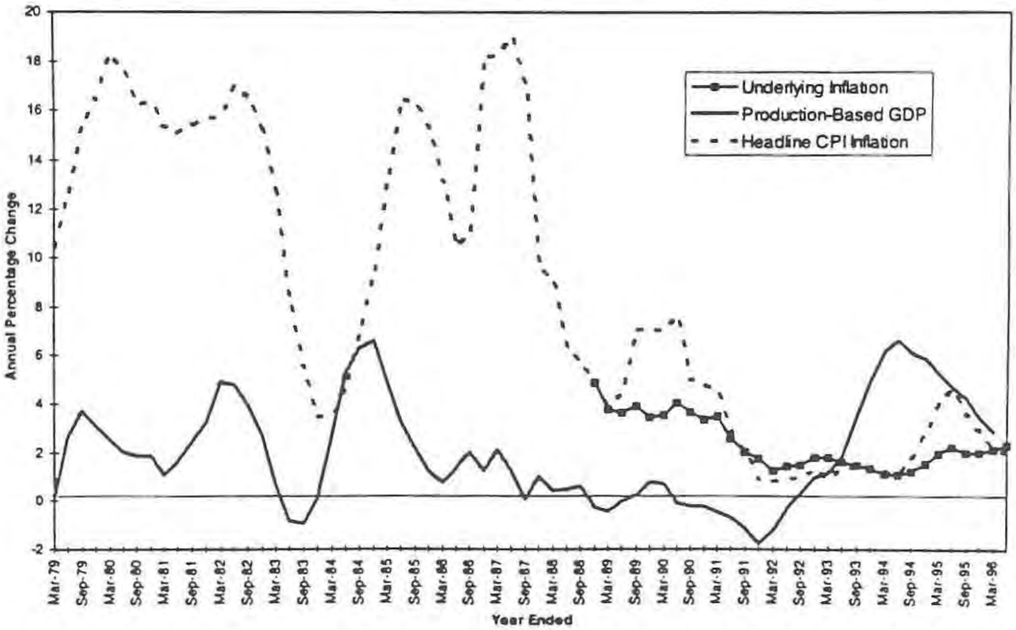
1. Extent to which the current policy framework has contributed to improving New Zealand's growth performance

New Zealand's macroeconomic performance has substantially improved in recent years. While it is hard to isolate the impact of any single policy, the changes to the framework and operation of both fiscal and monetary policy have played a significant role in this improved performance.

Recently, inflationary pressures have been growing. Inflation, has been stronger than the Reserve Bank and most commentators had expected. In response, the Bank has encouraged a steady tightening of monetary conditions. The consequent increases in real interest rates and the real exchange rate have put increasing pressure on debt financed businesses and international competing businesses. Prolonged monetary pressure has encouraged criticism of the current monetary policy framework, especially from those most directly affected. Such criticisms have included assertions that the monetary policy framework is lowering growth, lowering employment and reducing exports. However, the recent experience should be seen in the context of the substantially improved New Zealand economic performance over recent years.

The strength of the framework can be seen from a brief review of recent economic results, which show that New Zealand has enjoyed strong growth in activity and employment, with unusually low levels of inflation.

Figure 1 Economic Growth and Inflation, March 1979 to March 1996

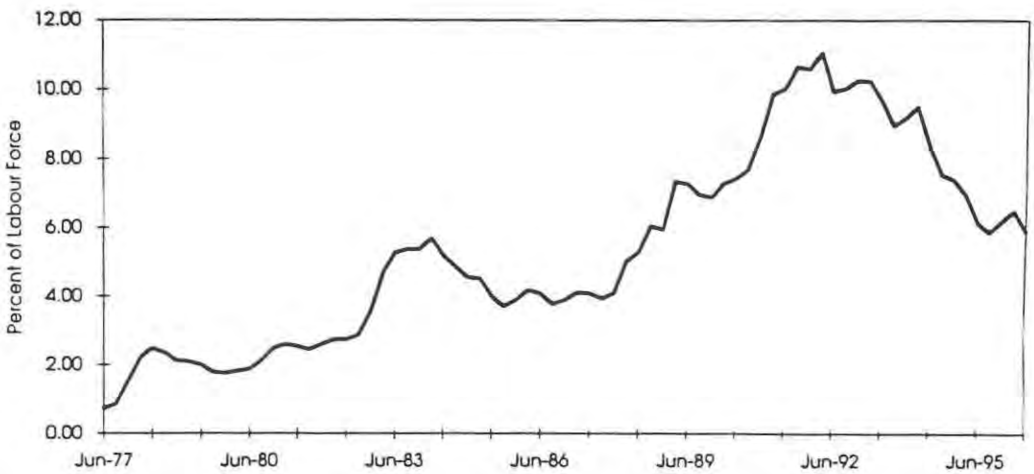


Source: Reserve Bank and Statistics New Zealand

There has been a sustained period of economic growth over the last five years, with the economy growing by 19.2% from the June quarter 1991 to the June quarter 1996 (ie at an average of 3½% per annum). But unlike past periods of strong growth, this period of growth has not been accompanied by a strong surge in inflation (see Fig 1). Although it is apparent that inflationary pressures did increase in recent years, the proactive stance of monetary policy has meant that these pressures were not converted into large increases in inflation outturns. Price stability ensures that cyclical movements in the economy are less pronounced. As a result of subdued inflation, annual economic growth in this economic cycle looks likely to reach a low point of around 2%, based on New Zealand Institute of Economic Research Consensus Forecasts. This is a high rate compared to past economic downswings.

Employment growth has been strong. In the five-year period from the trough of the previous economic cycle in the June quarter 1991 to the June quarter 1996, there was a 221,000 (or 15.1%) increase in employment. The unemployment rate has fallen steadily from its peak of 10.9% (seasonally adjusted) in the September quarter 1991. Currently (June quarter 1996), the seasonally adjusted unemployment rate is 6.1%.

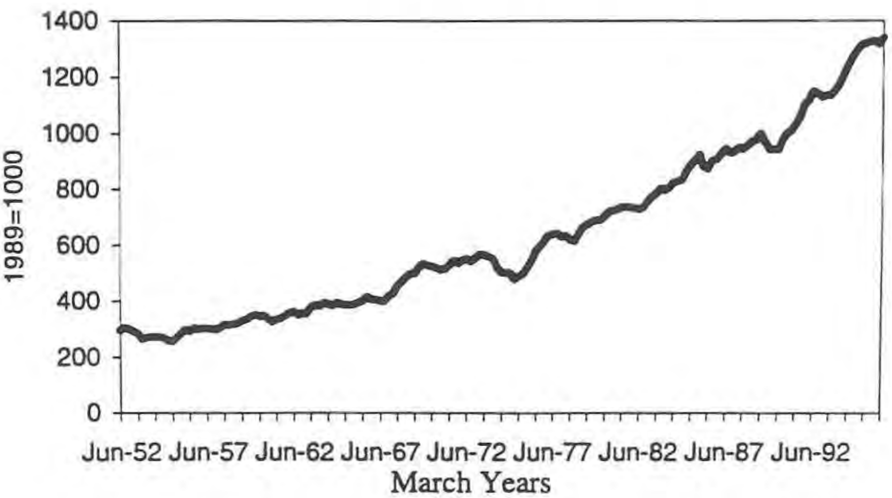
Fig. 2 Unemployment rate



Source: Statistics New Zealand; backdated by New Zealand Institute of Economic Research

Export growth has also been strong. Export volumes have grown by 30% over the last five years (an average of 5½% per annum). This compares with an average growth of 3½% per annum over the previous 40 years. This is a remarkable result, since the pressure of tight monetary conditions often initially falls more heavily on export and import competing industries than it does on industries with a domestic focus. It demonstrates that the improvements in competitiveness and flexibility that have come from a more open economy with low inflation are more significant than short-term problems that might arise from firm monetary conditions.

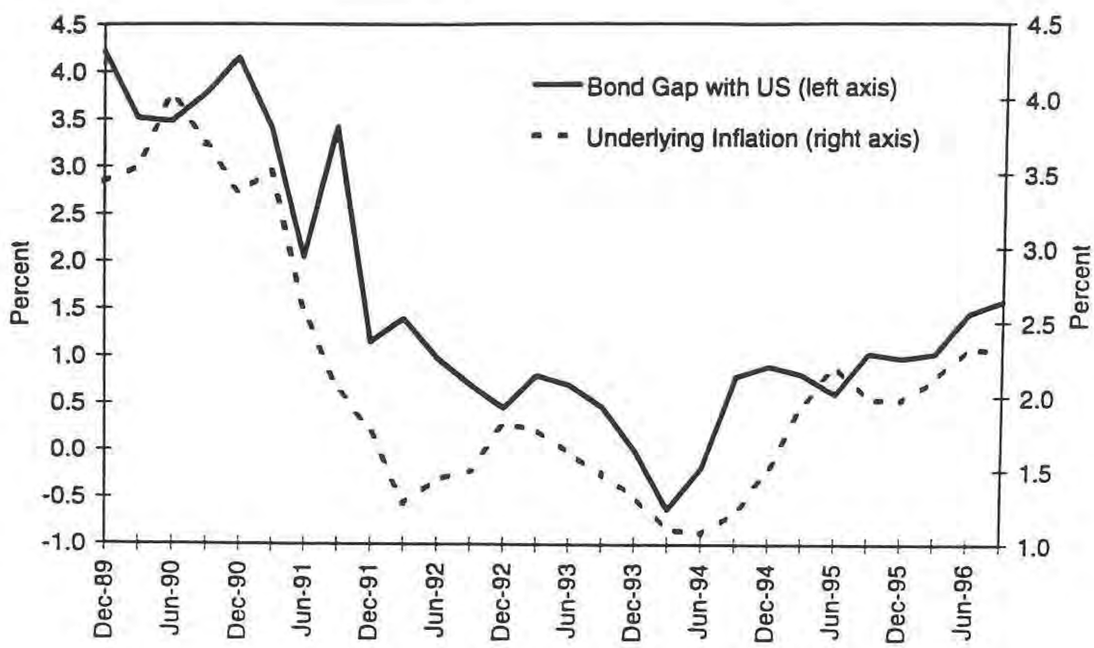
Fig. 3 Total Export Volumes



Source: Statistics New Zealand

Another gauge of the success of the current monetary policy framework is how New Zealand long term interest rates fare relative to those overseas. The difference between New Zealand 10-year interest rates and US 10-year interest rates indicates the risk premium overseas investors require on investments in New Zealand to compensate them for expected erosion of their returns due to inflation. Fig 4 shows that the risk premium is now clearly lower than at the inception of the current Reserve Bank Act, and broadly reflects the success in controlling inflation. A lower risk premium means that New Zealand businesses pay lower interest rates on their borrowing.

Fig. 4 NZ Long-Term Interest Rate Differential with the US



2. *Major implications of New Zealand First's proposals, including for inflation and sustainable growth*

Multiple objectives for monetary policy

Easing monetary policy is likely to reduce current pressure on the exchange rate, and interest rates, and, therefore, provide a short-lived boost to exports and growth; in much the same way as devaluations did in the past. These positive effects will not be sustained, however, because easing monetary policy would also lead to higher inflation, increasing costs for exporters and erosion of the competitive gains of a lower exchange rate. This has been New Zealand's experience. Falling exchange rates have not secured lasting competitiveness gains because they have been eroded by higher domestic inflation. Any short-term advantage would be bought at the cost of higher inflation, which would reduce New Zealand's sustainable rate of economic growth. In sum, easier monetary policy is likely to produce some short-term gains at the cost of a lower sustainable economic growth rate.

The weight of evidence and opinion is that maintaining price stability is the best contribution that monetary policy can make to sustaining high rates of economic growth. Internationally and domestically there is some debate about whether targeting price stability on 0-2% inflation is better than some *slightly* higher or wider range (say by 1%). But, there is an informed consensus in favour of price stability with a target of no, or very low, inflation. Therefore, the current single monetary policy objective of "maintaining price stability" is most likely to promote high rates of sustainable economic growth. Given that, adding the objective of "sustainable economic growth" to the Act should not change the day-to-day operation of monetary policy.

However, adding this new objective to the Act runs very serious risks. People would expect that, by changing the objectives of the Act, Parliament wanted some change in the operation of monetary policy. Because both objectives would be given equal weight, the likely assumption would be that Parliament envisaged some trade-off between the two objectives, and that from time to time, it wanted more weight to be given to growth and less to inflation.

The letter of the law would lead the Governor of the day to make no changes in the operation of monetary policy because the evidence suggests that maintaining price stability is the best thing he or she can do to support high rates of *sustainable* economic growth. However, that Governor would have to wonder what Parliament intended by making the change and may be tempted, or encouraged, to conclude that the Parliament wanted less weight given to price stability and long-term growth, in favour of a short-lived boost to exports and output. The risk is that by giving the Governor two objectives the Parliament is giving the Governor more discretion at the same time as it is giving conflicting signals about how it wants that discretion used. A Governor might be tempted to use that discretion to ease off on inflation, in a belief that this is what was intended by the law change. A Governor might do this even though this course is most likely to reduce sustainable growth rates and, therefore, to be in conflict with the letter of the law.

Alternatively, the Governor might use the discretion to make no change in the operation of monetary policy. Even here, however, there are risks in adding the new objective because other people may take a while to be convinced that the law change does not signal higher inflation. If they expect the change to produce higher inflation, then employees are more likely to push for higher wages and firms are more likely to see room for higher prices (and, thus, room to accommodate higher wage demands). If they act this way they will put additional pressure on unchanged monetary policy, with negative implications for output and employment. By pricing up to their mistaken expectation of higher inflation, New Zealand firms and employees would have made themselves, and each other, less competitive. Investors are also likely to demand higher interest rates in order to compensate for the increased inflationary risk of investing in New Zealand, so the uncertainty created by adding this new objective is also likely to lead to higher interest rates.

Most of the major central banks around the world now recognise that very low inflation or price stability is the best way monetary policy can contribute to improving the performance of their economies. And although many central banks have other objectives, such as output and employment, these are now more often interpreted as being best achieved through the sole pursuit of an inflation target. For instance, in Australia a recent joint *Statement on the Conduct of Monetary Policy,* by the Treasurer and the new Governor of the Reserve Bank, has made it clear that currency stability, full employment and economic prosperity imply a need for the Reserve Bank to pursue a medium term goal of price stability. The Federal Reserve in the United States also interprets a sole target of price stability as the best way of achieving its other monetary policy objectives.

New Zealand's monetary policy framework under the Reserve Bank Act, by explicitly confining the Reserve Bank to a target of price stability, is superior to other frameworks around the world because it minimises the potential for following inconsistent policy objectives. This increases the credibility of monetary policy, which is vital to minimising the costs of reducing inflation and maintaining price stability.

Changing the PTA target from 0-2% to that of an inflation rate below New Zealand's major (top ten) trading partners

In changing the inflation target it is important to remember that inflation targets do not determine an economy's external competitiveness. This can only be achieved through the ability to manage labour and capital in a flexible way to meet market needs, within a stable economic environment. Choosing an inflation target that encourages positive inflation will provide only a temporary boost to exporters. A renewal of domestic inflation would place exporters in difficulties similar to those arising from a rising exchange rate as input costs rise faster than output costs.

In New Zealand's recent experience, having an inflation target below our main trading partners would not have provided any short-term relief for exporters. The weighted average inflation rate of New Zealand's top ten trading partners was 2.8% in the year to June 1996, only slightly ahead of the 2.3% for New Zealand over the same period. However, a year ago the actual weighted average inflation of New Zealand's trading partners would have been expected to be over 3%. This is the target which the Reserve Bank would have based its monetary policy settings on. Under a regime of targeting inflation below New Zealand's main trading partners, monetary conditions would have been almost as tight as they have been recently. But because it is a moving target, the Reserve Bank would be seen to have missed its target by a significantly greater degree. This would have significantly damaged the Reserve Bank's credibility in meeting its target, thus making it more difficult in the future to meet the target of inflation below New Zealand's main trading partners.

The critical factor in deciding the appropriate inflation target is what implications the choice of target will have on monetary policy credibility. If householders and businesses believe that the government and its agencies will act firmly to prevent inflation, then they will be more likely to believe that prices will be stable. As many governments around the world have coped with short-term pressures by allowing prices to rise, it can be difficult to achieve credibility in this area. Monetary policy credibility therefore depends on people believing that the government is committed to achieving price stability, and the Reserve Bank is capable of achieving it.

The main difficulty with targeting a rate of inflation below our main trading partners is that it provides no certainty. The target would effectively be a moveable one. Furthermore, to be operational, setting the inflation target would require forecasting the inflation rates for our main trading partners with a fair degree of accuracy. This would be an extremely difficult task for the Reserve Bank. Therefore, businesses and individuals would be less sure of the inflation rate that is likely to prevail because they do not know what the target is. And given the difficulties associated with a moving target, businesses and individuals would have less confidence in the abilities of the Reserve Bank to meet its target.

A final point about choosing an inflation target below our main trading partners is that it would effectively disconnect New Zealand monetary conditions from being related to domestic circumstances. Rather than adjusting conditions to address inflation pressures in New Zealand, the Reserve Bank would have to take account of conditions in the rest of the world. This would mean that if inflation slows in other countries, monetary conditions in New Zealand would have to tighten at a time when it is inappropriate for domestic economic conditions.

3. *Other monetary policy measures that may contribute to the growth objective, and other steps that could be taken, particularly in the non-tradeable sector, to reduce inflationary pressures*

Consistency between monetary and fiscal policy objectives

Though fiscal and monetary policy are generally considered separately, and day-to-day monetary management is the Reserve Bank Governor's responsibility, the overall effect on economic stability comes from the combination of both monetary and fiscal policy. The conduct of fiscal policy is an important determinant of the conduct of monetary policy and the ability to achieve monetary policy objects.

To a degree the upward pressure on interest rates and the exchange rate is due to the recent easing in fiscal policy. Interest rates and the exchange are also being kept high by the perception that fiscal policy is likely to loosen significantly after the formation of a new government. If fiscal policy is loosened further this will require higher interest rates and a higher real exchange rate for any given monetary policy target. This will result in further pressure on exporters. Indeed, further fiscal easing may even negate any short term benefits to exporters that may be gained by loosening monetary policy.

More generally, even with a clear and formal independence of monetary policy, fiscal policy also has an important role to play in people's interpretations of how the government is going to act in the future. A transparent fiscal strategy that people perceive to be prudent and sound will make the maintenance of price stability easier.

Maintaining overall policy credibility is vital for reducing the costs of maintaining any given inflation target. The less people believe the government and the Reserve Bank are intent on achieving their announced inflation and fiscal targets, the more likely they are to negotiate wage or price increases that are at variance with the target. The greater the inflationary pressures that result from a lack of policy credibility, the more often tight monetary policy will be required. Conversely, if there is general acceptance that the government and the Reserve Bank are serious, and will defend a low inflation environment, then it is likely that there will be fewer requirements for tighter monetary conditions.

Avoiding rapid easing of fiscal policy is an important part of maintaining the credibility of the government's commitment to any inflation target. This means that assessments of the success of macroeconomic management in recent years must take account of both monetary and fiscal policy settings.

Non-tradeable inflation

Inflation in the non-tradeable sector has been the main contributor to underlying inflation over the past two years. Much of the upward pressure on prices has emanated from the residential housing market.

As a result of strong inflation in the non-tradeable sector interest rates have risen and the exchange rate has appreciated sharply. This has resulted in difficult conditions for some businesses in the tradeable sector.

It is not clear that anything can or should be done to specifically target non-tradeable inflation. Monetary policy can only influence general monetary conditions and is indiscriminate in its sectoral effects. The interest rate/exchange rate mix is determined by financial markets.

To a certain extent price rises in the non-tradeable sector reflect changes in relative prices. This is not necessarily a bad thing. Shifts in relative prices provide important market information which is essential to enhance productive efficiency. The key point is whether the price rises are occurring in a flexible and efficient economic environment in response to changes in what people demand, or are they the result of rigidities in the economy.

It has been suggested that further reforms could be implemented to increase competition in the economy and improve business efficiencies. As inflation is ultimately caused by monetary factors, reforms would not change the importance of monetary policy in containing inflation. Neither would they necessarily change the way in which monetary policy operates. But such reforms (depending on their design and intention) could boost potential growth and/or the flexibility of the economy to respond to monetary policy signal from the Bank. Over time, this would allow the economy to grow at a faster rate without significant inflation pressures.

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8 November 1996

KEY POLICY AND DEMOGRAPHIC ASSUMPTIONS IN THE THREE YEAR BASELINES FOR VOTE EDUCATION

Introduction

On 5 November 1996 you requested details of key policy and demographic assumptions in the three year baselines for Vote Education.

Request

"Can you identify and list the key policy and demographic assumptions that were taken account of in the three year baselines for Vote: Education?"

Response

The key policy and demographic assumptions cover the following major expenditure classifications:

- Schools funding (Primary, Secondary and Special Needs Support).
- Early childhood Education.
- School transport.
- Student allowances.
- Student loans.
- Tertiary funding.
- School property.

Schools funding (Primary, Secondary and Special Needs Support)

School funding[1] (primary, secondary and special needs support) is predominantly driven by:

- centrally funded and negotiated teacher payroll;

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[1] School Property assumptions are included under a separate heading.

- per student entitlements for operational costs; and
- smaller discretionary programmes.

Key assumptions included in the baseline are:

- Roll projections

  The main impact on roll growth is from demographic pressure, primarily the influence of the "baby boom" which is expected to cause a peak in rolls in primary schools in 2002 and secondary schools in 2008.

Primary and secondary school rolls and teacher numbers[2]

	Primary (Totals)			Secondary (Totals)	
	Students	Teachers		Students	Teachers
1997	464,800	22,072		241,400	15,270
1998	475,760	22,516		245,640	15,486
1999	485,050	22,893		256,370	16,019
2000	493,140	23,205		262,090	16,298

Other factors influencing roll growth which have been taken into account in the roll numbers above are:

- Net migration and Retention rates.
- Introduction of Raising of the School Leaving Age (ROSLA) policy from 1 January 1998.

	Total Net Migration	Retention Rates (Male)	Retention Rates (Female)
	(persons)	(%)	(%)
1997	25,000	48.1	58.7
1998	20,000	48.7	59.3
1999	20,000	49.3	59.9
2000	20,000	49.9	60.5

[2] Roll numbers are based on the classification of schools rather than by year of schooling. Roll growth in 1999 is due to the first full year of ROSLA, because in 1998 the measurement of the maximum roll for the year takes place only a couple of months after the policy change.

- Teachers' salaries increase as set out in the 1995 Primary and 1996 Secondary teachers' Collective Employment Contracts, are assumed for the forecast. No increases above the existing contract have been assumed for the period after the expiry of the contract in 1998.

- Progressive take-up of direct resourcing by schools:

  - approximately 20% of primary schools by 2000; and
  - over 50% of secondary schools by 2000.

- MRG staffing formula has been assumed to determine the teacher:student ratio.

- The operations grant in not indexed to increases in the CPI or any other price index.

- Teacher:student ratios depend somewhat on exactly which schools children attend. No account has been taken of this internal migration.

- Potential Settlement Service Fee contributions to ESOL are not included.

Early childhood education

Key assumptions included in the baseline are:

- It is assumed that the number of subsidised hours for early childhood education will increase over the forecast period. These growth rates are, in turn, dependent on the number of children enrolled in early childhood services, the number of hours they are enrolled for, the service they are enrolled at (i.e., kindergartens, services receiving the "quality funding" rate, services receiving the base rate, license-exempt services receiving $1 per hour per child), and the age of the children (i.e., under or over two years old). The growth rates, currently assumed in the baseline, for the different licensed services are set out in the table below.

Growth Rates of Under and Over Two Year Olds in Early Childhood Education

	Over Two %	Under Two %
1996/97	9	11
1997/98	5	10
1998/99	3	9
1999/00	3	9

- An increase is assumed in the number of early childhood services that meet higher quality standards (proxied by teacher:child ratios and staff qualifications) who will, therefore, qualify for a higher rate of funding. The take-up rates, contained in the baseline, are shown in the table below.

Proportion of Early Childhood Service Types Accessing Quality Funding Rate

Service Type	1996/97 %	1997/98 %	1998/99 %	1999/00 %
Kindergartens	0	0	0	0
Child care	50	60	75	75
Kohanga reo	20	35	50	50
Playcentres	0	0	0	0
Home based	30	30	30	30

- The 2.6% across the board increase in early childhood education funding rates, received in the 1996 Budget, has been included from 1 January 1997.

- The 1996 Kindergarten Collective Employment Contract settlement has been included in baselines. The settlement included one-off payments totalling $3.132 million in 1996/97. In addition, a higher funding rate of $3.09 per hour, per student, was introduced for kindergartens, beginning 1 January 1997.

- The forecasts assume that kindergartens will continue to open for up to 320 sessions per year at the higher funding rate. However, the new rate is available for up to 360 sessions per year. Any increase in the number of sessions kindergartens operate, above 320 sessions, will result in an increase in the baseline. If all kindergartens were to open for 360 sessions per year, it is estimated this would increase the baseline by about $8.5 million in a full year. No allowance has been made in the baseline for the risk that kindergartens will open up for another 40 sessions per year.

School transport

Key assumptions in the baseline are:

- That all school transport routes and all students receiving school transport assistance will be brought within school transport policy by January 1997.

- A 5% increase in the average per kilometre cost for the 500 routes due to be re-tendered in 1996/97 has been included in the baseline. The per kilometre cost for current contracts has been assumed to increase by 1% per annum.

- School boards of trustees can choose to have school transport routes directly resourced[3]. There are currently 293 routes directly resourced and an additional 266 routes are assumed to become directly resourced by February 1997.

- Kura Kaupapa Māori expenditure of $500,000 per annum is included within baselines.

Student loans

Key assumptions in the baseline are:

- Tertiary enrolment growth projections are shown below.

Tertiary Enrolment Growth Projections

	Full Time %	Part Time %	Total %
1997	3.3	1.5	2.5
1998	3.8	2.1	3.0
1999	3.9	2.2	3.1
2000	2.6	1.9	2.3

- As an overall approximation, 70% of full-time tertiary students and 10% of part-time students are assumed to borrow under the student loans scheme.

- Living cost entitlements of a maximum $150 per week will apply from 1 January 1997, adding $63 million to student loan drawings in 1997/98, the first full year of operation. This assumes 81.6% of the additional living cost entitlement will be drawn down, along with 88% of all other entitlement (in line with recent experience). This policy was announced in the 1996 Budget.

- The fees component of the student loan is forecast to increase by 15%, (reflecting the current policy of a 1% reduction per year in EFTS subsidies). All of the fees component of student loans is assumed to be drawn down.

- The impact on loan drawings of 472 EFTS places, additional to new growth, provided for students at colleges of education is included.

- The loans cap on the maximum fee at Private Training Establishments (PTEs) is raised from $4,500 to $6,500 from 1 January 1997.

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[3] Directly resourced routes are funded by a formula and may "win" or "lose", as for teachers salaries.

Student allowances

Key assumptions in the baseline are:

- Tertiary enrolment projections are shown above.
- It is assumed that in each of the forecast years, in line with recent experience 38% of tertiary students meet the eligibility criteria for student allowances.
- The proposed 1997 tax cuts are not included in the forecasts. The effect of tax cuts is to reduce student allowance expenditure because they are paid net of tax.
- The Youth Income Support Bill provisions are assumed to apply from 1 January 1998 (postponed from 1 January 1997 in DEFU).
- The Targeted Earning Spouse provisions apply from 1 January 1997.
- Each year approval is sought to increase the net student allowance rates by the CPI rate as at 31 December the previous year. As this approval has been given every year, the Treasury CPI forecasts have been used to adjust the student allowance forecasts. The rates are; 1.4% in 1997; 1.0% in 1998; 1.0% in 1999 and 1.0% in 2000.

Tertiary funding

Key assumptions included in the baseline are:

	Study Right ratio %	Government-funded EFTS places
1997	52.8	146,164
1998	51.5	149,319
1999	49.9	152,307
2000	49.9	152,307

- The proportion of government funding of tertiary tuition costs will decline in line with the Todd Task Force Option A and is assumed to reach 75% of the base funding by 1999.

School property

With the exception of $55 million in 1997/98, the departmental baselines for school property do not include the capital contributions and operating expenses that will be needed to provide additional classrooms and new schools for roll growth, Kura Kaupapa Maori, raising the school leaving age, upgrades of existing facilities and deferred works. Allowance for these additional capital contributions have been made within the capital contingency provision in the forecast Crown Financial Statements in the Pre-Election Fiscal and Economic Update. The estimated additional capital contributions over the baseline period are $160 - $180 million per annum. The operating expenses (depreciation) associated with these capital contributions are estimated to be $5 million in 1997/98, $10 million in 1998/99 and $20 million in 1999/2000.

The estimates of roll growth accommodation are based on the Ministry of Education's projections of rolls at individual schools. The estimates of the remaining work are based on Ministry of Education estimates of the cost of the work and capacity to undertake the work programme.

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POLICY COSTING - CHANGES EDUCATION TO FISCAL RISKS SINCE THE PREFU

Introduction

On 5 November 1996, you requested a costing on changes to education fiscal risks since the PREFU.

Request

"Can you provide an update on the fiscal risks identified in the PREFU?"

Definition

Fiscal risks, for the purposes of the PREFU, are risks of more than $10 million in any financial year during the forecast period, that are under active consideration by the Government. Therefore, any individual risks of less than $10 million in any given year in the forecast period are not included. Furthermore, fiscal risks in Economic and Fiscal Updates do not capture any forecast risks, such as possible variations to the assumptions (e.g., roll growth) included in the baselines.

Most of the education fiscal risks identified in the PREFU were unquantified. However, a more comprehensive list of risks, along with comment on the possible fiscal cost of these risks, is contained in the reply to Question 510/3.

Response

There has been no change to the education fiscal risks identified in the PREFU and no new fiscal risks have been identified.

Additional Information

The following sets out the education risks identified in the PREFU.

Review of the private provision of schooling

This review aims to improve current integration arrangements, and facilitate choice in the school sector.

Policies are being developed in association with the Crown's response to the bid from the Association of Proprietors of Integrated Schools for funding for school property.

Special education 2000

The Special Education 2000 strategy for the future may significantly increase expenditure over the next five years. Cabinet has agreed to further policy work and will be asked to consider options for phased implementation of decisions.

Integrated Teaching Service

The Government has invited teacher unions and other interested parties to participate in a working group to develop an integrated teaching service. This could eventuate in increases in some teachers' wages after February 1998.

Teacher supply

The forecasts include funding for teacher supply strategies through to 1997/98. Proposals are likely to be put forward in the 1997 Budget to address potential teacher supply shortages projected for the academic years 1999 and beyond, and could include additional funding to address teacher shortages in the 1998 academic year.

School property

Capital contributions for the Ministry of Education are probable over each of the next three years to provide additional school accommodation for growth in school rolls, raising of the school leaving age and modernisation of the school property portfolio. Capital costs are estimated to be between $160 million to $180 million per year from 1997/98.

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11 November 1996

POLICY COSTING - SPENDING PRESSURES IN VOTE EDUCATION

Introduction

On 5 November 1996, you requested information on spending pressures in Vote Education.

Costing Request

Assuming current policy settings, can you identify likely spending pressures on Vote: Education in 1997/98, 1998/99, and 1999/2000 outyears, in addition to those identified in question 510/2. Can you indicate the possible fiscal costs for each? Pressures considered should include decisions the Government is likely to have to consider as part of the wage and budget cycles and current reviews of education policy.

Assumptions

Several standard assumptions have been used:

- intangible costs are not included;
- costings are given on a nominal basis;
- the costing is for the *initial* fiscal impact of the policy change. Any second-round effects with fiscal implications (for example, behavioural changes, macroeconomic effects, interaction with other policy changes, etc.) have been excluded; and
- expenditure costs are GST exclusive.

Response

The following table presents a list of the Vote: Education risks that the Government is likely to have to consider as part of the forthcoming budget cycle. This is the sort of information that would normally be considered as part of a Budget cycle. Five of the risks were specified in the PREFU. As set out on pages 162 and 176 of the 1996 PREFU, these risks involve amounts of $10 million or more in any one year and:

- reflect Government decisions or legislative commitments with uncertain fiscal consequences;

- reflect undecided policy under active consideration by Cabinet or Cabinet Committees; or

- reflect incomplete negotiations which have fiscal implications.

The remaining risks set out in this response were not specified in the PREFU as they did not meet the above fiscal threshold and criteria.

The table outlines possible areas of expenditure. In almost all cases, it will be possible to choose what level of funding is applied. The table provides the following information:

- risks are categorised according to the degree of likelihood of the risk being placed before the Government for consideration, specifically:

  - *Possible Pre-Budget Decisions*: Decisions which may need to be made by the caretaker Government or prior to the 1997 Budget, which will impact on the 1997/98 fiscal year;

  - *Definitely Requiring a Decision:* These are pressures arising from demographic factors, or where there are historical precedents and expectations, or where there is already some earlier public statement of commitment;

  - *Likely to Require a Decision:* expenditure bids which may flow from work in progress or from sector pressures;

  - *Other Expenditure Risks*: these are contingencies which are not of the nature that would normally be included in a Budget, but need to be signalled (eg. Manual Teacher redundancies);

  - *Other Pressures*: Issues or risks which may, within the timeframe covered by the request, need to be considered by the Government, but for which further policy work or information is required before an assessment of the likelihood could be made; and

- indicates the years in which each risk will have a fiscal impact.

Following the table is a Comments section. This provides a more detailed description of each of the risks or proposals.

No attempt has been made to prioritise between the items identified, nor is there any comment on the relative merits of any of the proposals. Furthermore, it would be desirable for these risks to be considered alongside risks present in other Votes/sectors to enable their relative priority to be assessed. This response does not comment on risks other than those identified in Vote Education.

Where possible, the fiscal cost of the risk has been included in the table. However, it should be noted that due to time constraints, it has not been possible to verify the costings for each individual line item. Accordingly, where figures are provided, they should be treated as indicative estimates only.

For many of the items, it has not been possible to identify the fiscal cost (i.e., these are recorded as "unquantified"). In many cases, this is because the quantum of funding is at the discretion of the Government, or because further policy work is required. In order to provide some sense of the possible cost of these items, the Comments section sets out the parameters and pressures which might influence decisions on the level of funding committed to the item.

An Annex at the back provides a ready reckoner to calculate the approximate cost of some of the major issues and pressures which have not been quantified.

Table

see following page

para	VOTE: EDUCATION Note: UQ = Unquantified	1996/97 $m	1997/98 $m	1998/99 $m	1999/00 $m
para	**Possible Pre-Budget Decisions**				
1	Auditing Teacher Attestations	< 1	< 1	0	0
2	Transfer of Youth Action Contingency		-4	0	0
	Definitely Requiring a Decision				
	- Operating				
3	Crime Prevention Strategy		1	1	1
4	ECE General Subsidy (Margin Restoration)		7	7	7
5	ECE General Subsidy Increase		UQ	UQ	UQ
6	Teacher Workloads		UQ	UQ	UQ
7	Review of MoE Property Capacity		UQ	UQ	UQ
8	Review of Teacher Education		UQ	UQ	UQ
9	School Operating Grants		UQ	UQ	UQ
10	Special Education 2000		UQ	UQ	UQ
11	Teacher Supply Initiatives (Additional)		UQ	UQ	UQ
12	Integrated Teaching Service : Unified Pay System		UQ	UQ	UQ
	Operating Expenditure Sub-Total (excl UQs)	< 1	4	8	8
	- Capital				
13	School Property		180	180	180
14	Integrated Schools Bid (APIS)		UQ	UQ	UQ
	Likely to Require a Decision				
	- Operating				
15	Development of a Strategy for Maori Education		2	2	2
16	English for Speakers of Other Languages		UQ	UQ	UQ
17	E Tipu E Rea Parent Education Programme		1	1	1
18	Playcentre - Funding for Under 2s		UQ	UQ	UQ
19	Review of the Role of Private Schooling		UQ	UQ	UQ
20	School Improvement/Support Initiatives		UQ	UQ	UQ
21	School Transport - KKM		UQ	UQ	UQ
22	Special Education Service - Price of Outputs Purchased		3-5	3-5	3-5
23	Statements of Service Performance		UQ	UQ	UQ
24	Student Loans -Measures Arising from the 1995 Review		UQ	UQ	UQ
25	Teacher Professional Development		8-16	10-50	10-50
26	Transition Point Assessment		5	5	5
27	Information Technology - Operating Expenditure		110	110	110
28	School Property - Operating Expenditure		UQ	UQ	UQ
	Operating Expenditure Sub-Total (excl UQs)		129-139	131-173	131-173
	- Capital				
29	Information Technology		280	0	0
30	Wanganui Polytechnic		3	0	0
	Other Expenditure Risks				
31	Mahurangi College Legal Action		5	0	0
32	**Deletion made under section 9(2)(j) Official Information Act 1982 to avoid prejudice or disadvantage to negotiations**				
	Other Pressures				
33	Career Service Information System		UQ	UQ	UQ
34	EFTS - Number of Funded Places		UQ	UQ	UQ
35	EFTS Price Adjustment		UQ	UQ	UQ
36	Industry Training Fund		10	17	17
37	NZQA - Implementation of the NQF		UQ	UQ	UQ
38	School Transport Safety Improvements		UQ	UQ	UQ
39	Student Loan Assistance/Incentives		UQ	UQ	UQ
40	Tertiary Students with Disabilities		UQ	UQ	UQ
	Operating Expenditure Total (excl UQs)	< 1	149-159	156-198	156-198
	Capital Expenditure Total	0	463	180	180

Footnote to the table: Figures have been rounded to the nearest $1 million, accordingly may not sum.

Comments

Possible Pre-Budget Decisions

1 Auditing Teacher Attestations
Following a decision that the Education Review Office (ERO) would provide an audit process for the performance attestation systems required by the recent settlement of the Secondary Teachers' Collective Employment Contract (CAB [96] M 31/45 refers), ERO is seeking additional funding of $0.600 million over 1996/97 and 1997/98 to implement this audit process. The Caretaker Cabinet is expected to consider this request for funding shortly.

2 Transfer of Youth Action Contingency
Prior to the election, the Ministers of Employment /Education and Finance agreed in principle, pending Cabinet approval, to transfer $3.960 million from the Youth Action Contingency in Vote : Employment to Vote : Education in 1996/97. Of this amount, it was agreed that $3.870 million would be transferred to 1997/98 to be used to offset new expenditure in Vote : Education in that year. Depending on priorities at the time, this may be used to fund increases in expenditure for English for Speakers of Other Languages.

Definitely Requiring a Decision

<u>Operating</u>

3 Crime Prevention Strategy
The Prime Minister has signalled his intention to develop a Crime Prevention package, focusing on youth at risk of offending. There are a number of initiatives within the package, some of which may seek funding from Vote Education. Depending on which initiatives are agreed to, the cost within Vote Education could total between $1 million and $7 million per annum.

4 Early Childhood Education (ECE) General Subsidy (Margin Restoration)
Following the recently announced increase in the sessional funding rate for kindergartens, there is likely to be pressure to increase the rates that apply to other early childhood providers, in order to restore the margins between kindergartens and these other providers. This would be consistent with current policy which is to equalise funding in the sector (for those achieving given quality standards) over time. Officials estimate that additional expenditure of approximately $7 million per annum would be required to achieve this.

5 ECE General Subsidy Increase

In many previous Budgets, Governments have considered whether to adjust the per session subsidy paid to early childhood providers (which could be considered the early childhood equivalent of schools' operations grants). Adjustments have been made periodically to recognise the cost pressures that are faced by providers. These adjustments have tended to balance the need to partly compensate for cost pressures, with the desire to maintain incentives on providers to remain efficient and improve the quality of their service (allowing providers to access higher funding rates). Among the factors that would need to be taken into account in determining any adjustment, is that the Kindergarten Multi-Employer Collective Employment Contract will expire in July 1997. The amount Kindergarten Associations receive in subsidies will influence their ability (as employers of the Kindergarten teachers) to negotiate a settlement. It is estimated that:

- a 1% increase in kindergarten teachers' wages would cost their employers $0.6 million; and
- a 1% across-the-board increase in other early childhood subsidy rates (over the rates applying at 1 January 1997) would cost approximately an additional $1.8 million.

6 Teacher Workloads

The issue of teacher workload was brought to the Minister of Education's attention during the recent secondary teachers' wage round. In response to this, the Minister established a Ministerial Consultative Group to examine this issue. To date, the Group has met once and is still in an early stage of deliberation. It is therefore not possible to identify either the type or potential cost of any initiatives the group may finally present to the Government for consideration.

7 Review of Ministry of Education Property Management Capacity

As a result of concerns raised during the preparation and review of the business case for the capital contribution for school accommodation in 1996/97, Cabinet also approved additional expenditure in 1996/97 to undertake an independent review of the Ministry of Education's property management resource capacity. This review will be undertaken over the coming months and may recommend increases in the current departmental baseline to enable the Ministry to enhance its property management capabilities.

8 Review of Teacher Education

The Government has announced a comprehensive review of both pre-service and in-service teacher education. It has an interest as the primary funder of teacher education and in terms of the learning outcomes of New Zealand school students which are contingent upon high quality teaching. Education reforms have placed new demands on teachers and concerns have been raised as to teacher quality, the adequacy of pre-service teacher training and teacher mobility. The review is expected to be completed by mid-September 1997 and may generate expenditure proposals.

9 School Operations Grants

The salaries of a school's teachers (up to the level allowed for under the school's staffing entitlement) are directly funded by the Crown (except for schools which have chosen to participate in the Direct Resource Scheme). All other costs faced by the school are expected to be met from its operations grant or from private sources of income. In many previous Budgets, Governments have considered whether to adjust the operations grants. Adjustments, when made, have recognised the cost pressures that are faced by schools, taking particular account of any new demands being placed on schools. These adjustments have tended to balance the need to partly compensate for cost pressures, with the desire to maintain incentives on schools to remain efficient. Among the factors that would need to be taken into account in determining any adjustment, is that a number of centrally negotiated Collective Employment Contracts cover employees who are paid directly by the schools out of their operations grants, including cleaners and caretakers, Kaiarahi Reo, support staff, and non-teaching special residential staff.

Other components of the operations grant which may need to be reviewed are costs for property maintenance and costs for heat, light & water. It is estimated that every 1% increase in the Operations Grant to schools would cost approximately $5.4 million per annum (including State and Integrated schools and the flow-on to private schools).

10 Special Education 2000

The Government approved the allocation of a new grant (the Special Education Grant) to all state and state-integrated schools, to take effect from the beginning of the 1997 school year as the first phase of the Special Education 2000 policy. The grant ($55m over three years) is primarily targeted towards students with moderate special education needs such as learning and behavioural difficulties. The Government also signalled its intention to implement the second phase of Special Education 2000, by introducing from 1998 a different funding mechanism to target students with high and very high special education needs. The fiscal risk for implementation of the second phase was signalled in the PREFU. The details of Phase 2 are still being developed and the final design of the funding mechanism will influence the cost of the policy. On the basis of recent work, it is estimated that the additional fiscal cost (above baselines) of Special Education 2000 once fully operational (including extending it into the early childhood sector) could be up to $80 million per annum, and under some design parameters possibly as high as $160 million per annum. Currently, however, data is not available to accurately quantify these risks. Options for transition to any fully operational policy have also yet to be considered.

11 Teacher Supply Initiatives (Additional)

The Government recently announced a series of measures for recruiting and training additional teachers to meet the expected increase in demand (arising from school roll increases) in 1997 and 1998. Further measures are expected to be required from 1998 in order to meet the projected demand for additional teachers from 1999. These are likely to include a range of initiatives, such as additional funding for teacher training, measures to increase the number of Maori-medium teachers, and to improve the recruitment of Maori, rural and mature people to teacher training. Preliminary costings indicate these measures could cost between $25 million and $40 million per annum. This is a specified risk in the 1996 PREFU.

12 Integrated Teaching Service : Unified Pay System

This is a specified risk in the 1996 PREFU (listed as the Unified Pay System). Following the recent settlement of the Secondary Teachers' Collective Employment Contract, the Government has entered into discussions with the major school sector groups (unions and employers) to develop an integrated teaching service. The exact nature of the system will take some time to evolve, and it is therefore not possible to quantify the cost of this policy. There are a range of possible outcomes that might emerge from such discussions. However, as an illustration of the potential costs, if one of the outcomes was to raise the salaries of primary and area school teachers to those of secondary school teachers, this is estimated to cost in excess of   per annum.

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to avoid prejudice or disadvantage to negotiations

In addition, whatever the outcome of the current discussions, the Primary Teachers', Secondary Teachers' and Area Schools Collective Employment Contracts (CECs) expire in February 1998. Some time after this date, the unions, either jointly or severally, will seek to conclude new CECs for these groups. The cost of settling these CECs is a matter for negotiation. However, the following table sets out the cost (including flow-ons to Individual Employment Contracts) of increasing the CECs salaries (as they will be at 1 February 1998) by 1%:

Collective Employment Contract	1% Increase in CEC ($ million)
Primary Teachers	9.1
Secondary Teachers	8.1
Area Schools	0.3
Teachers in Special Schools	0.2

Capital

13 School Property Capital Contributions

Major qualitative and quantitative changes in compulsory schooling are placing pressures for cost increases arising from the nature of the existing capital stock. Demographics, curriculum and policy changes, and the need to modernise schools place a number of specific pressures on school property. These pressures arise from sustained roll growth and higher senior retention levels, the 1995 staffing policy change, the decision to raise the school leaving age from January 1998, curriculum changes requiring greater diversity in accommodation, together with outdated schools and space provisions which are inadequate for today's and future needs.

Some 1,200 classrooms have been added in each of the last two years and that need is expected to continue into 1997/98 before tailing off. In addition, 12 new schools are planned for February 1998. It is estimated that capital contributions of around $180 million will be required in each of the next three years. A business case for 1997/98 and outyears with firmer estimates of capital requirements will be submitted prior to the Budget. There will be consequent depreciation flows arising from this expenditure, as well as requirements for additional furniture, equipment and administrative space.

Around $140 million in a programme of some $535 million in deferred works, identified in 1989 in agreement with Boards of Trustees, will remain outstanding as at 30 June 1997. This backlog needs to be finally cleared.

14 Integrated Schools Property Capital (APIS)
The Association of Proprietors of Integrated Schools is seeking up to $373 million in Crown funding over ten years to meet current needs and roll growth. Discussions with the Association have recently begun in order to establish the basis upon which the proposal might be considered. This assistance could either be operating expenditure or capital contribution.

Likely to Require a Decision

Operating Expenses

15 Development of a Strategic Plan for Maori Education
The goal of the Strategy would be to increase the participation of Maori in high quality education and to improve learning outcomes in early childhood, compulsory and post-compulsory education. It could include strategies to revitalise Maori language and cover the effective delivery of quality education services for Maori and by Maori, as well as more effective delivery of quality education for Maori in the mainstream. As an initial step, funding in the region of $2 million per year for each of 1997/98, 1998/99 and 1999/00 may be sought to undertake consultation on the development of the strategy, and to develop and evaluate new initiatives designed to assist in meeting the goals of the Strategic Plan. Depending on the nature of the Strategic Plan developed, there are likely to be significant resource implications in outyears in addition to the above.

16 ESOL - English for Speakers of Other Languages
Under existing policy, students from non-English speaking backgrounds (NESB) attract extra funding so that schools can provide tuition in English for Speakers of Other Languages (ESOL). In 1996/97, $5 million was available under this policy, however due to the number of students who applied for assistance, the per student ESOL grant was only around $140 per annum. There are concerns that this level of per student funding is insufficient to meet the educational needs of these students. Furthermore, there are concerns that some schools may not be applying for assistance for their students despite a recognised need. Policy development is being undertaken to ascertain the characteristics of those students currently receiving ESOL funding, and to develop clearer criteria for the assessment of students with ESOL needs. In addition, work is underway on assessing the practical and fiscal implications of moving to a guaranteed level of individual entitlement. It is not yet possible to quantify the cost of moving to an individual entitlement. The initial estimates, which suggested an additional $10 million per annum may be required are very sensitive to decisions on policy parameter such as the number of people qualifying for assistance.

17 E Tipu E Rea Parent Education Programme

This is a parent education programme which targets Maori families with children aged 0-15 years. It is being developed by the Maori Women's Welfare League, and is supported by a NZ Community Funding Agency grant. The League's immediate concem is to secure funding to train more people to deliver the programme, and support its ongoing operation. In May 1996, the Minister of Education indicated that he wanted options for supporting the programme included in the 1997 Budget initiatives. The estimated cost is approximately $1 million per annum, commencing in 1997/98.

18 Playcentre - Funding for Under Two Year Olds

This issue originates from discussions between the Minister/Ministry of Education and representatives from the New Zealand Playcentre Federation in late 1995. The issue is the possible extension of eligibility for funding for under two year olds to include Playcentres. Officials estimate that additional appropriations of approximately $0.300 million per annum would be required to extend eligibility to staff-supervised playcentres only, or approximately $3 million per annum to extend eligibility to all playcentres.

19 Review of the Role of Private Schooling

In May 1996 the focus of this review shifted from the resourcing of private schools to the development of the integrated schools model [CAB (96) M 17/4D(4) refers]. Cabinet directed officials to report on what changes could be made to the present integration arrangements to enable the integrated schools sector to participate in meeting roll growth and offer further altematives to Crown owned schools. The policy options have not yet been quantified, but are expected to include proposals to increase subsidies to integrated schools.

20 School Improvement/Support Initiatives

This project is designed to provide a safety net for schools with significant financial, management and/or educational problems. Advisory support is provided to a range of schools, and for those facing severe long-term problems the Ministry assists in the preparation of a business case for financial assistance. The Ministry also facilitates initiatives with clusters of schools which share student and/or environmental characteristics which indicate the schools will experience unique challenges in delivering quality educational programmes. Since new funding was provided in the 1996 Budget for the project, the number of schools requiring individual and business case support has exceeded earlier projections. In the short-term, pressures will emerge from the Ministry's work with Northcote, Hillary, Tangaroa, St Stephens, Nga Tapuwae Colleges, and the schools in the Mangere/Otara area. The ongoing fiscal pressures arising from the project cannot be quantified, but could be in the order of $8-12 million per annum.

21 School Transport - Kura Kaupapa Maori
In 1995, the Government agreed to provide funding to kura kaupapa maori to assist with the costs of transporting students. The annual $0.500 million expenditure allocated provided a per student rate of $1.75 per student. Due to higher than forecast enrolments in kura, the allocation per student may have to be reduced to remain within the baseline allocation for this policy. In addition there may also be a proposal for an increase in the per student rate to improve the effectiveness of this policy.

22 Special Education Service - Price of Outputs Purchased
The Special Education Service (SES) has advised the Ministry of Education that it will be seeking an increase the price of its outputs. From this, they wish to fund a wage increase for their staff (based on an assumption that wage rates for SES staff are linked to wage rates in the teaching sector), as well as upgrades to their information systems and technology. If this request were approved by the Government, officials estimate that additional expenditure in the range of $3-5 million per annum may be required.

23 Statements of Objectives and Statements of Service Performance
It is expected that schools will be required to prepare Statements of Objectives and Statements of Service Performance for inclusion in their audited financial reports from 1998, as required under the Public Finance Act 1989. The Government may wish to consider providing funding to:

- provide support and training to Boards of Trustees and principals, to assist them produce documents of auditable standard; and

- assist with the additional cost (estimated at $500 to $1,000 per school, or $1.350 million to $2.700 million in 1998/99 for the state school sector) of auditing the accounts.

24 Student Loans - Anti-Fraud Measures
To minimise abuse the 1995 Student Loans Policy Review recommended making the student loans living cost entitlement available in fortnightly instalments and the concomitant removal of the minimum entitlement drawdown in order to ensure borrowers could access funds on a fortnightly basis. To facilitate voluntary repayments, the Review also recommended reducing the voluntary repayment limit to the loan account manager [CAB(95)M48/16i refers]. These measures were considered in the 1996 Budget round and deferred until the 1997 Budget round.

25 Teacher Professional Development

In the compulsory sector, pressure to at least maintain levels of spending on teacher professional development arises from the continued serial introduction and implementation of the New Zealand Curriculum - seven new national curriculum statements with associated assessment requirements between 1993 and 2001. Depending on decisions yet to be made regarding a) the pace of introduction of the remaining curriculum statements and b) the method of delivery and management of the funding, an incoming government could potentially need to consider new expenditure in the order of $8-6 million in 1997/98, and $10-50 million per annum in the outyears.

In the early childhood sector, funding will be sought by the Ministry for 1997/98 and outyears for professional development for ECE teachers:

- to support them in meeting major new requirements for self-evaluation of service provision against revised Statements of Desirable Objectives and Practices (DOPs) which come into effect from 1 April 1998;
- to support the implementation of the new early childhood curriculum Te Whaariki beyond the end of the 1997 academic year.

26 Transition Point Assessment

The pressure for Transition Point Assessment is coming from the need for the Government, schools and parents to have information on the achievement of whole cohorts of students around key transition points such as Years 6/7 and 8/9, and possibly at other levels. The cost of providing this information varies depending upon the model chosen. The estimated cost for implementation of Transition Point Assessment to three cohorts in three subjects is in the range of $5 million per annum.

27 Information Technology - Operating Expenditure

Refer to 29 below.

28 School Property - Operating Expenditure

Refer to 13 above.

<u>Capital</u>

29 Information Technology
Information technologies, particularly personal computers, can potentially enhance learning outcomes and make learning more efficient. There is pressure from leaders in industry and commerce to improve student access to information technologies in schools from current ratios of about 15 students per computer to an optimum five students per computer. No specific allocations are currently made to schools to purchase and maintain information technologies. If the Government decided to meet the optimum, it could require a capital injection of $276 million, and annual operating expenses of $110 million, over and above current annual expenditure, to install, operate, maintain and replace computer equipment. However, both the high cost and practicalities of supply suggest that such a policy would be best implemented on a phased basis over a number of years.

30 Wanganui Polytechnic
Wanganui Regional Community Polytechnic has applied for a capital injection of $2.5 million in 1997/98 from the Crown in order to improve its working capital position to ensure it can meet future developmental requirements. The Ministry is currently reviewing the strategic direction, financial status and viability of the Polytechnic in order assess its application.

Other Expenditure Risks

31 Mahurangi College Legal Action
Proceedings have been filed against the Crown, the Board of Trustees of Mahurangi College, and the retired Principal and Senior Mistress by former pupils of the college seeking exemplary damages for assault and battery, breach of fiduciary duty and negligence arising from the criminal activities of a former teacher at the college. The Minister of Finance has granted an indemnity to the Board in respect of the proceedings and the Board has joined the Crown defence. To date there are seven plaintiffs claiming a total of $4.7 million against the Crown and the Board. No date has been set for substantive hearing and more plaintiffs could come forward.

32

Deletion made under section 9(2)(j) Official Information Act 1982 to avoid prejudice or disadvantage to negotiations.

Other Pressures

33 Career Service Information System
In September 1995 Cabinet initiated an investigation into the development of an enhanced career information system which would provide wider access to accurate and comprehensive career related information. The system has now been piloted and it is proposed that it be implemented from 1 July 1997 and that it replace the current career information products, the Quest database and Career Information Library. Current appropriations for career information products would be utilised for the new information system, but it is possible some additional transitional funding may be required for 1997/98 to cover implementation costs. Costs have yet to be quantified.

34 Equivalent Full Time Student (EFTS) - Number of Funded Places
There is some pressure from the tertiary sector (both institutions and private training establishments) to increase the number of EFTS places subsidised by the Crown additional to the 1% per annum new growth decided following the Todd report recommendations. Pressure for additional places has increased since the Cabinet decision that all new growth available in the 1997 academic year would be used to address the problem of teacher supply. Officials estimate that each additional 1,000 EFTS places subsidised would cost $7 million per year. This figure excludes flow-on costs associated with student loans and allowances.

35 EFTS Price Adjustment
Pressures are emerging from tertiary institutions for a review of the price per EFTS (as opposed to the percentage of that price subsidised by the Government under the Todd decisions). To evaluate the need for a price adjustment, additional work would have to be undertaken on tertiary institution costs, similar to the exercise undertaken in 1990 prior to the introduction of the EFTS system. Alternatively, the Government may come under pressure to review or halt the gradual tuition subsidy level reduction decided following the Todd report. Each 1% increase in the EFTS subsidy would cost around $10 million per annum (excluding pipeline growth).

36 Industry Training Fund
Strong projected growth in the area of industry training is expected to put pressure on the Industry Training Fund (ITF) which currently stands at $54 million. An incoming Government may wish to reconsider the level of funding for the ITF in 1997/98 and 1998/99, and whether demand for new growth should be met or partially met by an increase in the Government's investment. The Education and Training Support Agency (ETSA) estimate that additional appropriations of $10 million in 1997/98 and $17 million in 1998/99 and outyears would be required to fully fund demand forecast by the Industry Training Organisations (ITOs), based on a 'medium' level of growth.

37 NZQA - Implementation of the NQF
There are likely to be spending pressures associated with the ongoing implementation of the National Qualifications Framework (NQF). The New Zealand Qualification Authority's (NZQA's) capacity to absorb additional costs from within existing resources may be limited in light of projected operating deficits of $2.8 million in 1997/98 and $3.6 million in 1997/98.

38 School Transport Safety Initiatives
There has been some public pressure concerning safety issues on school buses, for example, over provision of flashing lights, seat belts, and snow tyres. None of these are compulsory under current Land Transport Safety Authority (LTSA) requirements. However, LTSA is planning to change the passenger service vehicles rule possibly with effect towards the end of 1997. The rule change will not be retrospective but will apply to any vehicle put into service after a certain date. School buses will be required to have emergency exits and flashing lights, but there will be no rule changes on seat belts and standing passengers. Installing flashing lights on existing bus stock is estimated to cost at least $3 million. The seat belt issue has been under discussion for some time, but to date the costs of requiring them have been considered to outweigh the benefits. At a minimum, seat belts might be required to be fitted to exposed seats. The Crown's contractual liability is unclear at this stage, however, it is likely that some or all of any increased cost will ultimately be passed on through into contract costs.

39 Student Loan Assistance/Incentives Measures
In considering the report on the 1995 review of student loan policy, Cabinet noted that the Minister of Education may undertake further evaluation of current assistance provisions and possible enhancements to the loan scheme, in the context of the 1997 Budget round [CAB (95) M 48/16Bi refers]. In addition, in July 1996, Cabinet, inter alia, invited Ministers to report on the merit of introducing incentives for the early repayment of student loans [CAB (96) M 28/30 refers]. Any policy changes to improve repayment positions for individuals or groups of borrowers, would incur costs in terms either of foregone revenue or increased capital write-offs. There would also be associated operating expenses for implementation.

40 Tertiary Students with Disabilities

In August 1996 the Ministers of Education, Health and Social Welfare agreed that officials investigate the feasibility of a policy framework to improve the access of students with disabilities to tertiary education services. Officials have been directed to report to Ministers by 31 December 1996 on new policy proposals for the 1997 Budget. Policy work has yet to be completed, but the proposed framework includes an individual targeted subsidy for a small proportion of tertiary students with high cost support needs. Costs for this are currently unquantified, but could be up to $4 million per annum.

This table provides a ready reckoner to calculate the approximate cost of some of the issues and pressures which have not been quantified.

CEC

		Annual cost of 1% increase ($million, excl GST)
Schools Sector		
Directly Funded by the Crown		
Area Schools		0.3
Primary Teachers		9.1
Secondary Teachers		8.1
Teachers in Special Schools		0.2
TOTAL		17.7
Schools' Operations Grants		5.4
Early Childhood Sessional Payments		
Kindergartens		0.6
Other ECE Services		1.8
TOTAL		2.4
EFTS Places		
Number of EFTS (1997 Year)	146,132	10.0
$ per EFTS	$6,877	10.0

CONFIDENTIAL

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8 November 1996

POLICY COSTING - TERTIARY STUDENT ALLOWANCES - NO PARENTAL MEANS TESTING, "AT-HOME" AND "AWAY-FROM-HOME" RATES RETAINED

Introduction

On 4 November 1996 you requested a costing on Tertiary Student Allowances.

Costing Request

The wording of the costing request was:

Can you identify the costs and implications of a universal student allowance (equivalent to the unemployment benefit) which retains the current differential for tertiary students living away from home and for tertiary students living at home?

Link to Previous Request

- the key difference in assumptions between this costing and the one provided in response to request 503/5 is that this costing retains the current distinction between at-home and away-from-home allowance rates.

- the difference between the fiscal impact of the two costings is small. This is because at-home rates are not significantly lower than away-from-home allowance rates ($23.76 less per week for those under 25, and $28.50 per week less for those over 25) and apply to only the one third of students who live at home.

- the major cost driver in both proposals is the cost of providing full allowances to over 50,000 students aged under 25 who are currently ineligible for allowances because their combined parental income is over $50,751 if away from home, or $45,760 if at home.

Costing Assumptions

Key design parameters

In costing a universal student allowance the key difference from the current system is that parental means testing for allowances is assumed to be abolished. All other parameters, including the student allowance personal income tests, the eligibility criteria and rates for the accommodation benefit, are assumed to remain the same as in 1996.

The effect of these assumptions is that:

- single 16-24 year old students from middle and high income families living at home would receive a full "at home" rate of $94.98 per week rather than an abated allowance or no allowance as under current policy;

- single 16-24 year old students from middle and high income families living away from home would receive a full "away-from-home" rate of $118.74 per week) plus an accommodation benefit rather than an abated allowance or no allowance as under current policy;

- single 16-24 year olds from low income families would receive no change in allowances;

- single students over 25 years of age would receive no change in allowances; and

- all other allowance levels remain unchanged.

Standard Assumptions

Several standard assumptions have been used in this costing:

- intangible costs and benefits (e.g., a possible increase in number of hours of study as a result of students undertaking less paid employment) are not included;

- costings are given on a nominal basis with adjustments made for inflation;

- the costing is for the *initial* fiscal impact of the policy change. Any second round effects with fiscal implications (for example, behavioural changes, macroeconomic effects, interaction with other policy changes etc) have been excluded. The one exception, as is normal for transfer payments and tax changes, is that the second-round impacts on GST and other indirect taxes are included; and

- finance costs are included.

Additional Assumptions

The following additional assumptions have been made:

Implementation

- the policy is assumed to be implemented from 1 January 1998. Therefore a half year fiscal effect only is shown in 1997/98.

Target group

- as requested the costing is for all tertiary students only: no changes are assumed to either the rates of allowances received by secondary school pupils or the eligibility criteria.

Behavioural assumptions

- student loan repayments, allowance and loan uptake; tertiary enrolment growth, course length; and the proportion of students 25 and over with allowances, remain as projected in the 1996 Pre-Election Economic and Fiscal Update;

- all existing behavioural patterns including uptake, propensity to live away from home and length of course are assumed to apply to both existing allowance clients and new allowance clients; and

- students are assumed to spend the entire amount of any change in their disposable income.

Technical assumptions

- allowance rates have been increased for CPI growth as projected in the 1996 Pre-Election Economic and Fiscal Update;

- 95% of all 16-24 year olds enrolled in full-time tertiary courses are assumed to receive an allowance. The rest are assumed to be ineligible for an allowance as they are either overseas students or over the personal income limits;

- the targeting of the "With Earning Spouse" allowance which was announced in the 1996 Budget and is due to start in 1997 has been included; and

- changes in the proposed Youth Income Support Bill have not been included as this is has not yet been passed by Parliament.

Administration Costs

Changes in administration costs associated with this policy proposal have been excluded from this costing as it was not possible to estimate them in the time available. Increases in administration costs are likely to be small relative to the overall cost of the proposed policy, as allowance administration is currently estimated to cost $4.15 million in 1996/97.

Student Loans

The proposed increase in student allowances would result in a decrease in student loan living cost borrowings. This is because the amount students can borrow for the living cost component of student loans is reduced by the amount of student allowances they receive. In calculating the off-setting reduction in student loans:

- students with allowances and loans are assumed to have the living cost entitlement of their loans reduced by the increase in their allowances under the proposed policy, net of accommodation benefit. This is because accommodation benefits are not taken into account when calculating loan living costs entitlement; and

- students who will receive an allowance under the proposed policy have the same propensity to borrow under the student loan scheme in line with those forecast for full-time students in the 1996 Pre-Election Economic and Fiscal Update.

Policy Effect

Fiscal impact of proposed policy

The above policy will have the following fiscal impacts on the Crown's financial statements:

Table 1. Net Fiscal Impact of Increasing Student Allowances[1]

Fiscal Impact[2]	**1997/98**[3] **$m**	**1998/99 $m**	**1999/2000 $m**
Policy impact on operating balance	(130)	(280)	(285)
Finance costs	(0)	(20)	(35)
Total impact on operating balance	(130)	(300)	(320)
Net worth (cumulative)[4]	(130)	(430)	(750)
Cash flows[4]	(50)	(145)	(165)
Net public debt (cumulative)[4]	(130)	(430)	(750)

The effect of the proposed policy on cash flows reflects the fact that a large proportion of the cash paid out for the increase in student allowances will be offset by a decrease in cash disbursed for the living cost entitlement component of student loans.

The effect of the proposed policy on the operating balance is much greater than its effect on cash flows. This is because, while all of the increased cash paid for allowances impacts upon the operating balance, student loans are capital rather than current flows so that only 10% of the cost of student loans made in any year affects the operating balance. This cost arises from the expected write-off of a proportion of the number of loans. The Crown expects to receive the rest of the capital disbursed back in the form of loan repayments.

Tables 3 and 4 in Attachment 1 show the costings for the increase in student allowances and the off-setting decrease in student loans that underlie the operating balance calculation shown above.

1 Figures are rounded to nearest $5 million. Numbers may not add due to rounding.
2 A positive number indicates an improvement in the fiscal position.
3 This is a half year effect.
4 Includes finance and indirect tax impacts.

Finance costs shown in Table 1 relate only to the costs of financing student allowances. Student loan finance savings are not included as any such savings are assumed to be fully offset by a reduction in student loan interest revenue received by the Crown as the result of there being less student loan funds outstanding.

The costing is based on net allowance rates. No provision is made for second round impacts on income tax receipts.

Effect of the proposed policy on student enrolments

Overall the increase is likely to have little effect on student numbers as it is unlikely to significantly raise demand for places. The vast majority of the increased spending would go to people from high income families, whose demand for tertiary education is relatively unresponsive to changes in price (i.e., the amount they pay). Only a small amount of the increased spending would go to people from low income families whose demand for tertiary education tends to be more responsive to changes in the price.

The people who would benefit most from the proposed policy are those who currently do not receive an allowance because of parental means-testing. Thus single people aged under 25 living away from home whose parents jointly earn over $50,751 per annum would receive a full allowance of $118.74 net per week plus accommodation benefit, and those living at home whose parents jointly earn over $45,760 per annum would receive a full allowance of $94.98 net per week. Overseas evidence shows that students from high income backgrounds are unresponsive to changes in the price for tertiary education, therefore the demand for tertiary enrolments from this group is not likely to increase much.

Those people with a family income which results in a partial abatement of the allowances would receive a lesser gain in allowances (an average of $39 net per week if at home and $49 net per week if away from home). This group is slightly more responsive to changes in the price of tertiary education. The combined effect of responsiveness and changes in allowances is that their demand for tertiary enrolments is likely to increase only slightly.

Single low income people under 25 would not receive any increase in allowances. Therefore, no enrolment response is expected from this group.

If, as assumed in this costing, secondary allowances continue to be targeted on parental income and available from 1 January following one's 18th birthday, this may create incentives for students to enter tertiary education earlier than expected leading to a increased demand for tertiary student places. In the time available we have not been able to resolve the likely size of this effect.

Other movements that could occur include switches from unemployment to study, part-time to full-time study and for students to extend their course duration. The size of the changes in allowance suggest that these effects are not likely to be large.

In addition, the behavioural effects described above would be considerably constrained by the current limitations on Equivalent Full-Time Student (EFTS) places. If institutions seek to recover the cost of unfunded EFTS places through higher fees, then any increased demand for tertiary education resulting from the increased student allowances is likely to be considerably dampened.

Should the Government choose to fund additional EFTS to meet any increase in demand associated with the higher allowances, each 1% increase in EFTS would cost an additional $11.2 million[5].

Practical Implications

As costed, 93% of the additional expenditure would go to people from high income families (those earning above $50,751). People from middle income families would receive 7% of the additional expenditure and people from low-income families would receive no additional assistance. This is shown in Table 2 below.

Table 2: Estimated Distribution of Additional Allowance Expenditure in 1998/99 (first full-year effect) 16-24 year olds[6]

Income Group	Family Income	Residence	Weekly Change in Allowances (1998 dollars)	Number of Students[7]	Expenditure[8] (millions)[9]	Percentage
Low	≤ $27,871	away	$0.00	11443	$0	0
		at home	$0.00	6467	$0	0
Middle	$27,872 < $50,751[10]	away	$50.68	7528	$16	5%
		at home	$40.24	3614	$6	2%
High	>$50,751[10]	away	$143.52	36205	$217	69%
		at home	$97.54	18730	$76	24%
Total				83987	$315	100%

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5 Calculated using 1997 EFTS numbers and subsidy levels.

6 As figures in the table are calculated on different bases, there are some minor inconsistencies in this table. Nevertheless, it provides a reasonable indication as to the likely distribution of additional expenditure under the proposed policy and the key cost drivers.

7 Midpoint estimate between 1997 and 1998 calendar years.

8 Based on a 40.7 week academic year.

9 Calculated on a fiscal year basis..

10 A lower threshold of $45,760 exists for students who live at home.

There is a risk that institutions will react to the increase in student allowances by raising their fees, in part to allow them to offer some unfunded places to meet small increases in demand, and in part to meet increased internal costs, such as wages. This could lead to increased pressure on the levels of EFTS payments.

These costings are undertaken on a stand-alone basis and do not account for the interactions between different policies - for example, as allowances are linked to the unemployment benefit, then policies which affect the unemployment benefit rates will also affect allowances. Similarly as allowance rates are linked to the CPI, policies which affect the CPI will affect allowance rates.

The aggregate impact on the macro-economy of such a large increase in expenditure has not been assessed.

Allowing all students to access the accommodation supplement has not been costed as the Department of Social Welfare was unable to supply the information required in the time available for this costing. However, on the basis of work done previously in this area, it may be in the order of several tens of millions of dollars.

Attachment 1: Allowances and Loans Fiscal Impact

Table 3: Fiscal Impact of the Increased Student Allowances[11] [12]

Fiscal Impact	**1997/98**	**1998/99**	**1999/2000**
	$m	**$m**	**$m**
Cash increase in allowances	(145)	(315)	(325)
Finance costs of allowances	(0)	(20)	(35)
Indirect Tax Effect	20	40	40
Operating Balance Impact[13]	*(130)*	*(290)*	*(315)*

Table 4: Fiscal Impact of Student Allowances Increase on Student Loans[12]

Fiscal Impact	**1997/98**	**1998/99**	**1999/2000**
	$m	**$m**	**$m**
Cash decrease in loans disbursed	95	170	175
Indirect Tax Effect	(10)	(20)	(25)
Capital Provisioning[14]	10	15	15
Operating Balance Impact[13]	*(5)*	*(5)*	*(5)*

[11] Off-setting savings from student loans are not included.
[12] All figures have been rounded to the nearest $5 million.
[13] Totals may not sum due to rounding
[14] This represents an estimate of student loan capital that will not be repaid.

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8 November 1996

REQUEST FOR INFORMATION - COMPULSORY SUPERANNUATION SCHEME

1 Introduction

On 4 November 1996, you requested an evaluation of the implications of a compulsory superannuation scheme.

2 Request

Both National and New Zealand First share common objectives of providing security in retirement, a high level of internal savings and maintaining a strong fiscal position.

The National Government has supported retirement income being provided by a taxpayer funded benefit supplemented by private savings and reduced government debt. New Zealand First's policy is based on retaining national superannuation with the wage floor increased to 67.5% and introducing a compulsory savings scheme. The compulsory contributions would initially be 3 percent of gross income increasing to 8 percent by 2003. The compulsory scheme is intended to increase the level of savings within New Zealand.

2.1 Question

Discuss the implications of introducing a compulsory superannuation scheme in New Zealand drawing on overseas experience in particular for the objectives of providing security in retirement, a high level of internal savings and maintaining a strong fiscal position. The discussion is to also cover:

- relationship with taxpayer funded benefit;
- impact on composition and level of savings;
- implementation.

3 Executive Summary

The introduction of a compulsory superannuation scheme in New Zealand is a major policy change which would have a significant effect on the economy. Any assessment of a compulsory scheme is an extremely complex matter, involving long-term income security, fiscal sustainability, national savings rates and implementation, as well as interactions and overlaps between these points.

The key issues set out in this paper include:

- The ability to enhance retirement security depends fundamentally on the strength of the economy. The extent to which the scheme affects growth could reduce or improve our ability to afford retirement income.

- The detailed design of any proposed scheme would be crucial to assessing its implications of any scheme. This is because:

  - Poor design could have a large negative impact on the economy. On the other hand, a well-designed compulsory scheme that has widespread public acceptance and is fiscally sustainable has the potential to enhance overall welfare.

  - Modelling the impact and evolution of any scheme would require greater clarity as to the specific details of the compulsory scheme that is being proposed.

- Public acceptability, and therefore long-term security of the scheme may depend on the differing impacts that a scheme might have on different groups of New Zealanders. For example:

  - women who do not work continuously until 65 years old might be disadvantaged by a compulsory scheme.

  - there is inevitably a "sandwich-generation" who must pay to accumulate their own savings while continuing to pay for the existing retired population.

  If groups like these do not think the scheme is fair, it may be difficult to maintain a stable retirement regime.

- Retirement security is enhanced by an efficient scheme. Security would be compromised if investment is directed into particular industries or activities in specified countries.

- A compulsory scheme will only assist in managing the long-term fiscal pressures of an aging population if it is associated with an offset in New Zealand Superannuation (NZS).

- National savings will not increase by the full amount of the contributions into a compulsory scheme. In practice, whether a compulsory scheme increases national saving has proved to be ambiguous in other countries.

- Implementation would involve significant design, consultation and administrative effort. It is difficult to see such a scheme being introduced faster than the 1975 New Zealand Superannuation Scheme which took nearly three years to introduce.

4 Security in Retirement

How might introducing a compulsory superannuation scheme contribute towards the objective of providing security in retirement?

Security in retirement is a multi-layered concept. At its most basic level it means an adequate standard of living, including being able to obtain essential services when required. The health and social welfare systems are intended to provide this degree of security for all the population.

4.1 Security related to previous earnings

In a more general way, however, security in retirement involves achieving a sense of well-being and being in control of one's life. At this level, security has physical, mental and social aspects which make it potentially much more complex and variable than the idea of getting the income necessary for a basic standard of living. It may involve continuity with the standard of living one has been used to during working life. Normally this form of security is associated with receiving an earnings-related pension.

Although it is a flat rate benefit unrelated to individual earnings, NZS is intended to help many people, particularly those who may have had low earnings, to achieve this degree of security in retirement.

New Zealand Superannuation

The Accord on Retirement Income Policies, August 1993, states:

"... in order that all retired New Zealanders may continue to enjoy a reasonable level of participation in and belonging to the community, the level of New Zealand Superannuation payments should be within a range of average wage levels. This means that the income of those who receive New Zealand Superannuation should maintain a fair relationship with the income of those in the paid work force."
Accord, section 2.3.2

For some low income earners, NZS could be considered generous, because of its high replacement ratio. For many higher income people, however, NZS may be low in relation to their own level of earnings during working life. For these people saving can promote security in retirement, since it enables people to top up their income in retirement above the level of NZS.

Voluntary saving, including home purchase and contributing to occupational pension plans, is common, but may not be sufficent to match an earlier standard of living. Other people may be happy to consume most of their income as it is earned and rely on NZS in retirement, despite it providing a lower standard of living than they have been accustomed to.

Having a compulsory savings scheme might therefore help smooth out life cycle income and reduce fluctuations in a person's living standard over time. A compulsory superannuation scheme would enhance security in retirement if:

- it results in some people consuming less of their income and saving more during their working life than they are currently planning to do;
- the new savings are able to provide a return that is as good as the return obtained from other voluntary forms of savings that might be reduced in response to the compulsory scheme;
- the introduction of the scheme reduces fiscal risk or enhances the country's growth performance;
- the scheme proves to be durable.

The return from the scheme would be based on the contributions, which would fluctuate according to each person's employment and earnings history and the net earning rate of the pension fund.

4.2 Risks affecting retirement income security

The discussion above implies that a compulsory superannuation scheme has the potential to improve retirement income security of those currently starting out in the workforce by raising their living standards in retirement above the current level of NZS to a greater extent than they might choose to achieve themselves through voluntary savings. However, there are a number of risks, that make this outcome uncertain. From an individual's point of view this uncertainty could reduce retirement income security by making planning for a secure retirement more difficult, particularly as they could have less certainty as to own their future pension entitlement under a contribution based scheme.

- *Fiscal sustainability.* The main "positive" risk favouring a compulsory scheme, which was identified by the Todd Task Force, is that the current system of NZS plus voluntary private provision will prove to be inadequate by failing to generate sufficient savings to reduce dependency on taxpayer funded NZS. This would leave the rising pressure on NZS.

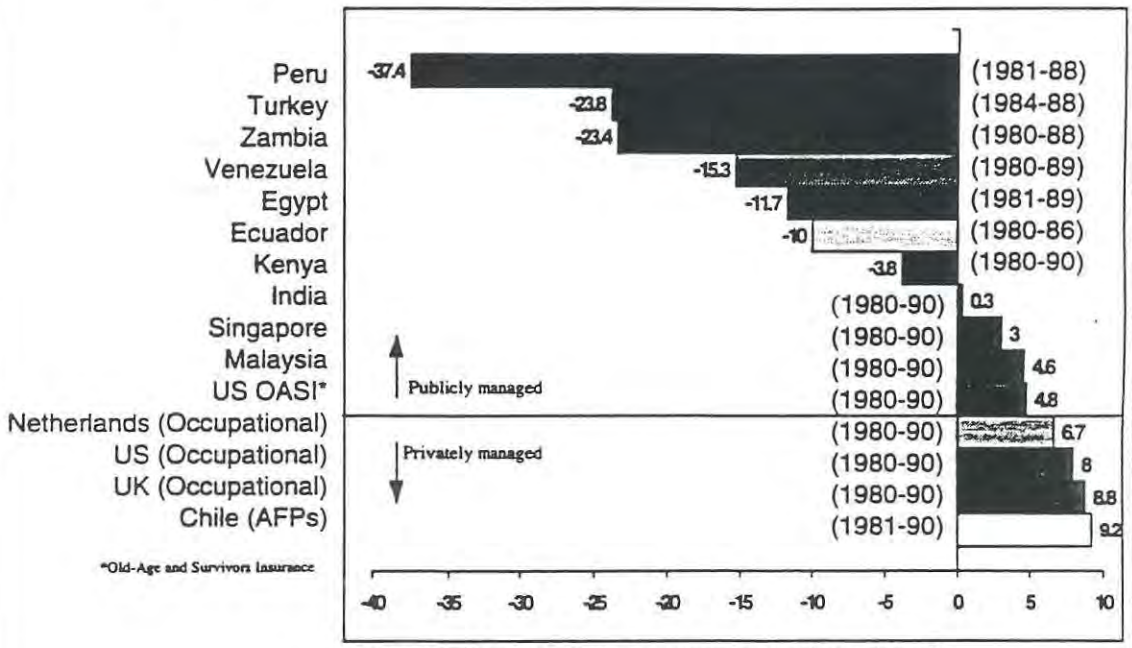
Compulsion as a "backstop"

"We recognise the risks that the improved voluntary option will not achieve the required behavioural changes in people's saving habits. But we favour trying to achieve the best possible result .... We are optimistic that the improved voluntary regime ... can achieve the necessary changes.
However, because we also favour realism about the identification and management of policy (and personal) risks, we have considered what to do if a fully-implemented improved voluntary regime does not meet its objectives. If, at the time of the 1997 review ... there has been insufficient improvement in long-term savings indicators, we think it inevitable that the review team will have to seriously consider the implementation of a compulsory savings regime." -*"The Way Forward", Todd Task Force, Dec. 1992, p39.*

This risk becomes greater the higher the real level of NZS is set and the more NZS is de-linked from other retirement incomes. For example, if the NZS surcharge were to be abolished, additional voluntary private provision would have no direct effect in reducing the fiscal cost of NZS. It might be easier, with a compulsory scheme, to reduce the real rate of NZS or to enforce a partial offset of the savings against NZS, since there would be less concern with the savings disincentive effect of an abatement scheme.

- *Investment risk.* A compulsory superannuation scheme might be less efficient than a voluntary scheme. This risk includes low net rates of return and the pressure on the government to guarantee private pension funds and the possible distortions of investments that might result. This would be particularly acute if fund managers were directed not to invest contributions in activities with the best return, but rather invest in specified industries or activities in nominated countries.

Average annual investment returns for selected pension funds



Source: World Bank Policy Research Report: Averting the Old Age Crisis, p95.

- *Political risks.* These risks relate to any fragility in a broad public consensus on the long term structure of retirement income policy, the conflicting interests of different age groups in considering superannuation and the possibilities of policy reversals during an extended transition to a fully funded scheme. The Todd Task Force recognised these risks when assessing its compulsory scheme option.

Financial security

"We think that the compulsory option would result in less overall security because it would entail a significant likelihood of future policy reversal. It is quite clear that a move to compulsion would involve a significant attitudinal shift for many New Zealanders as far as retirement income and savings are concerned. This shift would almost certainly make political consensus more difficult (some have suggested impossible) to achieve. People's ownership of the scheme may make it stable in the long term if returns were acceptable, but there would be considerable danger that the scheme could be abolished."
"The Way Forward", Todd Task Force, December 1992, p.51

5 Relationship with Taxpayer Funded Benefit

A compulsory savings scheme can interact with the tax payer funded benefit, ie NZS, in several ways which directly or indirectly affect the fiscal position, and the shape of NZS.

The most direct effects are to the cost and funding of NZS. A compulsory savings system which increases the private income of retirees will reduce the fiscal cost of NZS, provided NZS continues to be targeted. In addition, the compulsory saving of some income will reduce the funds available for current consumption.

The relationship between compulsory savings and NZS would also require careful management in the transition from a voluntary to compulsory system of retirement saving. A significant group of workers (the "sandwich generation") will be required to pay for the retirement of their elders as well as themselves. This may increase pressure for the fiscal cost of NZS to be reduced, and also raises inter-generational equity issues.

5.1 Fiscal issues

The Fiscal Cost of NZS

At present, the level of New Zealand Superannuation received by a retired couple is kept within a band of 65-72.5 percent of the after-tax average wage.

Long term, the number of retirees is forecast to grow dramatically, relative to the number of people in the workforce.

This means that under the current policy the fiscal cost of New Zealand Superannuation is expected to almost double from around 5-6% of GDP in 1995/96 to over 10% in 2050, due to population aging.

The parties' objective of sound fiscal policy means that any new system of compulsory savings should be integrated with measures to reduce the future fiscal costs of NZS. If this is done the aggregate burden of taxes and compulsory savings contributions on future generations should not become unduly high, while the financial security of retirees is not compromised.

A key design issue is whether income derived from, or a pension funded from, compulsory savings should be subject to be same surcharge regime as currently applies to income from voluntary savings, or whether a separate abatement regime should apply. Such a regime could be tighter or softer than the abatement regime applied to voluntary savings.

The main objection to the current abatement regime is the perception that it may discourage savings. This argument has less force when savings are compulsory. There is therefore little basis for applying a softer targeting regime to compulsory savings than is applied to voluntary savings. In theory, the compulsory contribution rate can be adjusted to achieve a desired level of savings. However, as compulsory savings schemes aim to make contributors do something that they otherwise wouldn't, there will still be strong incentives for some to avoid or evade contributing, even if the scheme is actuarially fair.

A tighter targeting regime would lower the fiscal cost, which enables tax rates to be lower across-the-board. However, it would also increase the degree to which contributors viewed the compulsory contributions as a tax or targeting device rather than representing savings which they could ultimately access to increase their standard of living in retirement; partially defeating the efficiency gains from lower tax rates.

In summary, the rising cost of NZS in future years will place pressures on fiscal management. Options for lowering the future fiscal cost include lowering the base rate of NZS, either explicitly or by changes to indexation methods and the wage floor, raising the age of eligibility, maintaining and tightening the existing targeting regime, or introducing a new offsetting regime which only applies to retirement income funded from compulsory savings.

5.2 The transition: The sandwich generation

It is inevitable that any feasible change from a taxpayer-funded pay-as-you-go scheme to a contributory funded scheme will create a "sandwich generation" of younger workers who will spend the bulk of their working lives funding their own retirement as well as the retirement of their elders.

This raises inter-generational equity issues, and may be socially divisive as the sandwich generation may feel that the burden of adjustment falls too heavily on them, and look to policy initiatives aimed at spreading the cost of adjustment more widely. In particular, there may be pressure for changes to the current unfunded scheme to reduce its fiscal cost.

Funding the transition: Chile

Chile introduced a compulsory savings scheme in 1981. This increased the government deficit, as a payroll tax that previously funded the public pension was no longer collected from that date. The government embarked on a program of fiscal consolidation and asset sales to restore its fiscal position.

5.3 Other attitudinal changes

As retirees over time become less reliant on publicly provided retirement income the pressure to increase benefits provided by the public scheme may be less than would be the case in the absence of a compulsory scheme.

6 Measuring Savings

National savings is the sum of private (households and business) and public savings.

Measuring the current level of savings in New Zealand is not a simple task. In particular, measuring household savings can be problematic and international comparisons are fraught with difficulties.

Household savings in New Zealand and international comparisons

The NZIER[1] have recently completed a draft report on household savings for the Retirement Commissioner. Household savings can be measured by the difference between household income and outlays. These series are part of the *Household Income and Outlay (HHIO)* account published by Statistics New Zealand. However, Statistics New Zealand has labelled the HHIO account as *experimental* and do not consider the statistics as official. Furthermore, the NZIER caution that because this measure is the difference between two large numbers, any errors in the measurement of these numbers is reflected in the savings estimate.

Using the latest Statistics New Zealand version of the HHIO account, the household savings rate, defined as savings as a percent of disposable income, has declined from 12.8% in 1979/80 to 0.7% in 1994/95. However, the NZIER note that the latest version of the HHIO contains major revisions. The NZIER believe that the earlier version of the HHIO account is more plausible. Using the earlier data, the household savings rate still falls from over 12% in 1979/80, but it reaches 5.2% in 1994/95 (compared to the 0.7% noted above). A further revision of the HHIO is due next week and more work will be needed to clarify the pattern of household savings.

Household saving can also be measured by the change in household net worth using the Westpac/FPG indices developed by the NZIER. Savings as measured by the increase in net worth (excluding housing revaluation) has risen over recent years. When housing is included the rise in household net worth is even greater.

[1] D. Cook, Household Savings: Data Sources for Household Savings in New Zealand, New Zealand Institute of Economic Research Contract No.1168, Draft Report for The Office of the Retirement Commissioner, October 1996.

Previous work by the NZIER suggests that New Zealanders are strong savers by OECD standards when adjustments are made for factors such as business sector (corporate) saving, expenditure on consumer durables and demographic effects. The NZIER note that these adjustments are not definitive and that the comparison only goes up to 1992. New Zealand's savings data has been revised since the completion of the project.

The observed household saving rate is influenced by a range of factors including; income growth, demographics, financial market developments, taxes, how much businesses and the government are saving, and public provision.

6.1 Impact on the composition and level of savings

In theory there could be some increase in household saving in response to a compulsory scheme as some people in the population will have to save more than they would otherwise have done. The empirical evidence, however, is ambiguous.

The impact on national savings depends on the link with public savings. This depends on how government manages the fiscal surplus. Containing expenditure pressure generally and retirement income in particular could have a positive impact on national savings.

Todd's conclusions on compulsion and national savings

The Task Force pointed out that the effect of compulsion on the level of national saving cannot be measured simply by the flow of funds into compulsory savings forms. An adequate assessment requires knowledge of:

- how much would have been held in those forms in the absence of compulsion
- how much of the savings represent substitution between forms of saving rather than additions to national saving
- how much of the net increase in saving is effectively foregone through distortions to capital and labour markets.

The Task Force noted that these factors are difficult to quantify and are likely to have varying effects on different income groups. For example, middle to high-income earners may switch from existing savings vehicles to compulsory ones. Lower incomes earners may reduce house purchases thereby reducing saving in this form.

The Task Force concluded that compulsion is likely to lead to a higher level of national saving than a voluntary scheme (with or without tax incentives), particularly if the aim were to replace public provision as far as possible.

Household savings will not rise if voluntary savings are reduced one-for-one by compulsory savings. However, this "offset" (or crowd-out) to voluntary savings may not be 100%.

However, it is likely that the *composition* of household savings portfolios would change away from, for example, housing equity to financial assets. These composition changes may have second round effects. For example, a switch out of housing may increase the productivity of the economy's capital stock (financed, in part, from national savings). On the other hand, these efficiency gains may be offset if the compulsory savings are administered in a centralised (i.e., as a national provident fund) rather than decentralised fashion (including voluntary savings). According to the World Bank, most centralised funds are invested in low-yielding government bonds or in poorly-performing government businesses.[2]

International evidence on the effects of compulsory schemes on saving

According to the World Bank "A low mandatory saving rate, say 5 percent or less, is likely to be largely counteracted by cuts in voluntary saving, having a negligible effect on net capital formation. At higher rates, this crowd-out effect may be only partial because people are short-sighted and would not have saved as much voluntarily for old age."

The Bank suggests that the empirical evidence on the savings effect of mandatory savings schemes is ambiguous. For example:

"During the 1970s and 1980s, Singapore had the highest private saving rate in East Asia, with Malaysia close behind. In Chile, private saving went up sharply in the decade after the mandatory saving scheme was introduced. But many other factors were at work in all three cases, so it is difficult to pin down how much of the high saving, if any, was due to the mandatory savings scheme."

Notwithstanding ambiguity concerning the schemes effects on aggregate savings, the Bank acknowledges that they are "able to generate–in a short time–substantial long-term savings invested in financial assets."

The International Monetary Fund (IMF) have investigated savings trends in a group of Southeast Asian economies (Singapore, Indonesia, Malaysia, and Thailand).[3] Demographic changes were found to be an important driver of savings rates in these countries. However, the study concluded that "The long-run implications of provident funds are perhaps less clear, with little evidence of compulsory saving having had any consequence for the trend rate of saving in Malaysia but some evidence of a long-run impact in Singapore. These differences may well be tied to each country's differing experience in the management of their compulsory saving scheme."

In a report on pension regimes and saving, the IMF conclude that:[4]

"There is no strong theoretical argument or compelling evidence for the view that the replacement of a PAYG defined-benefits public sector plan by a defined-contributions plan along the lines of the Chilean system will increase aggregate saving. It would be most likely to do so if contribution rates were set at very high levels. Similarly, there is no compelling reason to believe that the addition of a second tier in the form of a defined-contributions plan to the public system would increase saving."

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2 World Bank, *Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth*, Oxford University Press, 1994.

3 Faruqee, H. and Husain, A.M. "Savings Trends in Southeast Asia: A Cross-country Analysis", International Monetary Fund Working paper WP/95/39, April 1995.

4 Tanzi, V. "Pension Regimes and Saving", International Monetary Fund, January 1996.

The Australian superannuation guarantee system was expected to generate an offset that could amount to 50% over the short to medium term. Other estimates of the offset suggest that it could be as small as 30%. Over the long term the offset may increase as people's superannuation balances rise (Ftzgerald, 1996).[5] Overall, these estimates need to be treated cautiously:

- The 50% and 30% estimates use econometric work based on American data or on Australian data generated before the introduction of compulsory savings mechanisms. The offset will be influenced by the future response of the financial system to increased compulsion.[6]

Fitzgerald notes that "...we do not know enough about the the offset (in reduced other saving), and that it may well rise over time. The latest work on this (Covick and Higgs, 1995) puts the offset at 37 per cent, but sheds no light on whether it will rise. Indeed, the continuing steady fall in the household saving ratio almost a decade after the initial steps to introduce award superannuation is a salutary reminder of the strength of households' response to the overall incentive structure they face, and to their increased *ability* to adjust saving patterns (through easier access to finance and so on)".[7]

In summary, measuring the level of savings, particularly household savings, is difficult. New Zealand's household savings rate will be influenced by a number of factors. The response of household savings to a compulsory scheme will be influenced by changes in voluntary saving, and there may also be changes in the composition of household saving. The international evidence on these effects is somewhat ambiguous.

The impact on the overall national saving will depend on what happens to government savings.

7 Implementation

A change to a compulsory superannuation scheme is a major change in retirement income policy. All work in this area stresses the importance of the long term durability of changes in retirement income policy as people make decisions today that will begin to impact on their incomes in up to forty years time.

If it is to be embarked upon all stakeholders will want to ensure it is durable. Stability, consistency and public acceptance will be key requirements, which suggests that implementation should allow for a lengthy process of public consultation, building a broad based constituency of support and examining and passing of legislation.

In addition two aspects of implementing a compulsory superannuation scheme that need to be considered are:

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5 See V. Fitzgerald, "Public Policy and National Saving", *Agenda*, Vol.3, 1996, pp.3-30 (including comments).

6 See D. Harding, comment on Fitzgerald, p.20.

7 See V. Fitzgerald, rejoinder, p.28.

- the lead time required before the scheme could be started;

- designing and managing the phasing-in of the scheme as it grows to maturity.

7.1 Initial lead time

The first requirement is to identify the key objectives for the scheme. This will help to guide the decisions as to the key parameters of the scheme and its overall form.

The compulsory scheme developed by the Todd Task Force

The Todd Task Force examined compulsion, and despite not supporting it in the end, they did describe a scheme that went closest to meeting the weaknesses they identified with compulsory schemes. The features included:

- Coverage of all employed including self-employed, which differs from some other countries.

- Contributions of 9 percent of all taxable income above $5,000. A contribution ceiling would apply at the net present value of the capital value of NZS.

- Contributions would be paid to a "qualifying" privately managed fund nominated by the taxpayers.

- Funds would convert to an annuity at or after the qualifying age for the state pension.

- Up to half of NZS would abate at 50 cents in the dollar against annuities purchased from compulsory savings. Other savings would continue to be subject to existing surcharge arrangements.

Clearly the time required to implement a compulsory scheme in New Zealand would depend to some extent on the form it took. However, there are some essential features of the process that would take time to get right, irrespective of its final form.

First, the design of the scheme would need to be developed to a significant level of detail before the administrative systems needed to implement and support that design could be built. The Todd Task Force for instance took 10 months and did not fully develop a compulsory scheme. Even the quickest option - taking the Todd Task Force compulsory scheme option would require more design work, probably in excess of six months.

The policy design process

As an example, in 1991/92 the Todd Task Force spent about 10 months shaping a "model" compulsory scheme as part of its public consultation process on alternatives to the current system of retirement income provision. Their design process included sorting out the most important objectives and considering the following key parameters:

- whether a scheme should replace or "top up" public provision;
- who should be covered by compulsory contributions (employees, self-employed, beneficiaries, non-earners?);
- who should pay the contributions (employee, employer or both?);
- how much should be contributed (small contributions, setting an annual ceiling or a target capital value);
- the appropriate tax treatment of the contributions;
- whether end benefits should be gender-rated or gender-neutral;
- what scale of contribution would be needed under different income and earning rate assumptions, and how quickly it might be phased in;
- treatment of people who are currently contributing to defined benefit schemes;
- the base on which contributions are determined, eg salary and wage income, gross income or assessable income;
- who should manage the funds and investments;
- whether there should be government guarantees;
- how to ensure effective competition amongst qualifying funds;
- the best process for collecting contributions, eg individuals, employers or Inland Revenue Department;
- the responsibilities of a clearing house and regulation of "qualifying funds";
- the extent of access to contributions - whether to shift between funds or withdraw funds prior to preservation age, treatment of emigrants and short-term residents;
- whether there should be restrictions on qualifying funds' investments;
- the type of end benefits that would be available - partial lump-sum or annuity only, whether to include survivors benefits, options for the linkage of annuities with inflation, regulation of annuity providers;
- scheme rules to deal with specific events, such as disablement or death before qualifying pension age, marriage break-up;
- how the scheme would be integrated with (then) National Superannuation, including the rate of replacement and the balance between public and private provision once the scheme was fully mature;
- the future position of existing employer-based superannuation schemes;
- the fiscal impact of the scheme over the period to maturity.

Even with this amount of analysis the Task Force's compulsory savings scenario was not developed to the stage where it could be directly implemented. The Task Force flagged several issues that needed further work to resolve. In particular, the fiscal modeling of the scheme was done only in a rudimentary fashion in the time available.

Next, administrative systems would need to be designed to carry out the policy. This itself would need extensive research and consultation, and might require further refinement or modification of the policy as new issues emerged. Some aspects of the policy might prove to be costly or infeasible, and the timetable for the work would need to be integrated with other systems changes that might be in the pipeline.

All of this implies that the implementation of a policy could take considerable time, even after the policy design process is complete. A compulsory superannuation scheme would raise a large number of administrative issues that must be dealt with adequately before the scheme could actually go into operation.

Administrative issues

The following list is intended to give some idea of the complexity of implementing a compulsory superannuation scheme. It is indicative only, but should provide a picture of the range of administrative issues that must be dealt with before a compulsory superannuation scheme could be brought into operation. Some of the key issues are:

- The composition and nature of the group that oversees the collection of the fund.
- If a central agency is established Its role must be considered. Possible roles include:
    1. Functioning as a central clearing house by receiving transferred funds.
    2. Investing money received.
    3. Paying benefits.
- If a central agency does have a role receiving funds, the bank or financial institutions in which those funds are held must be determined.
- The investment criteria for any funds controlled by the public sector.
- The size, nature, and powers of any appeal authority.
- The relationship between the IRD and the public and private bodies involved in managing the fund.
- The audit arrangements for accounts.
- Arrangements for tracking compliance need to be made. If the scheme aims to be comprehensive (covering non-employees) this would be a major exercise, possibly requiring an individual registration system.
- Information and training needs to be provided for employers.
- Information needs to be provided for the public.
- Information technology systems have to be established to track accounts. These systems will necessarily be large and complex since they will have to track a substantial proportion of the population.
- Transitional arrangements for individuals with too little time left in the workforce to make significant contributions needs to be determined.
- Whether administration costs are met from contributions, from a direct charge on public revenues or a combination of the two approaches.
- Administrative costs depend on the extent to which private schemes are allowed to operate and compete with each other.
- The relationship between the compulsory scheme and existing private schemes needs to be established.
- What happens to the funds of individuals leaving New Zealand permanently or working in New Zealand temporarily needs to be established.

Time to design and implement

Example 1: The Australian 1992 compulsory scheme
This scheme involves extending the coverage of employer-based pension schemes by imposing a superannuation guarantee charge (SGC) on employers who fail to cover their employees. The process of design and implementation took 12 months, extending from August 1991, when officials were asked to design the scheme, to August 1992 when the legislation was enacted. The fact that the proposal dealt with employer obligations only and was largely cobbled on to existing pension practices probably explains the shortness of the time frame.
Subsequently, the design of the scheme has been the subject of some criticism, as encouraging early retirement rather than reducing the costs of public age pension.

Example 2: The 1975 New Zealand Superannuation Scheme

For those who did not already have approved pension arrangements, this scheme required employer and employee contributions (initially at 1%) which were collected through the PAYE system, with year end reconciliations through IR12 returns.

Policy development for this compulsory scheme took over eighteen months. In 1972 a study of various proposals was undertaken along with extensive research into the various possible approaches to compulsory provision. From January 1973 to August 1973 an interdepartmental officials group developed the proposal in more detail.

Once a policy proposal was complete, it was still another 20 months until the scheme was actually implemented. The bill was introduced in August 1973, and passed in August 1974. During this year a select committee received several detailed submissions on which officials were required to make recommendations. After the legislation was passed, it was another 8 months before the scheme was implemented on 1 April 1975. During this time, a public education campaign was undertaken.

In summary, even a partially developed system like the Todd compulsory scheme option would be difficult to implement in 18 months. Significant additional design work and consultation is likely to add to be necessary. It is difficult to see such a scheme being introduced faster than the 1975 New Zealand super scheme.

7.2 Phasing in a compulsory superannuation scheme

A compulsory scheme is likely to have influences on other parts of the savings industry, NZS and the economy generally which need to be considered in the implementation phase. A gradual phasing in of the scheme is probably required, but the longer the transition takes, the higher may be the risk of its being abandoned.

> "Any pre-funded scheme will have a slow build-up during which time its costs will be obvious, its benefits slow to emerge, and the political attraction of abolition and repayment to members will be high. The fate of the 1975 New Zealand Superannuation Scheme offers some lessons about the political fragility of compulsory funded schemes. Continuing consensus is therefore an important component of a compulsory scheme."

The Issues -Interim Report of the Task Force on Private Provision for Retirement, December 1991.

Another consideration for the transition is the way in which the scheme affects different generations of earners. Those who are in or close to retirement stand to gain little from a compulsory savings requirement and have an interest in the level of public services and NZS being maintained through general taxation. However, those starting work face tax rates that are set to fund the NZS of current retirees as well as having to save for their own retirement income, with an uncertain prospect of being able to claim NZS as well when they retire. Designing a transition in this environment would require a careful balancing of competing interests and concerns.

Example of a design issue: Income level at which compulsory contributions start

One design issue with important implications is the income level at which compulsory contributions are required. If this level is low, people on income tested benefits might be required to make compulsory contributions. This has important implications for benefit adequacy. Benefit levels do not currently reflect the need to save for retirement, and hence, compulsory contributions would be equivalent to a cut in benefit levels. A compulsory contribution rate of 9% would have a significant impact on the net income of a beneficiary.

There are three possible approaches to dealing with this issue. The first of these is to require beneficiaries to contribute to a compulsory superannuation scheme and to leave benefit levels unchanged. This would mean that beneficiaries would end up with a pension from the compulsory scheme, but benefit levels would be reduced. The effect of this on benefit adequacy is likely to be quite significant.

The second approach would be to increase benefits by the amount of the compulsory contribution. For example, a 9% compulsory contribution on all income would require a 9% increase in benefit levels. This approach has been taken in the past in order to avoid other government policies reducing real benefit levels. When GST was introduced benefit levels were raised by the same amount.

Increasing gross benefit levels would have a number of side effects. Decreasing the income differential between beneficiaries and those on low incomes could lower financial incentives to move off the benefit. Also, increasing gross benefit levels has obvious fiscal implications. Higher gross benefits would imply higher spending on benefits. It would, however, still ensure that beneficiaries would receive a pension from the compulsory scheme as well as any publicly provided benefit.

Finally, the third approach to the problem of compulsory provision for beneficiaries would be to exempt benefit income from contributions to the compulsory superannuation scheme. This would reduce financial incentives to move off the benefit by less than would increasing gross benefits, and does not involve cutting benefit levels. It does, however, mean that long-term beneficiaries would be fully reliant on publicly funded retirement income. This implies a two-tier system of provision for retirement, in which there is a top-tier for income earners and a bottom, publicly funded tier, for non-income earners and beneficiaries.

7.3 Timing of the tax cuts

Decisions would be needed on the possible co-ordination of any future tax cuts and the introduction of a compulsory superannuation scheme.

The implementation tasks discussed above make it impossible for a sound compulsory scheme to be introduced in time to be integrated with the second round of tax cuts as presently scheduled.

However, it would be feasible to integrate possible future tax cuts beyond 1997 with the introduction and phasing of a compulsory scheme, provided the fiscal position remains strong.

7.4 Implications for the Accord

A further aspect to be considered is the fact that a compulsory scheme would be inconsistent with the present Accord on Retirement Income Policy.

Implications of a Compulsory Superannuation Scheme for the Accord

Current retirement income policies have been developed under the 1993 Accord on Retirement Income Policies, entered into by the Parliamentary Parties of the Alliance, Labour, National and United. The agreement sets out a number of principles and processes that the parties agree to follow.

One of the principles in the Accord states that **"People should be encouraged to save for their retirement ... but should not be compelled by law, or given tax incentives, to do so"** (s 1.4).

If a compulsory superannuation scheme were to be introduced the Accord parties collectively would need to reject the principle in s 1.4 and negotiate an amendment to the Accord, or the Accord would need to be abandoned.

8 Other implications

The above discussion attempts to set out issues to consider regarding the effects of a compulsory superannuation scheme on fiscal aggregates, national savings and implementation. This does not, however, fully represent the total economic impact of this policy.

There is an interaction between policies, for example coordination with possible future tax cuts, discussed above. Also, a compulsory scheme would require some integration with the income tax system. Depending on the form of the scheme, it could for example, involve a more onerous taxpayer filing requirement than at present. This would have implications for the tax simplification programme and the strategic direction of the Inland Revenue Department.

A change in superannuation policy may involve other changes in people's incentives which will affect behaviour. For instance an increase in expected retirement income will tend to reduce work incentives.

The overall fiscal impact will depend on whether any other policies are introduced alongside the change to compulsory superannuation. For instance an increase in the floor for NZS or a reduction in the surcharge would increase the overall fiscal impact.

This policy will have an impact on the macro economy. In general to the extent that a compulsory scheme leads to an increase in savings, aggregate demand will fall. This will tend to reduce the growth rate and inflationary pressures. This would tend to change the overall shape of the economy and therefore the fiscal position. To the extent that this was part of a larger package of initiatives the overall impact on the economy would be different.

Therefore any one policy should not be considered in isolation. It is the overall size and design of the total package of government measures that impacts on the economy generally and interest, exchange rates, the fiscal position and aggregate savings in particular.

CONFIDENTIAL GF No: 512

26 November 1996

"WORKFARE" TYPE PROGRAMMES

1 On 12 November 1996, you requested an answer to the following questions:

Describe the range of "workfare" type initiatives used overseas and how they have evolved over time. Particular focus should be given to:

- their objectives;
- target groups and any exemptions;
- range of activities used;
- any additional support provided;
- duration of participation;
- administrative implications;
- the nature of the benefit system in the particular country involved; and
- any evaluative research of the effectiveness of these approaches.

How do such approaches compare with current New Zealand policies and programmes?

2 This paper responds to this request.

EXECUTIVE SUMMARY

3 The term "workfare" has been used to describe a wide range of programmes that involve mandatory work experience (either for the benefit or for pay). Mandatory work experience is part of a wider range of policies aimed at promoting self-reliance and employment amongst welfare beneficiaries. Almost invariably, mandatory work is a component of a broader "welfare to work" initiative which also has job search and training components. Welfare to work initiatives, in turn, are just part of the range of assistance and incentives which may encourage beneficiaries to move into paid employment.

4 The main objectives of "workfare" type initiatives are to:

- develop and maintain the basic work habits, skills and motivation of (often long-term) beneficiaries;
- provide a deterrent for people to become and remain beneficiaries; and
- act as a "quid pro quo" (or reciprocal obligation) for benefit receipt.

Evaluation evidence concentrates on US sole parents

5 Workfare-type programmes have their origins in the United States (US). While other countries' schemes are described in this paper, the bulk of the evaluative material relates to US schemes. This information concentrates on outcomes for sole parent welfare recipients because US programmes are largely targeted at this group. Some results are available for the long-term unemployed which point in the same direction as for sole parents, although the evidence is less conclusive and the effects weaker.

Unpaid work experience on its own appears unsuccessful but broader welfare to work programmes produce moderately positive results

6 Available US evidence suggests that work-for-benefit or unpaid work experience on its own contributes little to either increased earnings or reduced welfare payments. Where mandatory work experience is combined with job search, employment assistance and skills training (as it generally is in welfare to work programmes), the evidence suggests that there can be positive, but modest, net benefits from the combined programme in terms of both increases in earnings and reductions in welfare payments. As noted above, the results are less conclusive for unemployed people. In one study, the unemployed group tended to return to benefit at a higher rate than sole parents.

7 Welfare to work programmes appear to be most effective when they involve mandatory active job search and job search assistance as well as more intensive interventions (such as case management). This combination appears to be particularly effective when participants are given strong messages to accept any job, and when sanctions are routinely imposed for non-compliance. The evaluation evidence raises questions about the effectiveness of emphasising basic education and training, at least without these other elements.

Some success in 'register clearing' in the UK

8 Recent experience in the UK (Project Work) suggests that mandatory work schemes can assist in identifying unemployed people who are not entitled to benefit and may provide an additional incentive to others to look for paid work. In New Zealand, however, it is unlikely that additional programmes would produce such a significant "register clearing" effect. This is because New Zealand already operates a number of lower cost mandatory interventions, such as Work Focus Interviews and, more recently, Job Action workshops, that identify people who are not entitled to benefit and create an additional incentive to look for work.

Overseas experience provides some guidance for New Zealand

9 There are some difficulties in translating overseas evidence to New Zealand due differences in the labour market and social/cultural contexts. Furthermore, most US programmes have been targeted at sole parents rather than the long-term unemployed. Nonetheless, the evidence does provide some guidance on the sorts of programmes that might be effective.

New Zealand programmes for work tested beneficiaries share similar features with broader welfare to work models

10 For work tested beneficiaries, there are many similarities between New Zealand programmes and policies and "workfare"-type schemes. New Zealand operates a range of programmes designed to move jobseekers into work. These include job search assistance, basic education and training, wage subsidies, unpaid work experience, paid work experience, and case management. Any of these programmes may be mandatory for a particular individual under the work test. Sanctions in the form of loss or reduction in benefit can result from failure to take part in these activities. To the extent that overseas evaluation results capture the combined effects of some of these interventions, particularly mandatory active job search, applying an overseas model in New Zealand may not show such strong additional results.

11 From 1 April 1997, part-time work test obligations are being extended to domestic purposes and widows beneficiaries with a youngest child aged 14 years or over.

But New Zealand does not have a mandatory work experience programme to test the willingness to work of very long term jobseekers

12 New Zealand does not have a work experience component that is mandatory for any remaining unemployed people at some point. The question remains whether the work test should be more strongly enforced where people have been unemployed for a very long time and a range of assistance has not been effective. There may be a gap in terms of mandatory work experience in order to test the willingness to work of very long term unemployed jobseekers.

13 Cost effectiveness factors suggest that, in the sequence of interventions designed to assist people into work, a mandatory work experience element may be best suited to very long term beneficiaries in order to regain and maintain basic work skills and motivation. This would limit the potentially increasing costs of such schemes, arising directly through programme administration and sponsorship, and indirectly through the displacement of paid workers. It would also avoid the higher deadweight losses associated with the early use of such a scheme for people who would be likely to move into employment anyway without intensive assistance.[1]

New Zealand does not work test sole parents with young children

14 There are two other main differences between New Zealand policies and programmes and the workfare-type programmes described in this paper. First, unlike programmes in North America, New Zealand has not imposed stringent obligations on most sole parent beneficiaries. North American programmes may impose obligations on sole

[1] "Deadweight" losses occur when the programme aims to produce outcomes that would have occured anyway. In this paper, the term "displacement" is used to refer to a situation where jobs are provided to a target group, as a result of the programme, rather than to people in non-target groups.

parents with children as young as six months old, whereas from 1 April 1997, New Zealand will begin part-time work testing domestic purposes and widows beneficiaries when their youngest child turns 14. Although the evaluation evidence suggests that welfare to work programmes can produce moderately positive results with sole parents, it should be noted that the programmes have generally included childcare assistance.

New Zealand does not have time-limited benefits

15 Secondly, the US has recently introduced time limits on welfare receipt for families with dependent children, mainly sole parents. New Zealand has no similar limits on benefit receipt. This is a new development and no evaluation evidence is yet available on the effect of time-limited benefits on outcomes for "workfare" type programmes. However, there is evidence from time limits on unemployment insurance which indicates that the probability that someone will leave unemployment increases significantly immediately prior to the time limit being reached.

INTRODUCTION

16 This paper:

- describes briefly the evolution of workfare-type programmes over time in the US, which has the longest experience with such programmes;
- outlines the key features of "workfare" type schemes, including broader welfare to work programmes;
- highlights the objectives and key features of such programmes, including their links with the benefit system;
- identifies the key findings from the evaluative literature; and
- identifies the key similarities and differences between overseas programmes and the New Zealand situation.

17 Throughout the paper reference is made to various examples of overseas schemes that have a mandatory work component. The appendices to this paper provide a series of more detailed examples. None of these examples is a pure work-for-benefit scheme. Rather, the examples were chosen to illustrate the range of elements commonly found in schemes that have a mandatory work component.

18 The schemes are:

- *California GAIN*: GAIN is one of the most extensive welfare to work programmes in the US. GAIN has also been the subject of rigorous evaluation [see Appendix Two];
- *Wisconsin Works ("W-2"):* W-2 is a new programme being established in Wisconsin, USA. It illustrates some of the recent trends in welfare to work

programmes in the US, especially the use of time-limited benefits [see Appendix Three];

- *Ontario Works:* Ontario Works is a welfare to work programme being established in Ontario, Canada [see Appendix Four];
- *Alberta Job Corps:* Alberta Job Corps is a small scale intensive mandatory paid work programme for very disadvantaged welfare recipients. It is part of a broader system of employment assistance in Alberta, Canada [see Appendix Five]; and
- *Project Work, UK:* Project Work is a pilot job search and work-for-benefit programme in the UK for the long-term unemployed. It appears to be remarkably successful in moving people off the unemployment register [see Appendix Six].

BACKGROUND

19 Over the past 15 years, a wide variety of programmes have operated under the banner of "workfare". These programmes have their origin in the United States.[2] The emphasis placed on **mandatory work experience** (either for pay or while on benefit) within these programmes has waxed and waned over time. Early US workfare schemes, (begun in 1962) allowed States to choose to require some welfare recipients to "work off" their benefits. These programmes were targeted primarily at unemployed fathers whose families had become eligible for federal welfare assistance. Some of these programmes, such as Ronald Reagan's California community work experience programme, were notoriously unsuccessful.[3] In response to a growing concern about the cost of welfare in the US, in 1967 the federal government required states to implement programmes to assist welfare recipients to move off benefit into employment. Programmes implemented in the early 1970s tended to stress immediate job placement.

20 During the 1970s, changes were made to the parameters of federal welfare legislation (also in response to the growing cost of welfare) so that by the 1980s, attention had moved from unemployed men to female sole parents who make up the bulk of cash welfare recipients in the US. With some notable exceptions, programmes during the late 1980s and early 1990s have tended to emphasise a mix of education, training and job search, while retaining a mandatory work experience component. These programmes have tended to be referred to as **welfare-to-work programmes**.

21 More recently, the balance appears to have tipped back towards a greater emphasis on job placement, within a range of assistance measures which include job search and education and training. The 1996 US federal welfare reforms require states to ensure that a greater proportion of welfare recipients are in "work activities". This shift is at least in part linked to disappointing evaluation results from programmes that placed a heavy emphasis on education and training compared to active job search assistance. In the United States this shift in emphasis has also been accompanied by a move to time-limited benefits.

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[2] It should be noted that in the US. the term federal "program" normally refers to a piece of enabling legislation and associated federal funding. The federal government sets the parameters for the programme with details being worked out at the state and county level.

[3] This programme failed to meet any of its employment objectives and was able to enrol only a tiny fraction (0.2%) of welfare recipients. See: Grubb. N.W., 1995. Evaluating job training programmes in the United States: Evidence and explanations (ILO. Training Policy & Programme Development Branch. Geneva)

WORKFARE TYPE PROGRAMMES

ıly, all "workfare" type programmes aim to encourage welfare recipients yment and move off benefit. Most programmes have multiple objectives people have different needs at different times on welfare.

ıjectives include:

ıg that people who receive social welfare assistance do something in return quid pro quo");

lling basic work habits in welfare recipients;

proving motivation and self-esteem;

ɪeveloping employment-related skills;

encouraging active job search;

limiting benefit abuse, by providing an opportunity for the administering agency to identify people who are in receipt of benefit to which they are not entitled (in particular because they are already in paid employment); and

creating a disincentive for people to become welfare recipients for 'lifestyle' reasons. There is a tension here between creating a strong deterrent and targeting programmes to a subset of welfare recipients for whom they will be most effective.

4 Commonly, the mandatory work component of workfare-type programmes stresses ıotivational and willingness to work objectives. Although it is almost impossible to stimate the proportion of welfare beneficiaries who are either thoroughly demotivated or nwilling to work, they are generally considered to be a minority of long-term welfare ecipients. Long-term welfare recipients may also face other barriers such as limited skills nd employer reluctance to take on people who are 'tainted' by long spells out of work. It nay not be realistic to expect that mandatory work will get these people directly into ınsubsidised jobs.

25 "Workfare" programmes are only one part of a wider system that may help or hinder velfare recipients' moves into paid employment. The social welfare system, the tax system, and the labour market, along with other factors such as social conventions, interact in a complex way. The end result is an overall system within which people operate. In order to achieve a significant change in outcomes for a large group of beneficiaries, it is usually necessary to implement mutually reinforcing policies that impact on a number of parts of this overall system.

KEY FEATURES OF "WORKFARE"-TYPE SCHEMES

Target Group

26 There are two main target groups for "workfare"-type programmes overseas: sole parents and the long-term unemployed. Exemptions are commonly granted for people with disabilities or serious illnesses, older people, and people with very young children.

27 The major source of cash welfare assistance in the US is the *Aid for Families with Dependent Children* and is provided primarily to sole parents. It follows that the main source of concern in terms of rising welfare dependency in the US has been sole parents and most workfare models are targeted at this group. Over time, US federal legislation has lowered the age at which a child's parent can be expected to participate in welfare to work programmes: from six years to three years, with state discretion to reduce this to one year old. Some Canadian provinces also target sole parents. For instance, Alberta expects sole parents with children as young as six months old to participate in programmes designed to move welfare recipients into employment, although the first step would often be basic education and training.

28 Since 1988, most welfare to work programmes in the US have been operating under the federal JOBS (Job Opportunities and Basic Skills Training) program. The legislative and funding framework for JOBS encourages states to target their programmes to long-term welfare recipients. The JOBS legislation identifies target groups within the AFDC population on whom at least 55 percent of JOBS expenditures should be spent. The target groups include AFDC applicants and recipients who have already received AFDC for 36 of the past 60 months; are custodial parents under age 24 without a high school diploma or the equivalent, or with limited work experience; or are within two years of being ineligible for aid because the youngest child is aged 16 or over[4].

29 Amongst the unemployed, most participants in "workfare"-type programmes overseas are either long-term unemployed or have limited work history. It is important to remember that the combined insurance/social security system operated in most OECD countries means that an unemployed person signing up for welfare may already have spent several months in receipt of unemployment insurance.

30 In the United States, unemployed people who are insured may receive unemployment insurance payments for 26 weeks, or 39 weeks if they live in a "high unemployment" state. The proportion of unemployed people in the US who receive unemployment insurance is low - in a 1986 survey only about one-quarter of those with unemployment experiences reported any income from unemployment insurance. Young people and women are less likely to have unemployment insurance than older people and men.

31 In Canada, Employment Insurance is paid to unemployed people for a maximum of between 14 and 45 weeks depending on the number of weeks of insurable income and the rate of unemployment in a particular area. The recipiency rate for unemployment insurance

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[4] The JOBS Evaluation: Early Lessons from Seven Sites, December 1994, MDRC under contract for US Department of Health & Human Services, US Department of Education, & California Department of Social Services

has been higher in Canada than in the US, although the previous unemployment insurance has recently been restructured. People without insurance, especially young people who have not worked before, would access social assistance. This means that people who may be disadvantaged in the labour market due to the lack of a work history will gain early access to welfare to work programmes.

32 In the UK, the insurance portion of the Job Seekers Allowance lasts for six months, at which point unemployed people move onto a means tested benefit. Project Work in the UK is targeted at people who have been unemployed for at least two years.

Supporting Assistance

33 As a result of the concern with sole parents overseas, childcare assistance commonly accompanies workfare programmes. For example, the GAIN programme in California fully funds childcare (up to the average regional market rate) for children aged under 12 years. Sole parents must be given the choice of at least two forms of childcare provision and are exempt from the programme if they do not have suitable childcare. In fact, under the US federal JOBS legislation (1988), states cannot require programme participation of AFDC recipients who need childcare services unless childcare is guaranteed[5]. Another example is Alberta, Canada, where an allowance may be paid to welfare beneficiaries who are in training or seeking employment to cover the actual and reasonable costs of childcare (babysitting or daycare).

34 Other forms of supporting assistance that may be provided in "workfare" type programmes include full or partial grants for transportation, work clothes and training-related expenses.

Range of Activities

35 Almost invariably, welfare to work programmes are comprised of a number of elements. These generally include:

- active job search;
- job search assistance (such as Job Clubs, telephone banks; CV writing)
- basic education;
- skills training, either off-job or on-job; and
- work experience.

36 The work experience component generally occurs at the end of a series of job search and/or training interventions. This work may be for benefit only or for pay. Some models view mandatory work experience as a compulsory activity of last resort. In other programmes, mandatory work experience is one option that may be used according to an assessment of the needs of the participant.

37 The California GAIN programme is an example of a programme that uses work experience at several points. Some GAIN participants may be required to undertake short-

[5] The JOBS Evaluation: Early Lessons from Seven Sites. December 1994. MDRC under contract for US Department of Health & Human Services. US Department of Education. & California Department of Social Services

term work experience following a period of active job search and, in some cases, basic education, while other participants are undertaking activities such as on-the-job training. Eventually, all participants who have not found a job are obliged to participate in longer-term work experience [see Appendix Two].

Duration of Participation

38 Mandatory work experience placements overseas are generally of relatively short duration: three to six months, although participants may have more than one placement. For instance, the mandatory community work component of Project Work in the UK lasts 13 weeks. Participation in the Alberta Job Corps is limited to six months. Ontario Works may extend a work experience placement from six months to up to 11 months where a specific skills training plan is in place.

Time-Limited Benefits

39 One recent development in the US, which may impact on the key features of "workfare"-type programmes in future, is the introduction of time-limited welfare receipt.

40 Until recently, the main form of cash welfare in the US has been *Aid to Families with Dependent Children* (AFDC). The AFDC is mostly paid to sole parent families, however, unemployed people can also receive assistance through the *AFDC-Unemployed Parent* (AFDC-U, sometimes abbreviated as AFDC-UP). AFDC-U recipients either do not have or have exhausted their unemployment insurance. Typically, states have imposed stricter eligibility requirements for unemployed people than for sole parents.

41 Prior to the November 1996 Presidential elections, Congress passed and President Clinton signed new welfare legislation that:

- repeals the federal entitlement for AFDC and replaces it with a block grant to states, called "Transition Assistance to Needy Families". The new law has no individual guarantee of benefits and leaves most decisions of whom to aid and how aid them up to states;
- requires that states ensure that a greater proportion of welfare recipients are in "work activities" in exchange for federally funded time-limited welfare assistance;
- limits the length of federal welfare receipt to two years, in most cases, with a lifetime limit of five years; and
- contains enhanced childcare and child support enforcement provisions.

42 This is a federal law and relates to federal welfare funding. The full implications of the welfare reforms on workfare programmes at state and county level will not be known for some time. To quote the US General Accounting Office: "Although the states' experiences provide information regarding some of these reform features, other features - such as time-limiting benefits and turning the AFDC program into a block grant - would so alter the environment that we cannot confidently project the likely effects of the entire

package of reform proposals."[6] There is a transition period until mid-1997 to allow states time to bring their programmes in line with the new regime.

43 One possibility that has been floated in US media is that some states may establish public service job schemes for low pay (rather than welfare) in order to assist people who have exhausted their lifetime limit of federal welfare funding. Whether this eventuates depends, inter alia, on the ability of states to locate and fund the placements.

EVALUATION FINDINGS

44 "Workfare" type programmes had their origins in the US. Some US states and counties have also worked closely with researchers, including cooperating in random assignment experiments where potential programme participants are assigned at random either to participate in the programme or to a "control" group which is denied access to the programme. Accordingly, the bulk of evaluation evidence on "workfare" type programmes comes from the US.

Limitations of the evidence

45 Considerable caution is needed in interpreting the evaluation evidence for workfare programmes. Differences in labour market conditions, welfare systems, institutional arrangements, existing active labour market assistance and social/cultural norms mean that evaluation results from overseas programmes should be treated as only indicative of their likely impact in New Zealand. Furthermore, some questions arising from new workfare arrangements (such as the effect of time-limited benefits) have not yet been answered.

46 The most extensive and rigorous series of evaluations of workfare-type programmes has been undertaken by the US Manpower Demonstration Research Corporation (MDRC). MDRC has studied a variety of welfare to work programmes that incorporate an element of mandatory work experience. In nearly all of these evaluations, people were randomly assigned either to an "experimental" group who participated in the programme under study or to a "control" group who were precluded from using the programme. Outcomes, such as employment and increased earnings, could then be measured for both groups and the differences between the two groups could be ascribed to the effect of the programme.

47 It is particularly important to note that the main target group for workfare programmes where evaluation evidence is available has been sole parent welfare recipients. All of the programmes evaluated by the MDRC targeted female sole parents who were receiving the AFDC. These women could be considered similar to domestic purposes beneficiaries in New Zealand. Approximately half of the programmes studied also targeted unemployed people in two-parent households who were receiving AFDC-U. These people were usually long-term unemployed men with children.

Pure Work-for-Benefit: unsuccessful on its own?

48 As noted above, the MDRC are the primary source of evaluation evidence on workfare programmes in North America. In 1993, MDRC summarised its findings in

[6] US GAO, letter to US Senator the Honorable Daniel Patrick Moynihan, July 14, 1995. The US GAO is the congressional watchdog agency. It undertakes programme evaluations and audits of all federal agencies.

relation to the unpaid work experience component of the programmes that had been studied. The key findings are quoted below.[7]

> "MDRC's research on unpaid work experience programs offer the following lessons:
>
> - First, ***unpaid work experience was nearly always operated on a limited scale,*** for a small percentage of the eligible welfare population, and for three-month periods (although in several programs, some participants were assigned to unpaid work experience for more than one three-month stint). An exception was in West Virginia, where unpaid work experience was run on an ongoing basis for AFDC and AFDC-U recipients and, in four "saturation" areas, sufficient worksites were available for virtually *all* AFDC-U recipients able to participate. The limited use of unpaid work experience was often a function of program design, as when it followed other program activities (like job search) or was one of many program options that staff or clients could choose. In other instances, unpaid work experience was constrained by staff opposition, administrative difficulties, or insufficient resources.
>
> - Second, ***there is little evidence that unpaid work experience leads to consistent employment or earnings effects***. In the few studies where MDRC was able to isolate the effects of unpaid work experience, statistically significant, positive effects on employment and earnings were found in only one instance: for the predominantly female, single-parent AFDC applicants in San Diego I. Even this finding warrants qualification: the positive employment and earnings effects were attributable solely to those applicants who were assigned to the program group during the last half of the evaluation (there was no effect for applicants assigned to the program group in the earlier cohort).
>
> - Third, ***it is not clear from the limited evidence that unpaid work experience leads to reductions in welfare receipt or welfare payments***. In the San Diego I and Cook County (Chicago) evaluations, unpaid work experience combined with job search led to small but statistically significant overall reductions in welfare payments and, during some quarters of the follow-up periods, a small but statistically significant reduction in the number of people on welfare. These reductions were *not* significantly greater than those achieved by running job search alone. In other words, unpaid work experience yielded no "add-on" effect. In West Virginia - where unpaid work experience was the sole program activity - there was no significant overall reduction in welfare payments for female, predominantly single-parent AFDC recipients. There *was* a small decrease in the percentage of people receiving AFDC at the end of 21 months, but longer-term follow-up on the earliest group of enrollees suggests that this effect did not persist.

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[7] Thomas Brock et al. September 1993. Unpaid Work Experience for Welfare Recipients: Findings and Lessons from MDRC Research (MDRC Working Papers). pp. 3-4.

- Fourth, ***while unpaid work experience may have provided free labour to worksite sponsors, it was not free to administering agencies***. Some of the major expenses to administering agencies included worksite development; client intake assignment, and monitoring; and support services (like child care) and work allowances for participants. In 1993 [US] dollars, the costs of unpaid work experience *per participant* ranged from approximately $700 to almost $2,100. The costs varied depending on factors such as how long the assignment lasted (three months was the norm, but in some locations participants averaged more or less time in the activity); who was targeted; and whether unpaid work experience was offered alone or in combination with other activities. The *annual* cost *per filled slot* for welfare recipients in the programs ranged from approximately $700 to nearly $8,200. The annual cost per filled slot was lowest in programs that operated on a relatively large scale. West Virginia - the largest programme studied by MDRC - kept more that 1,900 positions filled during the period it was studied; Cook County - the second largest - kept nearly 400 positions filled.

- Fifth, ***insofar as unpaid work experience contributed to the work of governmental and community non-profit organisations, it had value to the public-at-large***. Owing to this, the benefits to *taxpayers* of running unpaid work experience usually outweighed the costs of running the programs. In San Diego I and West Virginia, the net *gain* to taxpayers (i.e. all programme benefits - including the value of output by worksite participants - minus all program costs) ranged from roughly $260 to $1,000 per program group member. However, in Cook County, Illinois, there was a small net *loss* to taxpayers. The net value to *welfare recipients* was less clear. In some cases, increase earnings and fringe benefits were greater than increased taxes and reduced welfare; in other cases, the net effect on recipients' income was negative.

- Sixth, ***participants in unpaid work experience positions and their supervisors reported that the work was meaningful***. It may not have taught welfare recipients new skills but neither was it "make work". Most participants thought that a work requirement was fair, but they also would have preferred a real job.

- Seventh, ***to run unpaid work experience on a large scale, the MDRC studies suggest that the essential ingredients are*** sufficient funding; strong staff commitment to the program; adequate worksite capacity; clearly articulated procedures for assigning clients to worksites, monitoring client participation, exempting clients who cannot work, and sanctioning clients who do not comply; and support for the program (or at least lack of opposition) from labour unions, welfare advocacy groups, and others in the community."

Modest, but positive, outcomes for welfare-to-work programmes

49 The term 'welfare-to-work' is here used to describe programmes that involve a mix of initiatives, including a mandatory work experience component. Within this category,

there is a range of programmes. The activities may be in a structured sequence or simply a menu of options. The work experience component may be mandatory for everyone or simply for some participants. Programme administrators may emphasise the need to 'take any job' or emphasise skills development. The impact of some of these variations on effectiveness is discussed below.

modest increases in earnings and some decline in welfare receipt

50 Average earnings gains generally range from (US)$270 to (US)$1,200 per participant in the last year of follow-up, with accompanying declines in average annual welfare payments of a similar order. Average figures mask the fact that for some people earnings gains are even more substantial while other people did not increase their earnings at all. Studies generally did not investigate the distribution of earnings gains.

51 The US General Accounting Office (GAO) sums up the effectiveness of welfare-to-work initiatives as follows:

> "The effects of even the most successful programs were modest. The Riverside GAIN program is arguably the most successful of the welfare-to-work programs. It increased the proportion of clients ever employed in 3 years to 67 percent, or 14 percentage points over the comparison group, but this means that 33 percent of clients in the best program were never employed in 3 years. Of those who were employed at the end of 3 years, only 24 percent made more than $5,000 per year. Thus, Riverside GAIN participants averaged a 49 percent increase in earnings over 3 years compared to nonparticipants receiving only traditional AFDC, but this amounted to only $3,113, or about $1,000 per year. The Riverside program lowered average AFDC payments for all participants over 3 years by 15 percent, or $1,983, and reduced the percentage who were receiving AFDC payments after 3 years by 5 percent, compared to the nonparticipants. However, after 3 years only one fourth of its participants had achieved self-sufficiency by being both employed and off welfare."[8]

52 The GAO has suggested a number of reasons why even successful programmes only modestly reduced welfare dependency. These include that not all welfare recipients were required to enrol in activities, some education and training programmes had participation and attendance problems, and that there may be other barriers to moving welfare recipients into self-supporting employment, notably low skill levels, and low wages and short tenure that often accompany low-skill jobs.

some positive results in terms of cost effectiveness

53 Despite only modest improvements in participant earnings, reduced welfare payments and increased tax receipts have often been found to outweigh programme costs.

[8] US GAO. July 1995. report to the Honorable Daniel Patrick Moynihan. United States Senate.

overall levels of poverty, welfare receipt and unemployment remain high even after participation in welfare-to-work programmes.

54 For example, 80% of participants in California's GAIN programme had family incomes below the poverty line three years after entering the programme. Findings on poverty may be influenced by factors in the wider tax, benefit, employment and economic policy arena (such as the financial rewards from low paid work) rather than the programme itself.

programmes emphasising active job search may do better than programmes emphasising basic education and training

55 Evaluations of the GAIN programme in different counties has enabled researchers to test the effectiveness of different combinations of assistance. The most successful county in the GAIN evaluation was Riverside. The Riverside GAIN programme tended to emphasise active job search and sent strong messages to participants that 'any job is better than no job'. By contrast, counties that put more emphasis on participation in basic education produced poorer results. These results must be interpreted with caution. For instance, although Riverside did not emphasise basic education as much as some other counties, it was still part of the mix. The evaluation evidence cannot tell us whether this element of basic education was necessary or not. However, "at the very least, the findings indicate that simply maximizing participation in basic education and in vocational training or post-secondary education, which tend to be expensive program elements, offers no guarantee of success."[9]

56 It should be stressed that it is extremely difficult to isolate the effects of particular programme elements or to identify precisely the correct programme mix and these results are by no means conclusive.[10]

welfare-to-work programmes can have a "register clearing" effect

57 Initial evaluation of the Project Work scheme in the UK suggests that it has significantly increased the probability that people in the pilot sites who have been unemployed for at least two years will leave unemployment. Few of these people, however, appear to have moved into employment and the UK is undertaking further work to establish exactly where people are going after unemployment. These results suggest that Project Work is being successful in identifying people who should not actually be registered as unemployed, for instance because they are already in paid employment. This effect is known as "register clearing".

[9] James Riccio & Alan Orenstein, February 1996, "Understanding Best Practices for Operating Welfare-to-Work Programs", Evaluation Review, 20:1.

[10] The MDRC evaluation of JOBS programmes in seven states in the US includes a comparison of "human capital development" (education-oriented) and "labour force attachment" (job search-oriented) programme approaches. Results from this work are not yet available.

Is mandatory job search on its own sufficient?

58 In general, studies have found that the positive earnings and employment effects of workfare programmes that emphasise job search are sustained for at least three years, although one study found that earnings and employment gains generally "fade out" within five years. That is, the income and employment status of participants was not significantly different from non-participants after five years.

59 In contrast, the effects of workfare programmes that put more emphasis on education and training may take longer to show. For instance, the Baltimore Options Programme (which provided participants with a choice of services including education and training) had limited earnings and employment effects in the first year but marked improvements in the second and third year. It is also commonly argued that education and training are more likely to assist people into higher paid, sustainable employment and so reduce welfare dependency and alleviate poverty over the long term.

60 The trade-off presented by the evaluation research in the US has been summarised as follows:

> "Providing mandatory job search to large numbers of people may maximise welfare savings and job-holding, but by itself usually will not get people better-paying jobs or benefit the more disadvantaged. Providing mainly higher-cost, more intensive services to a selected population can get people jobs with somewhat greater earnings, but will not produce lower welfare savings per dollar invested. (It is not clear whether the more intensive services will be effective for very disadvantaged people because few programs of this type have been tested and only one has focused on this group.) Strategies that mix higher cost and lower cost services may offer an opportunity to partially meet all of these objectives."[11]

61 In its report to the US Congress on findings from state welfare-to-work evaluations since 1988, the US General Accounting Office found that:

> "The most successful welfare-to-work programs - those with the largest and most consistent effects - offered participants an expanded mix of education, training, and employment services; increased childcare assistance; and mandated some form of client participation."[12]

[11] Gueron, Judith M & Edward Pauly, 1991. From Welfare to Work (Russell Sage Foundation, New York), p 12.
[12] US GAO, July 1995, Report to the Honourable Daniel Patrick Moynihan, US Senate.

Do different approaches work best with different groups?

62 There is relatively little evaluative research that lends itself to comparisons of the effect of particular approaches to workfare on different groups.

Who benefits most?

63 The evaluations of US workfare programmes advise against the use of the more intensive interventions, such as mandatory work experience, as a first step since many people spend a short time on welfare and are then able to find work, perhaps with some job search assistance.

64 One study of five broad workfare programmes found that the "least disadvantaged" participants, such as women with recent work experience who were applying for welfare for the first time, showed no marked gain from programme participation over similar people in the control group. These results mean that it may be cost effective to target resources in order to avoid people who are least disadvantaged receiving services from which they do not benefit or which they do not need.

Are results different for long-term unemployed than for sole parents?

65 The available data are far from conclusive, partly owing to the focus on sole parent welfare recipients in the US.

66 Evaluation evidence for California's GAIN programme does distinguish between outcomes for recipients of AFDC-FG (sole parents) and recipients of AFDC-U (mostly long-term unemployed). The evaluation here found that average earnings increased and welfare payments decreased for both groups. The effect was stronger for sole parents. In addition, recidivism (the rate at which people returned to welfare) was higher amongst the AFDC-U group. It appears that part of the reason for these differences may be that the financial rewards from moving off welfare into low paid work were less for unemployed heads of two parent families [see Appendix Two].

67 One programme that produced increased earnings and welfare savings for AFDC-UP recipients (unemployed men in two-parent families) was the San Diego SWIM (Saturation Work Initiative Model) programme. SWIM was a large scale, broad spectrum workfare programme directed at a cross-section of eligible welfare recipients. It was unusual amongst these sorts of programmes in providing education and training following job search and work experience (work for benefit) and in its strong enforcement of participation obligations. In the second year of follow-up, AFDC-UPs in SWIM were earning 12 percent more than the average for the control group and had 12 percent less in welfare benefits.[13] Overall, however, the men received no net financial benefit (in aggregate) from SWIM because of losses in AFDC, other transfers and tax - highlighting the importance of the interaction between workfare programmes and the tax/benefit system. SWIM also produced unusually good results amongst more disadvantaged sole parents.

[13] Gueron, Judith M & Edward Pauly, 1991. From Welfare to Work (Russell Sage Foundation, New York). p 35.

Displacement

68 The placement of a subsidised worker has the potential to encourage employers to replace existing workers with subsidised job seekers or to recruit directly from the subsidised pool instead of the open labour market. This effect is described in this paper as "displacement". A displacement rate of 100% would mean that for every programme participant placed, one unsubsidised worker loses or misses out on a job.

69 The displacement impact of a programme will be affected by the extent to which placements are absorbed by the currently voluntary sector, and to which placements are work that would otherwise not be undertaken. The larger the scale of the programme, the less likely it is that the voluntary sector will be able to absorb placements and the higher the likely level of displacement.

70 Mandatory work experience schemes can include rules that require jobs to be new, additional places. For instance, Ontario Works requires that a placement must not displace any paid position in the agency or a related organisation including duties currently held by any employee, duties performed by an employee who has been laid off and has recall rights under a collective agreement, duties of an employee who is on a leave of absence, and a collection of duties previously held by employees, within a minimum of two years. In practice, such rules can be hard to enforce.

71 The workfare evaluative literature is almost silent on the displacement effects of mandatory work[14]. A 1994 study of a Swedish public relief work programme examined the displacement effects of public relief work in the construction, health and welfare sectors. This found relatively high displacement (69 percent) in the construction sector. That is, for every construction worker hired into public relief work, fewer private construction workers were hired. Evidence for health and welfare workers, however, was mixed.[15]

Summary of Evaluation Evidence

72 In summary, key findings from the evaluative literature are:

- "blanket"/untargeted mandatory unpaid work experience schemes may not be very successful;
- at best, welfare to work programmes have modest positive impacts on the probability of leaving welfare for paid employment;
- welfare to work strategies that combine low cost job search obligations with targeted, higher cost interventions may be most effective;
- there is some evidence that welfare to work programmes which emphasise rapid re-entry into the labour market and job search assistance backed up with routine use of

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[14] The MDRC have begun a study of a programme for seasonal and displaced workers in Canada which includes analysis of displacement effects. Interim results from this evaluation will not be available until 1997/98.

[15] Fay, R.G., 1996, Enhancing the Effectiveness of Active Labour Market Programmes: Evidence from Programme Evaluations in OECD Countries (OECD, Paris).

sanctions for non-compliance may be more successful in moving people off welfare than those which emphasise basic education; and

- mandatory work experience schemes can have a "register clearing" effect by providing an additional incentive to look for work and/or by highlighting welfare abuse.

COMPARISON WITH NEW ZEALAND

73 New Zealand's system of active labour market assistance displays many similarities with overseas workfare models, including mandatory active job search, the existence of work experience programmes (which may be mandatory for a particular individual), and increasing intensity of interventions as time on benefit increase. There are, however, three key differences: New Zealand places fewer obligations on sole parent beneficiaries; New Zealand does not make work for benefit mandatory for any remaining beneficiaries at any point; and New Zealand income support is not time limited.

Similarities

Work tested benefits and sanctions for non-compliance

74 First, unemployment beneficiaries are required to engage in active job search and are sanctioned for non-compliance. In fact, the requirements on unemployment beneficiaries in New Zealand under the Social Security Act 1964 include:

- undergoing any work assessment required by the Director-General of Social Welfare (delegated to the New Zealand Employment Service);
- undertaking and completing any activity required by the Director-General, including employment-related training, that the Director-General considers would assist the person to obtain employment;
- making sufficient efforts to find employment;
- accepting an offer of suitable employment; and
- being available for employment.

75 These requirements are commonly referred to as the "work test". The Act[16] identifies a number of instances in which individuals would be considered to have failed the work test, including where a person, without good and sufficient reason, fails to:

- attend a job interview to which he or she is referred by NZES;
- attend an acceptance interview for any employment-related training to which he or she is referred by NZES;
- attend a work focus interview that he or she is requested to attend by NZES;

[16] Social Security Act, 1964, section 60J(3)

- participate in a programme that he or she is requested to participate in by NZES;
- comply with the conditions of an individual action plan compiled for him or her by NZES; or
- participate in and complete a community task force project as requested by NZES.

76 The work test requirements are reinforced by sanctions for work test failure. From 1 April 1997, the sanction will be either reduction or cancellation of benefit.

77 In addition, section 58 of the Social Security Act sets out the conditions of entitlement for unemployment benefits. Amongst the conditions are that a person is unemployed; is capable and is willing to undertake suitable work; and has taken reasonable steps to obtain suitable work. If the Department of Social Welfare considers that these conditions are not satisfied then an application for the unemployment benefit will be declined or an unemployment benefit cancelled.

78 From 1 April 1997, some reciprocal obligations will be extended to some other groups of beneficiaries[17]. The work test failure sanctions will also apply to these groups:

- Spouses of unemployment beneficiaries with no children or whose youngest child is aged 14 years or over, will face the same obligations as unemployment beneficiaries;
- People who receive the domestic purposes or widows benefits, with no children or a youngest child aged 14 or over, will be required to look for part-time work. This requirement will be satisfied if the person is available and looking for part-time work; or is undertaking regular employment education or training, or a combination of these for an average of at least 15 hours per week; and
- Domestic purposes and widows beneficiaries who have a youngest child aged 7 to 13 years, and who have been on benefit for 12 months or more, will be required to attend an annual interview with the Income Support Service.

Some people may be directed to undertake work experience programmes

79 Secondly, the net effect of these work test obligations is that work-for-benefit may be mandatory for a particular individual.

80 As part of a broader menu of employment assistance, NZES already operates a number of work experience programmes. These programmes are targeted at people who have been unemployed for some time (from 13 weeks to four years or more) or who are otherwise disadvantaged in the labour market. NZES may use these programmes to test a jobseeker's willingness to work. Community Taskforce is the programme most commonly used in this way. In other words, jobseekers in New Zealand (on an individual basis) already face the choice between participating in a work experience scheme or having their

[17] In addition, DSW's Customised Service requires that beneficiaries maintain regular contact with the Income Support Service and failure to do so may result in their benefit being suspended. A range of facilitative measures are available for sole parents, such as Income Support's voluntary COMPASS programme.

benefit reduced or stopped. In practice, it is unclear how often NZES actually requires jobseekers to undertake work experience against their will.

81 Appendix I describes the range of work experience programmes currently operating in New Zealand.

82 In addition, New Zealand has a number of mandatory interventions that have a significant 'register clearing' effect, such as Work Focus Interviews, Youth Action and Job Action. Evaluations of Job Action have found that the invitation to attend an interview had a significant effect, on its own, on the probability of leaving the unemployment register. Approximately 49 percent of all those in the target group who left the register did so after being sent an invitation but never went on to have an interview or workshop. A similar effect has also been seen with Youth Action.

Jobseekers receive more intensive assistance the longer they remain on benefit

83 The third key similarity between the New Zealand system and overseas workfare programmes is that individuals receive more intensive assistance the longer they remain on benefit. Most of the people who become unemployed will gain paid work with minimal assistance. It is neither necessary nor cost effective to provide intensive employment assistance to these people. By contrast, some people are more disadvantaged and consequently less likely to gain employment without assistance. In particular, there is strong evidence that the longer someone remains registered unemployed, the less likely it is that they will leave the unemployment register.

84 As noted above, some welfare recipients may spend between six months and one year on unemployment insurance prior to receiving welfare in the US and Canada. People without unemployment insurance normally do not have a consistent work history and are therefore disadvantaged in the labour market. Although the match is not exact, workfare programmes for unemployed welfare recipients overseas generally target those who have been unemployed for some time, as do NZES work experience programmes. By contrast, New Zealand does not impose the degree of obligation on sole parents that we see in the US and Canada. This issue is discussed further below.

85 NZES provides a range of assistance which increases in intensity with duration of unemployment. Initially, NZES services to jobseekers tend to be concentrated on the provision of information. Examples include job search seminars, self-service placement assistance, and access to the Quest database of careers information. As duration increases, people can access more intensive assistance, such as wage subsidies and training. Case management through Job Action is targeted at long-term unemployed jobseekers. Fully wage subsidies through Job Connection are reserved for the very long-term unemployed.

Differences

New Zealand places fewer obligations on sole parents

86 Although the new part-time work testing will increase the obligations on domestic purposes and widows beneficiaries with children aged 14 years and over in New Zealand, workfare programmes in North America in general impose much more stringent

requirements on sole parent beneficiaries - for sole parents with children as young as six months old. It is important to note, however, that childcare provision is often built into workfare programmes alongside obligations for sole parents to be in education, training, active job search or work experience.

Work experience is not as mandatory in New Zealand

87 New Zealand operates a range of programmes that may effectively be mandatory for a particular individual at a particular point in time. New Zealand does not, however, have a programme of "last resort" that is mandatory for those long-term unemployed people for whom other interventions have failed and that strongly tests their willingness to work. A mandatory work experience programme may be one way of filling this gap.

New Zealand does not have time-limited benefits

88 The third key difference between New Zealand and the new workfare models in the US is that New Zealand has unlimited benefit entitlement. New Zealand has no experience of time-limited benefits and no evaluation evidence is yet available on the effect of time-limited benefits on outcomes for "workfare" type programmes. However, there is evidence from time limits on unemployment insurance which indicates that the probability that someone will leave unemployment increases significantly immediately prior to the time limit being reached.

CONCLUSION

89 In sum, the overseas literature provides some useful lessons for New Zealand but these lessons are indicative only. New Zealand already incorporates many elements of overseas workfare models, including the ability to make work-for-benefit mandatory for particular individuals. New Zealand does not, however, have mandatory work experience that strongly tests the willingness to work of very long term beneficiaries for whom other interventions have failed. If there was a desire to implement a more mandatory work-for-benefit approach, many of the details of operationalising such an approach in New Zealand would need to be worked through and solutions found that fit the New Zealand context. The following points arising from the overseas literature would need to be taken into consideration:

- An approach that combines lower cost mandatory job search with higher cost interventions targeted at disadvantaged jobseekers may be the most effective in addressing the multiple objectives of workfare. This approach already operates in New Zealand;

- The available evaluation evidence is clear that, in order to be cost effective, mandatory work experience should not be a first intervention. Instead, mandatory work experience should be targeted at long-term beneficiaries for whom mandatory job search, job search assistance and other interventions on their own do not appear to have been successful. Targeting to a small group reduces the likelihood of displacement and the difficulties in obtaining meaningful placements for participants. Given the level of disadvantage of such participants, the primary objectives of such a programme would be enhancing motivation, testing willingness to work and reestablishing a work record, rather than moving participants directly from the programme into unsubsidised employment;

- The place of a mandatory work experience component within the broader mix of assistance through individualised employment assistance could follow one of a number of models. Work experience could be part of a range of activities that are mandatory as a last resort for particular individuals whose willingness to work is in question. Alternatively, work experience could be mandatory for all individuals once they had spent a certain length of time on the unemployment register. It would also be possible to combine both these approaches;

- Because of the importance of active job search, mandatory work experience should be structured so that participants are both able and obliged to continue searching for work. This implies combining a work experience obligation with mandatory active job search and continued access to other NZES employment assistance;

- Commonly, mandatory work experience models overseas use community and public sector work placements;

- Overseas models of workfare extend reciprocal obligations to a far wider group than is currently the case in New Zealand, but have often combined this with considerable childcare provision. It is likely that in New Zealand it would also be necessary to balance any extension of requirements on sole parents with childcare provision to assist them to meet these requirements. The US evaluation evidence shows that welfare-to-work programmes have produced modest, positive results for sole parent beneficiaries; and

- Time limited benefits are new in the US and represent a very different approach from that adopted in New Zealand. Careful consideration would need to be given to a wide range of issues, including the implications for poverty, income support, and employment, before adopting such an approach in New Zealand.

APPENDIX 1

NEW ZEALAND WORK EXPERIENCE PROGRAMMES

Work Experience Programmes operated by NZES and subject to the Work Test

Job Connection is a fully subsidised work experience scheme which aims to enable very long term unemployed people to re-establish their work record and develop skills so that they can find unsubsidised employment. Under Job Connection, people who have been unemployed for four years or more are placed in paid jobs with employers for six months. The subsidy rate is $380 (including GST) per week, including a tax-free transport allowance of $20 per week. After the six month programme, NZES provides further assistance to move these people towards unsubsidised employment. During 1995/1996, NZES piloted the programme for 100 people in selected areas of the country. The programme has been extended nationwide with provision for 1,000 placements in 1996/97.

As at the end of October 1996, there were 6,750 people who had been registered as unemployed for four years or more. Of these, 82 percent were male; 53 percent were aged 40 years or more; and 79 percent had no formal qualifications or less than three School Certificate passes. In terms of ethnicity, 52 percent were pakeha, 36 percent were Maori, and seven percent were Pacific Islands jobseekers.

Taskforce Green (TFG) is a project-based work experience programme for disadvantaged jobseekers. TFG targets jobseekers registered for 26 weeks or more, or who are otherwise disadvantaged in the labour market. Sponsors of projects which are of benefit to the environment or the community are given a subsidy of $214 per week for each jobseeker (or $143 per week for jobseekers aged under 20 with no dependents). Sponsors are required to pay the jobseeker at least the minimum wage. TFG aims to give eligible jobseekers an opportunity to gain or regain self-esteem and self-confidence, learn new skills, and gain or regain work habits in order to improve their chances of finding unsubsidised work. Total placements on TFG from 1 July 1995 to 30 June 1996 were 7,626.

Community Taskforce (CTF) allows eligible jobseekers to gain part-time unpaid work experience through participation in projects of benefit to the community. It also aims to increase participants' self-esteem and self-confidence, and enables them to gain new skills. Sponsoring organisations provide work experience for job seekers for three days per week, for up to six months. Participants continue to receive income support benefits (if eligible) and are paid an extra allowance of $20 per week. CTF targets jobseekers registered as unemployed for 13 weeks or more, people who have recently completed a Training Opportunities Programme (TOP) course, and people on voluntary unemployment, initial or work test stand downs. From 1 July 1995 to 30 June 1996, a total of 7,683 jobseekers participated in CTF.

Job Link provides unpaid work experience of up to four weeks in mainstream workplaces for disadvantaged jobseekers. Participants need to be registered as unemployed for at least 26 weeks or have recently completed a TOP course. Participants continue to receive the unemployment benefit (if eligible) and are given a chance to experience different work environments.

Projects assisted by the Community Employment Group

The Community Employment Group (CEG) works with communities and groups whose members are particularly disadvantaged in the labour market. In addition to providing support to the volunteer sector directly through financial and skills assistance to networks such as Volunteer Centres, the Group ensures that the community projects it supports incorporate a significant community contribution. Most often this contribution is "in kind" and takes the form of labour and skills volunteered by local people. In its role as a facilitator and kickstarter of local community initiatives, CEG encourages people who are disadvantaged in the labour market to participate in the projects it supports.

Through its "Staircasing" process, CEG assists groups though developmental stages towards achieving their ultimate goal, starting at their own level and proceeding at their own pace. The guiding principle is that nothing succeeds like success: success generates confidence, and confidence leads to further success.

Often CEG initiatives operate alongside or in conjunction with programmes administered by NZES. In Whareoranga, a small rural settlement in the Eastern Bay of Plenty, Te Wai O Te Ora Trust represents the population of around 2,000 Maori from ten different whanau groups. All are unemployed except for 21 people on a Community Task Force project and two people on a Task Force Green project. The settlement is two hours travelling time from the nearest town and there is no public transport.

The Trust and its unpaid co-ordinator have put in place a programme of positive activity through which the community cares for its own elderly and disabled and training is provided in basic health care, fitness and life skills, including budgeting and elements of self-sufficiency. The gardens owned and worked by the whanau produce much of the community's food needs and in spite of high unemployment, the people support each other and share skills such as home maintenance, child care and providing transport into town. A local unemployed motor mechanic helps people fix their own cars and gives tuition on basic car maintenance.

Through its *Mahi-a-iwi* initiative CEG is currently involved in helping the Trust identify and develop activities which could produce a financial return in order to maintain this positive activity and self sufficiency programme.

APPENDIX 2

THE GAIN PROGRAMME, CALIFORNIA, USA

INTRODUCTION

California's GAIN (Greater Avenues for Independence) programme is a statewide initiative aimed at increasing the employment and self-sufficiency of recipients of Aid to Families with Dependent Children (AFDC).

GAIN began in 1986 and has operated as part of the federal Job Opportunities and Basic Skills Training (JOBS) Program[1] since July 1989. GAIN is notable for a number of reasons including:

- the fact that California has the largest number of people in receipt of AFDC of any state in the US and GAIN was the largest programme operating under the JOBS umbrella; and

- the existence of extensive evaluation research by the Manpower Demonstration Research Corporation (MDRC) that sought to identify the programme's effects in six counties.

BENEFIT PROVISION: THE US CONTEXT

Until recently, the main form of cash welfare in the US has been Aid to Families with Dependent Children (AFDC). The AFDC is mostly paid to sole parent families. In California, AFDC for sole parents is referred to as AFDC-FG (*AFDC-Family Group*). In addition, unemployed people can also receive assistance through the *AFDC-Unemployed Parent* (AFDC-U, sometimes abbreviated as AFDC-UP). AFDC-U recipients either do not have or have exhausted their unemployment insurance. Typically, states have imposed stricter eligibility requirements for unemployed people than for sole parents.

New federal welfare legislation passed in 1996:

- repeals the federal entitlement for AFDC and replaces it with a block grant to states, called "Transition Assistance to Needy Families". The new law has no individual guarantee of benefits and leaves most decisions about whom to aid and how aid them up to states;
- requires that states ensure that a greater proportion of welfare recipients are in "work activities" in exchange for federally funded time-limited welfare assistance;
- limits the length of federal welfare receipt to two years, in most cases, with a life-time limit of five years; and
- contains enhanced childcare and child support enforcement provisions.

[1] JOBS was created by the federal Family Support Act of 1988.

This is a federal law and relates to federal welfare funding. The full implications of the welfare reforms on workfare programmes at state and county level will not be known for some time.

OBJECTIVES OF GAIN

The main objective of GAIN is to move welfare recipients into paid employment and self-sufficiency.

OPERATIONAL DETAIL

GAIN is overseen by the Californian Department of Social Services (CDSS) and is administered by the 58 counties. It currently accounts for almost 13% of federal spending on the JOBS programme. The precise form of the GAIN programme is determined at the county level with some counties tending to emphasise active job search and others stressing education and training. Evaluation results suggest that active job search assistance has been more successful than basic education.

The implementation of GAIN has varied somewhat over time as well as from county to county. The description of GAIN presented here is based on the MDRC information collected no later than mid-1991 for six of California's 58 counties (Los Angeles, San Diego, Riverside, Alameda, Butte, Tulare). This is because evaluation results necessarily relate to the operation of a programme in a particular place at a particular point in time.

Target groups

Participation in GAIN was mandatory for all heads of two parent families (people in receipt of AFDC-U, usually fathers) and sole parents (people in receipt of AFDC-FG, usually mothers) - initially only those with children aged six or older, and later extended to include those with children aged 3 to 5.

The point at which someone actually entered the GAIN programme varied. For instance, both Alameda and Los Angeles have large inner-city welfare populations and enrolled only long-term welfare recipients. Butte used a waiting list system to limit the size of caseloads resulting in people waiting several months to get on to the programme.

Some people either can be exempted from GAIN or can have their participation "deferred". The following table sets out the criteria for GAIN exemption and deferral[2]:

[2] James Riccio et al, April 1989, GAIN: Early Implementation Experiences and Lessons. MDRC. p232. The exemption and deferral criteria are defined by legislation.

EXEMPTION	DEFERRAL
• A child who is under 16 years old.	• A caregiver relative who is enrolled in school for at least 12 units of credit and has a child under six.
• A child who is 16 - 18 years old but goes to school full-time.	• A person who is so seriously dependent upon alcohol or drugs that work or training is precluded.
• A person who is temporarily ill or injured and the illness or injury would keep him or her from working.	• A person who is having an emotional or mental problem that precludes participation.
• A person who is over 64 years old.	• A person who is involved in legal difficulties, such as court-mandated appearances, which preclude participation.
• A person who is physically or mentally unable to work or is pregnant.	• A person who does not have the legal right to work in the US.
• A person who lives so far away from the service provider that he or she cannot participate.	• A person who has a severe family crisis.
• A person who is required to stay home to take care of someone in the household who is unable to care for himself.	• A person who is in good standing in a union which controls referrals and hiring in the occupation.
• A parent or caregiver of a child under six who is responsible for providing full-time care for the child (parent not in school).	• A person who is temporarily laid off from a job with a definite call-back date.
• A person who has another adult in the home participating in GAIN.	• A person who is employed for 15 or more hours per week.
• A person who works or expects to work 30 hours or more per week in regular employment that should last at least 30 days.	• A person who has, or whose family has, a medically verified temporary illness.
• A person who is a parent but is not the principal wage earner, when the principal wage earner in the home is registered for GAIN.	

The GAIN Program Model

The model prescribes a sequence of programme services that vary according to an individual's welfare history, employment experience and education level.

The flow chart on the following page shows the sequencing of services under GAIN.

After registration at an income maintenance office and referral to GAIN, an individual attends an orientation and appraisal and takes a basic literacy and mathematics test. The registrant is then either enrolled in GAIN or deferred (see previous section for deferral criteria). Participation in an initial component and any subsequent activities is expected to continue until the individual finds employment, leaves welfare, or is no longer required to participate for other reasons.

GAIN separates participants into three streams, and requires them to undergo an initial period of activity:

- *"in need of basic education":* These are people who do not have a high school diploma or a General Educational Development (GED) certificate or fail to achieve certain scores in standardised maths, reading and listening tests, or are not proficient in English. These people can choose to attend a basic education class or job search. If they choose job search but do not find employment, they must then enter basic education. Basic education consists of three programs: GED preparation, Adult Basic Education (ABE), or English as a Second Language (ESL).

- *people already in education and training programmes:* These people are normally allowed to continue with their study provided certain criteria are met, such as that the training prepares the participant for work in an occupation where more workers are needed locally, and that the participant can complete the training within two years of entering GAIN.

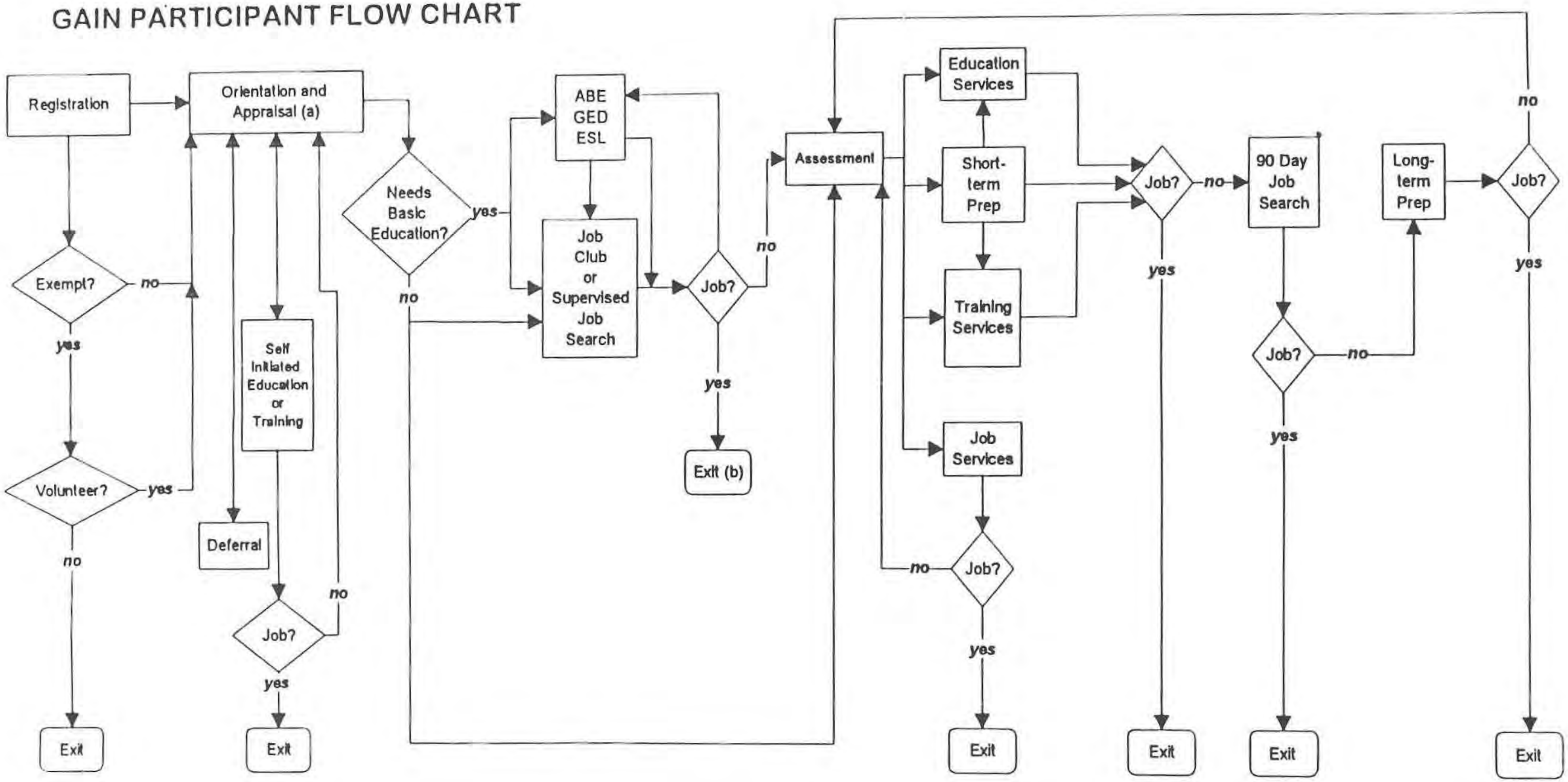
- *"not in need of basic education":* The rest are usually required to participate in an initial period of job search.

Participants who complete their initial activity without finding paid employment must then undergo an "employability assessment". This assessment is intended to assist participants to choose their next activity, which may include skills training, vocationally oriented post-school education, on-the-job training, or unpaid work experience in a public or non-profit agency. Thus, "work-for-benefit" is just one component of GAIN and participation in this component is determined by a needs assessment.

The mandatory unpaid work experience component of GAIN is called Pre-Employment Preparation (PREP). Short-term PREP lasts three months and is intended to develop general work habits and provides recipients with references for further unsubsidised employment. Long-term PREP lasts up to one year and is intended to provide on-job skill development.

The number of hours that a participant in PREP is required to work per week is based on a calculation of the person's total welfare receipt (including food stamps) divided by the average hourly wage, up to a maximum of 32 hours per week.

GAIN PARTICIPANT FLOW CHART



At the time they are appraised, registrants sign contracts which obligate the county to provide services (including child care) and the registrant to participate in certain activities. Registrants required to participate but who do not comply face a multi-step enforcement process, or sanctions for non-compliance.

Sanctions for non-compliance

Under GAIN, the following procedure is followed in instances of non-compliance:

[a] determination of whether the person had "good cause" for not participating; followed by

[b] conciliation, including attempts to persuade the person to participate; and in the event of this failing

[c] application of a sanction.

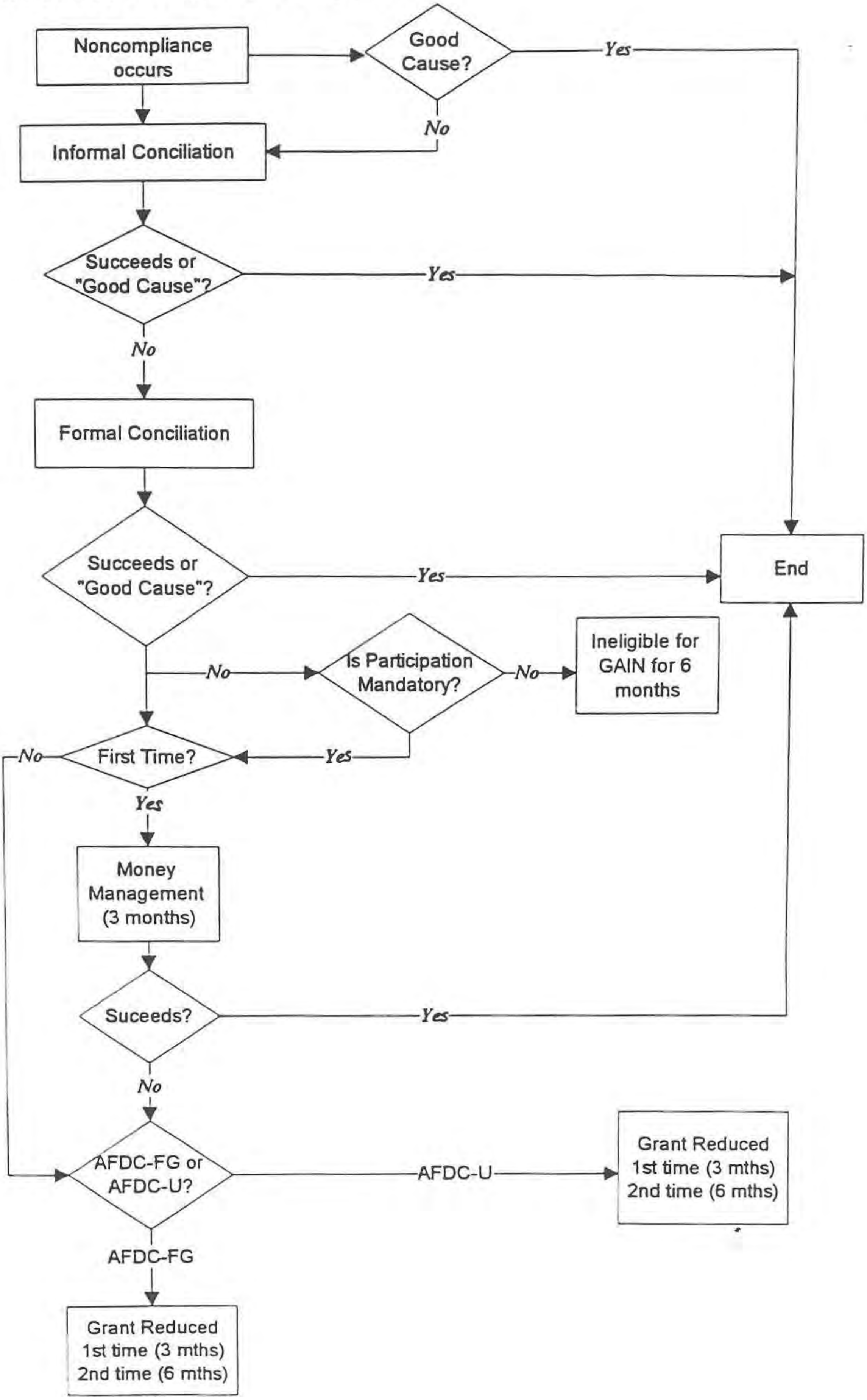
For voluntary participants, the sanction means they are ineligible for GAIN services for six months.

For mandatory participants, the sanction is in two stages. The first stage involves "money management" (their next three monthly welfare cheque is sent to a substitute payee, who spend it on their behalf). If the person still does not comply, the welfare grant is then reduced for three months on the first offence and six months for the second offence.[3]

The following flow chart illustrates the GAIN sanction procedures.

[3] Prior to the introduction of JOBS, the sanction in GAIN for AFDC-U registrants was termination of welfare payments. As of July 1989, when JOBS was introduced, the sanction penalties for AFDC-U registrants became the same as they are for AFDC-FG registrants.

GAIN SANCTIONING PROCESS



Additional Support Payments

Child Care

The most significant form of additional support under GAIN is child care. The key features of GAIN child care support[4] are:

- assistance with finding child care for children aged under twelve;
- payment for child care up to the regional market rate, including both formal, government-licensed day care and informal care (such as friends and family);
- participation in GAIN is voluntary unless child care is available;
- participants must have a choice of at least two child care providers; and
- "transitional child care payments" that continue to cover child care costs for 12 months after the person has left AFDC and gone into paid employment.

Expenditure on child care under GAIN was significantly lower than anticipated in the early years of the programme. Results from a survey of people who entered GAIN during its first year of operation[5] indicate that reasons for this include the complexity of having a provider authorised for GAIN payments and establishing a payment system, the fact that relatives or friends may have been providing child care at no cost, and varying interpretations of the state regulations at county level including at least one county refusing to pay child care costs where a relative provided care in the child's home.

Other additional support payments

Other additional support payments have been available through GAIN, although the coverage and amount has varied according to funding constraints. The following list illustrates the support available in the initial stages:

Transport:

- reimbursement for travel costs to and from GAIN activities.
- reimbursement for transport of participants' children to and from childcare.
- costs are limited to the least costly form of public transport, if available.
- car mileage is paid if no public transport is available.

Ancillary Expenses:

- up to (US) $450 towards the costs of books, tools, fees and other expenses necessary to complete training or any programme component, including work experience.

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[4] As at May 1989.

[5] Karin Martinson & James Riccio. May 1989. GAIN: Childcare in a Welfare Employment Initiative. MDRC.

Personal Counselling:

- costs of assessing the need for counselling and referring the participant to an appropriate counsellor. This was restricted to instances where there were personal or family problems that seemed to be preventing participation in GAIN and these problems could be attributed to participants' adjustment to training or jobs required under GAIN.

EVALUATION EVIDENCE

The GAIN Evaluation

The six counties selected for the study of GAIN's impact capture a wide variety of local conditions and population characteristics:

Southern California:

- Los Angeles (one third of the state's caseload and a welfare population larger than all but a few states)
- San Diego (the state's second largest caseload)
- Riverside (a county encompassing both urban and rural areas)

Northern California

- Alameda (urban county including the City of Oakland)
- Butte (smallest population of the six counties selected)

Central Valley

- Tulare (largely agricultural)

Between early 1988 and mid-1990, 33,000 people in the six counties under study were assigned at random to either an experimental group (who participated in GAIN) or a control group (who were not allowed to participate in GAIN but were able to seek other services in their local communities). The two groups were tracked over time. The differences in outcomes between the two groups constitute the impacts of GAIN over at least a three-year period.

Findings Over A Three Year Period for Sole Parents (AFDC-FGs)

Earnings Impacts

GAIN produced increasing earnings impacts for AFDC-FGs[6]. In year three, average earnings for the experimental group were 25% higher than the control group's average. For the full three years, average earnings were 22% higher.

[6] Most of this group had children of age 6 or older when they enrolled in the study

Welfare Payment Reductions

In year three and across the six counties, the experimental group received an 8% reduction in AFDC payments compared to the control group average. The reduction was 6% for the entire three-year period. Longer-term trends suggest a gradual tapering off of these welfare effects in the future.

Case Closures (People Leaving Welfare)

GAIN also had an effect on the rate of AFDC case closures, but it was not large. Across all six counties, over half of the experimental group was on AFDC in the last quarter of the three-year follow-up period (53 percent, or only 3 percentage points lower than the rate for controls).

Analysis was carried out on AFDC case closure and recidivism in the GAIN sample. This analysis was prompted by a single question: "would a strong program focus on getting enrollees quickly into jobs and off welfare merely lead to a high rate of return to welfare later on?". The question is important because that kind of recidivism could cancel out the impact of the initial case closures. The question was raised particularly with reference to Riverside country, which was seen to be a premier example of a 'quick employment' focus.

For AFDC-FGs, the analysis found that recidivism did, in some counties, tend to offset the increase in case closures produced by GAIN, but this offset was only partial and fairly modest. This was true even in Riverside, where the effect was largest. Recidivism therefore did not detract from the overall accomplishments of GAIN for AFDC-FGs in Riverside or other counties.

However, for AFDC-Us, the effect of recidivism was more serious. Returns to welfare by the end of the three-year follow-up period offset most of the increase in case closures initially achieved for AFDC-Us by GAIN in Riverside and San Diego. Recidivism had much less effect among AFDC-Us in Butte, which explains why impacts on AFDC payments in that country in year three had overtaken and surpassed those of Riverside and San Diego.

Benefits and Costs

GAIN was a relatively expensive programme compared to the simpler and primarily job search welfare-to-work programmes of the 1980s. Average costs ($US) over a five year for the single-parent group for the six counties combined were:

Per experimental:	
County Welfare Departments	$2,899 (60 % of this was for case management)
Schools/Non Welfare Agencies:	$1,515 (education and training instruction)
Total Gross Cost:	$4,415
Total Net Cost:	$3,422

The "total net cost" per experimental measures the government's net expenditures after adding the cost of education/training activities undertaken by experimentals *after* leaving GAIN, and then subtracting the cost of services that control group members received on their own. The "total net cost" over the five years varied from county to county; under $2,000 in Riverside and San Diego to over $5,500 in Alameda and Los Angeles. The higher costs in the latter two counties, which enrolled only long-term welfare recipients into their GAIN programs, reflect a greater net increase in the use of education and training activities in those counties compared to the patterns in other counties.

The GAIN program in two counties - Riverside and San Diego - resulted in goverment budgets coming out ahead. A third county - Butte - produced a "break-even" effect, while the results were negative in the remaining three counties. From the government budget perspective, positive results mean that, on average, every extra dollar invested per experimental returned more than a dollar in the form of reduced costs for AFDC and other transfer programs and increased tax payments arising from experimentals' increased employment.[7] The return was exceptionally large in Riverside ($2.84:$1). San Diego produced $1.40:$1 and Butte $1.02:$1.00. However, the return for all six counties was $0.76:$1.00 - a slight loss.

Variation in County Results

GAIN's impacts on single parents varied across the six counties in the study. Riverside County had unusually large earnings gains over the three-year period, increasing the experimental group's earning by an average 49 percent gain over the control group. It reduced welfare payments by a 15 percent reduction compared to the control group. These impacts were the biggest for any of the six counties, and are greater than those found in previous large-scale experimental studies of state welfare-to-work programs in the US.

GAIN's three-year impacts on earnings were moderate to large in three of the other five counties: Alameda (30 percent increase above the control group average), Butte (21 percent increase) and San Diego (22 percent increase). Tulare produced a moderate impact in year 3, but its average effect for the full follow-up period was lower than this, as was true in Los Angeles. In terms of welfare savings for the three-year period, all but Tulare achieved these, and the savings ranged from a four percent average reduction in Alameda to an eight percent reduction in San Diego.

The six counties made different decisions about how much to emphasize quick entry into the labour market versus the longer and more expensive process of building registrants' human capital through education and training. Riverside placed more emphasis on moving registrants in the labour market quickly than any other county. Most distinctive was Riverside's attempt to communicate a strong message to all registrants, at all stages of the program, that employment was central, it should be sought expeditiously and that opportunities to take low-paying jobs should not be turned down.

Alameda believed strongly in "human capital" development - the use of education and training as a path to getting jobs that offer a better chance to get off or stay off welfare. Alameda encouraged registrants (within the overall constraints of the GAIN model) to be selective about the jobs they accepted and to prepare for higher paying jobs by using education and training. The remaining four counties took approaches falling between those of Alameda and Riverside, but closer to Alameda's.

[7] Return per net dollar invested is a standard of success by which few social programs are assessed.

All six counties successfully communicated to registrants that the participation requirement was real and would be enforced, although the counties varied in the extent to which they relied on GAIN's formal penalty process. Over 90 percent of registrants who were surveyed said they believed it was "likely" or "very likely" their AFDC grants would be reduced if they did not participate. About half to three quarters of survey respondents believed the participation mandate to be "fair" and a "good idea". Only about one quarter of respondents agreed with the statement, "Making welfare mothers work if they don't want to is bad for their children".

The Riverside Difference

Riverside achieved particularly significant results compared to the other five counties. What distinguished them, and therefore what *might* have contributed to their more favourable results, was the particular combination of practices and conditions followed, that is:

- The pervasiveness of its employment message and job development efforts;
- A strong commitment to securing the participation of all mandatory registrants (and having adequate resources to meet this objective);
- Quicker reliance on GAIN's formal enforcement mechanisms;
- An effort to limit the involvement of registrants' participation in GAIN-related activities primarily to [a] job search and basic education for the subgroup needing basic education, and [b] as much as possible, job search along for registrants who were determined not to need basic education.

The Riverside results also suggest that the high levels of personalised attention found in several of the other counties may not be essential for producing large impacts, since Riverside ranked lower by comparison on this dimension than all other counties except Los Angeles. This is further borne out by the enhanced case management experiment carried out on a sub-group of Riverside AFDC-FG's.

Riverside's "enhanced" case management group (which has lower registrant-to-staff ratios) did not have larger impacts on earnings or AFDC payments that the "regular" case management group (where registrant-to-staff ratios were higher). Lowering caseloads from around 100 registrants per case manager to about 50 (the caseload sizes used in this study) represents a more marginal change in the burden imposed on case managers than would a reduction from much higher levels, such as 200-to-1 or 300-to-1, which are sometimes found in other JOBS programs. In other words, it is questionable whether or not Riverside could have achieved its same level of impacts if its staff had caseloads that greatly exceeded 100-to-1.

Findings Over a Three Year Period for Heads of Two Parent Families (AFDC-Us)

GAIN also produced earnings gains and welfare savings for the heads of two-parent families (AFDC-Us), who make up about 18 percent of all AFDC cases in California. Although the longer-term trends were not as impressive as for single parents, the earnings effects over the full three-year follow-up period were moderate to large in three counties (Butte, Los Angeles, and Riverside, although they were declining over time in Riverside). On average across all six counties, the earnings for AFDC-U GAIN participants were 12 percent higher than in the control group.

Butte, Los Angeles and Riverside also produced moderate to large welfare savings, as did San Diego. Grant payments per program participant were 6 percent lower than in the control group.

GAIN's benefit-cost results of AFDC-Us show a large positive effect from the perspective of welfare recipients solely in Butte, and a modest positive return on the government's net investment in Butte ($1.22:$1) and Riverside ($1.61:$1).

Possible reasons for differences in results for the AFDC-FG and AFDC-U groups

It was originally thought that outcomes for AFDC-Us would be better than for AFDC-FGs owing to the greater levels of work experience amongst unemployed heads of two parents. In addition, because there was a second parent present in the household, the need to care for children was thought not to interfere with AFDC-U employment as it does with AFDC-FGs. In fact, however, findings for the AFDC-U group were generally less impressive than for AFDC-FGs.

In the evaluation, the FG and U assistance categories are treated separately because they are subject to different program rules and labour market and welfare constraints. Because of this, the explanation for the difference in results of the two groups is difficult to ascertain.

Members of the AFDC-U sample did not realise the same gains as AFDC-FGs, primarily because savings in AFDC and other transfers offset earnings gains to a greater extent, as demonstrated in the following table:

Estimated Monetary Gains and Losses per AFDC-U experimental within five years after GAIN orientation (1993 US dollars)

Component	All Counties
Gains	
Earnings	1596
Fringe benefits (i.e. employer paid health/life insurance, pension contributions/workers compensation)	236
Total	1833
Losses	
Tax payments (includes Social Security and Medicare taxes)	-160
AFDC payments	-1482
Food Stamps	-345
UI compensation	98
Total Medi-Cal	-129
Total	-2018
Net gain or loss (net present value)	-186
Net gain or loss (NPV per net dollar invested in GAIN and non-GAIN activities/services)	-0.06 per $1

Summary of Evaluation Findings

The results of the evaluation show that the GAIN program can work, especially for single parents on welfare, who account for about 82 percent of California's welfare caseload.

For sole parents, both welfare recipients and the government budget came out ahead in two counties as a result of GAIN, with one county (Riverside) producing the most impressive results yet observed[8] for a large scale welfare-to-work program. Of the remaining four counties, three made welfare recipients better off, but without producing net budgetary savings (although the government essentially "broke even" in one).

For unemployed heads of two parents households, GAIN also increased average earnings and produced welfare savings, although to a lesser extent than for sole parents. AFDC-Us were also found to be more likely to return to welfare by the end of the three year follow-up period than AFDC-FGs. The different results for AFDC-Us and AFDC-FGs appears to be at least partly related to the interface between the welfare system and low wage income.

The Riverside County experience provides some, albeit tentative, indications of effective components of a welfare to work programme. In particular, while the results for Riverside cannot tell us whether or not some education and training component was necessary for its success. The findings do suggest that programmes which simply attempt to maximise participation in basic education and training may not be as successful as programmes that emphasise active job search.

[8] The evaluation of GAIN carried out by the Manpower Demonstration Research Corporation was produced in September 1994.

APPENDIX 3

WISCONSIN WORKS (W-2), USA

INTRODUCTION

The State of Wisconsin is undertaking a major reform of its benefit welfare system in a programme known as "Wisconsin Works" or "W-2". W-2 is an example of a new "workfare" type programme in the US that features time-limited benefits.

W-2 will be administered in conjunction with the *Partnership for Full Employment* initiative. Partnership for Full Employment is a job and training delivery system with the objective of helping people gain employment and providing a qualified workforce to employers.

W-2 was scheduled to be fully implemented by 1998 but is now planned to be in place by 1 September 1997.

The programme replaces the Aid to Families with Dependent Children (AFDC) programme with time-limited benefits.

BENEFIT PROVISION: THE US CONTEXT

Until recently, the main form of cash welfare in the US has been Aid to Families with Dependent Children (AFDC). The AFDC is mostly paid to sole parent families, however, unemployed people can also receive assistance through the *AFDC-Unemployed Parent* (AFDC-U, sometimes abbreviated as AFDC-UP). AFDC-U recipients either do not have or have exhausted their unemployment insurance. Typically, states have imposed stricter eligibility requirements for unemployed people than for sole parents.

New federal welfare legislation passed in 1996:

- repeals the federal entitlement for AFDC and replaces it with a block grant to states, called "Transition Assistance to Needy Families". The new law has no individual guarantee of benefits and leaves most decisions of whom to aid and how aid them up to states;
- requires that states ensure that a greater proportion of welfare recipients are in "work activities" in exchange for federally funded time-limited welfare assistance;
- limits the length of federal welfare receipt to two years, in most cases, with a lifetime limit of five years; and
- contains enhanced childcare and child support enforcement provisions.

This is a federal law and relates to federal welfare funding. The full implications of the welfare reforms on workfare programmes at state and county level will not be known for some time. W-2 is an example of one state response.

OVERVIEW OF WISCONSIN

The population of Wisconsin is approximately 5.1 million (1994). In July 1995, the state's unemployment rate was 3.2 percent. This compared with a national unemployment rate of 5.8 percent. Since 1993 the economy has performed strongly, particularly in manufacturing. By 1994 the state was actively recruiting skilled labour. As at April 1996, there were 53,200 AFDC recipients in Wisconsin.

OBJECTIVES OF W-2

The central objective of the reforms is to move people out of welfare dependency and into paid employment.

PRINCIPLES OF W-2

W-2 is based on the principle of time-limited access to benefits with individuals taking responsibility for using existing community resources to gain employment. In the press statements announcing the reforms it was argued that previous welfare programmes had become a way of life for many and had trapped many families in dependency.

The official information material for W-2 lists the following eight principles as underpinning the reforms:

- for those who can work, only work should pay;
- it is assumed everybody is able to work within their abilities;
- the family is seen as important in nurturing and protecting children. All policies are to be judged in light of how well these policies strengthen the responsibilities of both parents to care for their children;
- the new system's fairness will be gauged by comparison with low-income families who work for a living;
- there will be no entitlement to welfare. W-2 is designed to reinforce behaviour that leads to independence and self-sufficiency;
- individuals are part of various communities of peoples and places. W-2 will operate to enhance the way communities support individuals' efforts to achieve self-sufficiency;
- the new system should provide only as much service as an eligible individual needs or asks for; and
- W-2's objectives are best achieved by working with the most effective providers and by relying on market and performance mechanisms.

W-2 is not described as an entitlement program. Participants will be limited to a total of 60 months (or five years) of welfare receipt in their lifetime or two consecutive years.

OPERATION OF W-2

Target Group

The programme is available to all parents with minor custodial children, low assets and incomes below 115 percent of the federal poverty line.

Non-custodial parents, minor parents living with their parents or in a supervised setting and pregnant women are also eligible for some W-2 services.

Single individuals are eligible under the programme if:

- they are receiving food stamps; or
- are a non-custodial parent who has been ordered by the court to pay child support.

Elements of W-2

Each W-2 participant will meet with a Financial and Employment Planner (FEP) who assists them determine the W-2 job component which best suits their needs and situation. There are essentially four types of employment options:

- *Unsubsidised Employment*: Individuals entering W-2 will be guided first to the best available immediate jobs.

- *Trial Jobs* (subsidised employment): Where individuals are unable to locate unsubsidised work, but show a willingness to work, the FEP will explore options for subsidised employment.

- *Community Service Jobs*: For those who need to practice work habits and skills necessary to be hired by an employer, community service jobs will be developed in the community.

- *W-2 Transition*: This component is reserved for those who are unable to perform independent self-sustaining work even in a community service job. To receive a grant, these persons will be required to participate in work or other developmental activities up their ability.

The Wisconsin Works Job Components

Option	Basic Income Package	Time Requirement	Program Imposed Limits	W-2 Health & Child Care Eligibility	Average Expected Monthly Income Package (parent & 2 children
Unsubsidised employment	Market wage plus food stamps plus Federal and State Earned Income Tax Credit (EITC)	40 hours per week	None	Eligible if within income and asset limits	$1,390 @ $5.99/hr plus average
Trial Job	$4.25/hr plus food stamps plus EITC	40 hours per week	6-9 months per job; 24 month limit	Eligible, if (as is likely) within income asset limit	$1,236
Community Service Jobs	$3.19/hr plus food stamps (no EITC)	40 hours per week	6-9 months per job; 24 month limit	Eligible if (as is likely) within income and asset limits	$802
W-2 Transitions	$519 monthly plus food stamps (no EITC)	W-2 assigned activity hours; could be less than 40 for some individuals	24 month limit with extensions granted on case by case basis	Eligible, if (as is likely) within income and asset limits	$776

dollar amounts refer to US dollars.

Each person is assigned to an individual FEP who acts as that person's case manager. The FEP works with each client to identify what resources, both from the community and state government, are needed to find the client work. While options are developed together, the FEP has the final say on the shape of the programme.

Supporting Assistance Under W-2

There is a range of assistance available, notably:

- *Child care*: Child care will be available to all eligible families.
- *Health care*: Health care coverage, with small premiums will be available to W-2 families who have no access to employer-subsidised insurance.
- *Job Access loans*: W-2 agencies will have funds available to make small short-term loans to help families meet immediate financial needs that sometimes prevent them from working such as car repairs and personal emergencies.
- State funding is also available for employment training, adult literacy and high school courses.

Persons in each option are eligible for subsidised health and child care with payments dependent on income. The state government commits itself to the provision of child and health care subsidies to working parents with children on the basis of income and assets only.

Persons needing immediate cash assistance for work-related expenses will be eligible for "bridge loans" of up to US$1,000. These loans carry no interest, but repayment obligation begins immediately, with a maximum repayment period of 24 months. Recipients can repay up to 80 percent of their loan obligation by engaging in community service activities at a rate of US$4.50 per hour.

The income of persons in the Trial Job, Community Service Job, or W-2 Transition job components does not change with family size. Only food stamps and earned income tax credits are adjusted.

What happens if there is no job at the end of the benefit period?

As the programme has only just been established no clients have yet reached the end of their benefit entitlements. As the program currently stands if a job is not found and the W-2 sub-contractor fails to deliver either a trial job or a community services job the only assistance available will be food stamps. There is no cash fallback.

The expectation is that in extreme circumstances extensions may be granted, although this would be done on a case by case basis. It is anticipated that cases would be considered at a very high level in the organisation, possibly including the chief executive of the programme.

One non government report, however, suggests that when other placements cannot be accomplished and community service jobs are unavailable, recipients might be paid the community services job stipend for full-time work even though they are not working. However, like payments to participants who are actually enrolled in community service jobs this amount would not vary by family size and, once assignments are made, actual payments would depend on the hours worked.

Delivery

The delivery of W-2 is based around the 72 counties that make up Wisconsin. Performance criteria have been developed with county authorities being given the option to demonstrate they can met those standards. Those that were able to are given the right of first selection for delivering the W-2.

In those counties which did not meet the standards, bids will be sought from other public and private sector agencies.

EVALUATION

As the programme has only recently commenced, no evaluation data is available.

APPENDIX 4

ONTARIO WORKS, CANADA

INTRODUCTION

"Ontario Works" is an example of a welfare to work programme with a mandatory work-for-benefit component.

The Ontario Government has recently announced a major change to the way that GWA is delivered to people in Ontario. "Ontario Works" will introduce new requirements for recipients of welfare including accepting offers of community work placement, employment support and employment placement. These will apply across the province, but implementation is to be phased in on a municipal basis. The initial phase of "Ontario Works" is directed towards the unemployed. As the programme expands, sole parents (except those with very young children) will be expected to participate. Phase One began in September 1996 and it is intended to be implemented throughout Ontario by 1 January 1998.

BENEFIT PROVISION: THE CANADIAN CONTEXT

The Canada Assistance Plan (CAP) provides a shared responsibility between Federal and Provincial Government for the provision of a social safety net. Persons who benefit from programmes funded under CAP include people with mental and physical disabilities, sole parent families, senior citizens, the unemployed (who have exhausted their entitlement or had no entitlement to unemployment insurance) and low income workers and their children.

Unlike New Zealand, Canada operates an insurance based scheme (EI) to provide income support to people that have lost their employment. The EI system provides a maximum duration of entitlement of between 14 and 45 weeks depending on the number of weeks of insurable employment and the rate of unemployment in a particular area. Jobseekers without EI or who have exhausted their EI entitlement can seek basic income support under the CAP.

The General Welfare Assistance (GWA) provisions under CAP are designed to provide basic income support when all other financial resources have been exhausted. Provinces are responsible for setting benefit levels. However to be eligible for federal cost sharing, provinces must receive federal approval for programmes providing financial support.

GWA caseloads in Ontario increased dramatically in the 1990s and they remain high due to several factors including a "jobless recovery", erosion of the real value of the minimum wage and changes to unemployment insurance which have significantly reduced the number of unemployed people eligible for EI. Though caseloads have dropped in the past year, a total of 576,212 people were receiving social assistance in October 1996. Including spouses and dependent children this represents 1,150,878 people. In Ontario, the maximum GWA for a single employable person is C$520 per month.

OBJECTIVES OF "ONTARIO WORKS"

The overall objective of "Ontario Works" is to help people break the cycle of welfare dependency. While the Ontario Government admits that "Ontario Works" is not the solution to all the problems associated with the welfare system, they see it as an all important first step.

For the unemployed the community work component is designed to enable participants to contribute to their community while receiving GWA and to build some basic networks, valuable experience and some employment-related skills to help them move into the paid workforce.

For communities, work placements provide an opportunity to identify and undertake projects that will enhance the local community.

"Ontario Works" is one component of the Ontario Government's reform of social assistance. Other major initiatives have included:

- in October 1995, reducing GWA benefit levels for 76% of the GWA population by an across the board 21.6%. Prior to 1993, benefit levels in Ontario were set at 10% above the average of the nine other provinces. This is estimated to reduce the total value of benefits by C$1 billion to C$6.8 billion per annum. The aim of the cuts is to compel people into the job market by making rates more competitive with market wages.

WHO WILL BE REQUIRED TO PARTICIPATE?

People with disabilities, seniors, and single parents with young children are exempt from "Ontario Works". In other cases special circumstances may exempt a person from participation. This would include temporary sickness or injury or those taking care of a child or adult with a disability. Such exemptions would be granted on a case by case basis. Those who are exempt may take part on a voluntary basis if they think that it will strengthen their chances of finding employment. People enrolled in training programmes will be exempt from the community work component.

ACTIVITIES REQUIRED UNDER "ONTARIO WORKS"

There are several components to "Ontario Works". These include:

- *Community Work Participation:* any unpaid community service activity under the direction of communities and/or public or non-profit organisations. Placements can be sponsored by communities and or public non-profit or private sector organisations and includes approved self-initiated placements proposed by participants;

- *Employment Support:* activities that support participants in the efforts to become job ready and access their shortest route to paid employment, such as job search assistance, basic education, and job specific skills training. communities and public, non-profit and private-sector organisations can be involved in delivering Employment Support locally. It also includes approved self-initiated activity;

- *Employment Placement:* supports participants who are job ready to find and maintain paid employment and assists participants interested in self-employment to develop business enterprises. Compensation is paid to agencies on a performance basis using a share of the funds that would otherwise have been paid out in social assistance to the participant.

DELIVERY OF "ONTARIO WORKS"

Phase One of "Ontario Works" is to be delivered by municipalities as they already have an infrastructure in place to deliver programmes to people receiving welfare. Also, municipalities currently deliver GWA. All Ontario municipalities were invited to express interest to the government in being initial sites. Twenty sites were chosen based on criteria that included: local council support; level of readiness to deliver "Ontario Works" (eg infrastructure to provide community placements and previous experience in implementing employment initiatives); and geographic representation.

Municipalities will work with local groups to coordinate and supervise participants in community work.

There is some evidence that larger municipalities with large caseloads (eg Toronto and Ottawa-Carleton) were avoided. The 20 municipalities chosen for phase one represent about 20% of the entire GWA caseload in Ontario.

OPERATIONAL DETAILS OF "ONTARIO WORKS"

Under "Ontario Works" the following steps will apply to benefit applicants:

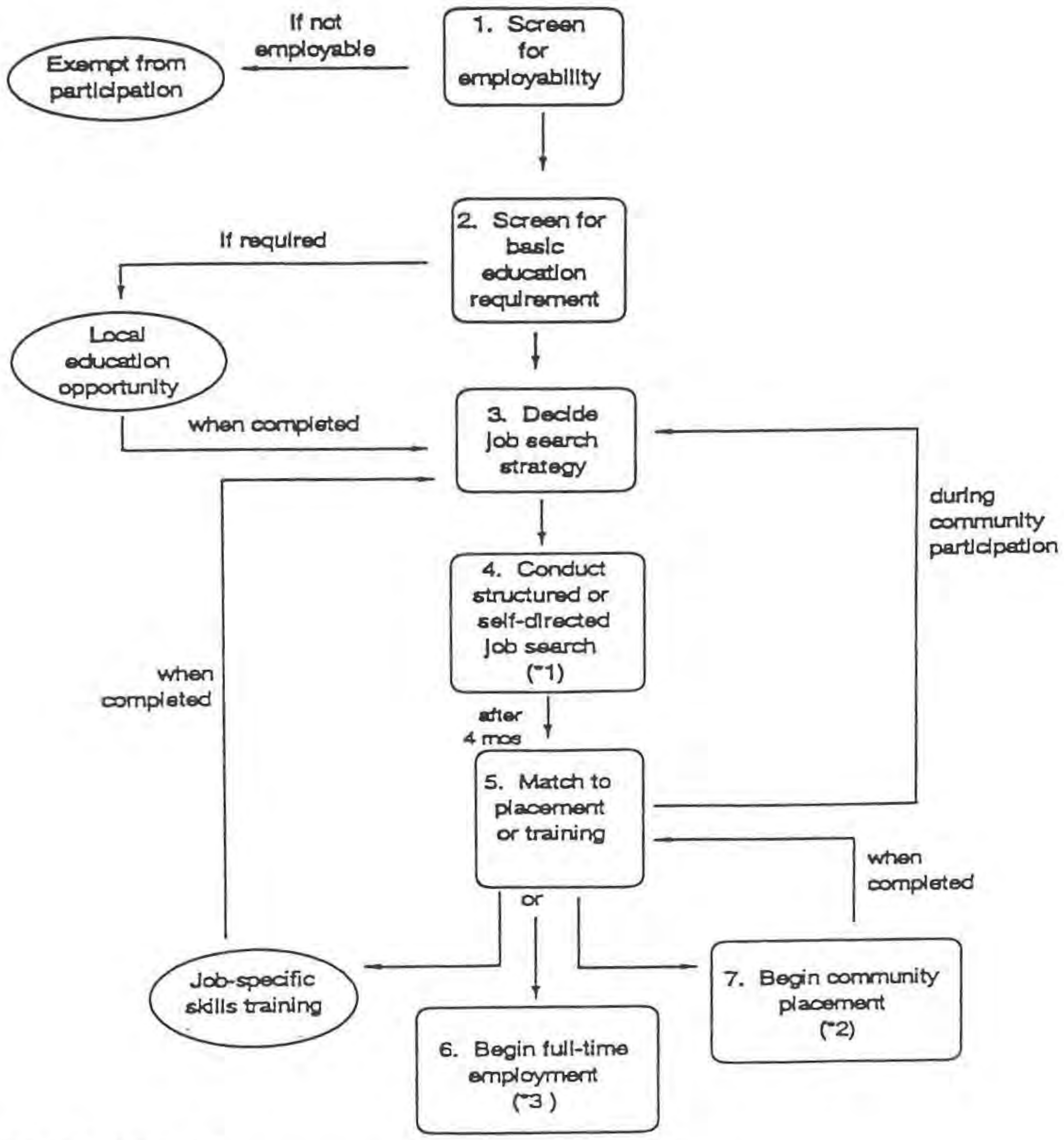
- the service delivery agent will determine whether or not a person meets the benefit eligibility criteria;
- if they meet the benefit criteria, the service delivery agent will then determine whether or not a person is employable and if they are employable then participation in "Ontario Works" is required;
- the service delivery agent then determines whether there are any grounds for temporary deferral of active participation;
- the service delivery agent then determines whether participants who are not temporarily deferred are in need of basic education, or are able to pursue job search, either independently or through a structured programme; and
- after a period of independent or structured job search or a programme of basic education they can be offered a community work placement and/or referred to a Job Agency.

Each client in "Ontario Works" is required to have an individualised agreement that is tailored to their circumstances with clearly stated activities and expectations. The "Participation Agreement" is worked out with the client and their caseworker and will include mandatory job search activities, community work activities or referrals to education upgrading. Such an agreement forms the foundation for "Ontario Works" and will be used to monitor compliance.

Recipients will be required to complete approximately four months active job search, either independently or in structured job search programme prior to offers of community work placements or referral to a job agency. The intent is to allow people not in need of basic education to find a job on their own before community work placements are offered.

The operational details of "Ontario Works" are outlined below:

Ontario Works: Client Service Path



Ontario Works Components

*1 Employment Supports to Job Search: job banks, job search training, job clubs, job referrals

*2 Community Participation: community placements developed by organization, community improvement projects, self-improvement initiatives

*3 Employment Placement in paid or self-employment development

THE COMMUNITY WORK COMPONENT OF "ONTARIO WORKS"

Community work projects can be sponsored by communities and/or public, non-profit or private sector organisations. People receiving GWA can also develop their own community placements under the direction of these organisations. Private sector organisations are restricted to offering financial or in-kind support (eg equipment, materials or expertise) to community work projects. They may not directly or indirectly offer, administer or supervise community work projects.

Sponsoring agencies will be eligible for C$100 per placement per month to offset the costs of a placement and the business community will be invited to provide additional sponsorship of local community projects.

Both municipalities and community groups will sponsor community work projects. They will come up with the idea, propose it to the municipality, run the project, supervise the work and report back on the project and the work done by the recipients.

The municipal welfare delivery agents must ensure that community work projects meet the following specific criteria for participants:

- not longer than 6 months at any one approved placement except where a specific plan of skills training is in place, in which case the maximum in any one placement is 11 months;
- not more than 70 hours per month in community work placements, with the balance of time remaining being devoted to active job search;
- the maximum amount of hours is not more than a recipients benefit level (C$520) divided by the minimum hourly wage (C$6.85) plus four percent holiday pay;
- the hours of work are reduced accordingly where a recipient is receiving less than the maximum benefit for a single employable person;
- the hours of work are reduced hour for hour for recipients who have some paid employment; and
- people registered in approved basic education or job-specific skills training are required to accept offers of community work placement during the vacation.

In addition there are specific standards for community work projects:

- they must not displace any paid employment position in the participating organisation;
- they do not interfere with a recipients paid employment or paid employment opportunity (eg attending a job interview); and
- they comply with standards concerning hours of attendance, public holidays, pregnancy and parental leave and termination of placement.

What type of community work will be required?

Several examples are given of the type of community work that could be sponsored under "Ontario Works". These are:

- cleaning rubbish and logs from rivers and streams to help ensure the future survival of fish and other wildlife;
- cleaning up lakes and restoring barren lands by planting trees to the benefit of the community;
- developing and maintaining snowmobile trails and raising money to fund other worthwhile community projects; and
- helping out at charity events and with volunteer activities (eg in local schools or with senior citizens).

Exemptions from the community work component

As mentioned above, the community work component of "Ontario Works" does not apply to people in training or basic education programmes and a temporary deferment can be granted on a case by case basis (for reasons such as personal illness, or illness of an immediate family member requiring care). In addition there are some restrictions on participation in community work. For example:

- a person with a previous back injury is not referred to work involving lifting;
- a recipient who has left an abusive partner is not referred to work that would place her at risk meeting her former partner;
- a recipient with a joint custody arrangement is not referred to work during hours when he or she has care of children;
- recipients who are a couple with children are not referred to work during the same hours, or are referred to work only during school hours if the children are of school age; or
- recipients who observe religious requirements are not referred to work that would compromise the practice of these requirements.

Additional financial support for people on community work projects

It is recognised that some community work projects may require the purchase of work clothes or equipment. "Ontario Works" may provide additional support to assist with these costs as well as assistance with child care, transportation and support for people with disabilities (who volunteer to participate). As sole parents are not required to participate in phase one of "Ontario Works", funding for child care (for sole parents who volunteer) will be provided through existing programmes.

NON-COMPLIANCE WITH "ONTARIO WORKS"

For people required to participate in "Ontario Works", participation is an initial and on-going condition of eligibility for GWA. There are four types of non-compliance:

- refusal to accept an offer of employment;
- refusal to accept a referral to a work placement;
- refusal to accept an offer of a work placement; or
- failure to make reasonable efforts to meet requirements.

A person's failure to meet the requirements associated with a programme of basic education and training will not result in cancellation/reduction of benefit, but that person will be required instead to job search or participate in community work.

Participants are given two written notices that they may be in non-compliance. From the first written notice they have 30 days to access the review and notice process and resolve outstanding issues. Following the second notice they have 10 days to bring themselves into compliance.

Sanctions for non-compliance

If a person is found to be in non-compliance with the requirements of "Ontario Works" he or she is no longer eligible to receive GWA and the application can be refused, or the benefit cancelled or reduced. Recipients who are part of a family will see the family's benefit reduced by the portion of payment belonging to the non-complying recipient.

Once a sanction is imposed a participant is ineligible to have a reapplication for GWA considered for the following periods:

- *First Failure:* three months following the end of the second notice period; and
- *Subsequent Failures:* six months following the end of the second notice period.

COSTS

Each municipality is required to submit a business plan for Ontario Works. All municipalities must present business plans for "Ontario Works" by September 1997.

As an example, Northumberland county has a population of about 74,000 and a GWA caseload of about 1,200 per month with a monthly GWA expenditure of approximately C$750,000. The cost of administering "Ontario Works" for an estimated 300 participants is projected to be C$1,675 per person per annum.

However the Northumberland proposal acknowledges that additional funds for the "likely increased administration costs" and "further employment related expenses" will be necessary. It is also acknowledged that the ability to cancel or reduce benefits for non-compliance will "assist in reducing social assistance costs". These costs/savings are not quantified.

In terms of welfare expenditure the Ontario Government has stated:

> *"This government has realized $1.3 billion[1] in social assistance savings as a result of earlier welfare reforms* [benefit rate reductions]. *Over the next three years, we will re-invest $450 million into Ontario Works."* [2]

LOCAL CONCERNS WITH "ONTARIO WORKS"

The announcement of "Ontario Works" has generated a lively debate on the merits of workfare. Several municipalities have refused to take part in the pilot and Toronto City has stated that it will not participate in either the pilot or the programme implementation, instead urging a continuance of voluntary employment development programmes. The following points provide a brief summary of some of some of the arguments that are being advanced against "Ontario Works" and in particular its mandatory community work component:

- it is focused on returning people to work as fast as possible compared to programmes that focus on skills to improve a person's chances of gaining better paid more stable employment, (though such programmes tend to have a higher cost);
- the community work component will divert resources away from genuine training;
- it doesn't address the basic shortage of jobs and there is an assumption that finding a person a job is the same as creating a new job;
- the requirement that community work will not displace any paid workers is difficult to monitor and enforce;
- there won't be enough community work placements to accommodate large numbers of welfare recipients and if there were then the costs would be high;
- the Employment Placement Programme will be risky for the private employment agencies as they will not be fully compensated until a former welfare recipient has worked for six months. To reduce this risk only the most job-ready and employable candidates are likely to get employment placements. The same is likely to be true of the community work programmes. To place people with significant employment barriers into community work is likely to escalate the costs of the programme.

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1 Figures in Canadian Dollars.

2 Hon David Tsubouchi, Minister of Community and Social Services. Statement to the Legislature. 12 June 1996.

- some voluntary agencies see workfare as threatening the ethic of volunteerism (eg the donation of time, energy and skills to the community) and impacting on public support for volunteer agencies. Many genuine volunteers would not want to be confused with welfare recipients required to take on community work. For voluntary agencies that decide to become involved in community work projects there are concerns that calculating and monitoring the workfare obligation will be complex and time consuming exercise. The supervisory role could create serious dilemmas for voluntary agencies (eg a sanction may be initiated if a negative report is made). There is also the risk of legal proceedings if any sanction is appealed against The dismissal process could also have legal consequences;

- many people on welfare have recent work histories and are only on welfare because of job loss and unpaid community work is unlikely to provide these people with new marketable skills, and may well interfere with their genuine efforts to find employment; and

- there is no proposal to evaluate "Ontario Works" in terms of how well it delivers real results (eg does it help people gain jobs, does it increase people's earnings and does it assist people to attain long term economic independence?).

EVALUATION OF "ONTARIO WORKS"

As "Ontario Works" was introduced from September 1996, no evaluation has yet been completed. It is anticipated that "Ontario Works" will evolve and change based on initial experience and to build on early success. Modifications are likely which will reflect the programme's evolution, particularly as local communities develop successful approaches to the delivery of "Ontario Works".

Regardless of the outcome of any evaluation, there is already a Government commitment to extend "Ontario Works" province-wide and to other groups of GWA recipients (eg sole parents).

APPENDIX 5

ALBERTA JOB CORPS, CANADA

INTRODUCTION

The Alberta Job Corps (AJC) programme is an intensive mandatory paid work programme for very disadvantaged welfare recipients. AJC is administered by Alberta Family and Social Services. One of AJC's most unusual features is that participants are effectively employees of the administering agency for the six month duration of the programme. AJC is part of a wider system of individualised welfare-to-work assistance in Alberta.

BENEFIT PROVISION: THE CANADIAN CONTEXT

The Canada Assistance Plan (CAP) provides a shared responsibility between federal and provincial government for the provision of a social safety net. Persons who benefit from programmes funded under CAP include people with mental and physical disabilities, sole parents families, senior citizens, the unemployed (who have exhausted their entitlement or had no entitlement to unemployment insurance) and low income workers and their children.

Unlike New Zealand, Canada operates an insurance based scheme (EI) to provide income support to people who have lost their employment. The EI system provides a maximum duration of entitlement of between 14 and 45 weeks depending on the number of weeks of insurable employment and the rate of unemployment in a particular area. Jobseekers without EI or who have exhausted their EI entitlement can seek basic income support under the CAP.

The General Welfare Assistance (GWA) provisions under CAP are designed to provide basic income support when all other financial resources have been exhausted. Provinces are responsible for setting benefit levels. To be eligible for federal cost-sharing, provinces must receive federal approval for programmes providing financial support.

THE OBJECTIVES OF ALBERTA JOB CORPS

The objectives of AJC are to:

- provide participants with basic work habits, self-esteem and motivation through work experience;
- provide opportunities for participants to take team member and leadership roles;
- re-establish participants' work records;
- develop skills in an actual work environment and gain recognised qualifications;

- assist worthy community projects that might not otherwise be done, such as constructing low cost housing, planting city green belts and restoring heritage buildings; and
- build partnerships between provincial government and local communities.

INTERFACE WITH OTHER PROGRAMMES

AJC is one of a number of employment programmes and services. Welfare recipients who are assessed as able to work must develop an individual back-to-work plan and participate in programmes according to their individual plan. This plan must be developed within three months of going on welfare, including for sole parents whose youngest child is over six months old. Alberta Family and Social Services emphasise the individualised nature of these plans.

A welfare recipient's individual action plan may include accessing:

- job search assistance;
- careers guidance;
- employment placement services (contracted out on a fee-for-service basis);
- financial support, including childcare;
- education and training; and
- work experience programmes, including AJC.

There is no prescribed sequence of activities. AJC is sometimes used to test if a person has such barriers to employment that he/she should be recategorised as not able to work (i.e., onto the equivalent of the sickness or invalids benefit). In this sense, AJC may be seen as a test of willingness to work for a particular individual.

AJC is one of three work experience or temporary work programmes in Alberta. All positions are six months in duration and participants are paid wages. The other two programmes are:

- *Employment Skills Program*: Employers are government departments. Employees are paid C$6 per hour plus fringe benefits and can access individualised training of up to C$1,000.

- *Alberta Community Employment*: Municipalities, publicly funded organisation and not-for-profit agencies sponsor positions in the community. Employees receive at least C$5 per hour plus fringe benefits.

TARGET GROUP

Approximately 500 people participate in AJC at any one time, with about 1200-1300 people going through the programme in a year.

Although there is no duration requirement for participation in AJC, most participants have been out of the labour force for a long time. Typically, participants are experiencing problems re-attaching to the labour market (such as poor motivation) and do not respond well to classroom learning.

OPERATION OF ALBERTA JOB CORPS

Mandatory paid work is at the core of AJC. Participants are employed by Alberta Family and Social Services for the duration of the programme. They are paid a wage of C$5 per hour plus fringe benefits. Because one of the aims of AJC is to help participants function in actual work situations, participants will have their pay docked for lateness.

Some participants are promoted to positions as "lead-hands". Lead-hands are paid C$7.50 per hour plus fringe benefits and receive some additional training (for example, in supervisory skills) in return for taking on team leadership roles.

AJC is an intensive programme involving a high level of supervision by departmental staff. For example, in Calgary, AJC is operated by eight full-time staff who work with a maximum of 50 participants at any one time.

Activities undertaken

AJC staff work with local businesses, community groups, not-for-profit organisations and other government departments to develop projects that might be undertaken by AJC employees. For example, in Northern Alberta, AJC workers are constructing 30 new houses for families in need. AJC essentially operates as a construction company for this project: it owns modern construction equipment and conforms to industry standards.

In general, work is full-time although this depends on individual circumstances. The philosophy of AJC is that initially at least participants must (re-)learn the routine of regular, full-time work. In some cases, participants may work part-time towards the end of the programme in order to provide more time for active job search.

Although paid work experience is central to AJC, the programme also has a skills development element. For example, depending on the type of project, AJC workers may be given the opportunity to gain certification in Cardiopulmonary Resuscitation (CPR) and First Aid. Training tends to be on-job.

Job search assistance, such as employer phone numbers and introductions, is also provided.

Length of Programme

People may participate in AJC for up to 26 weeks.

If someone has not obtained an unsubsidised job at the end of this time, this may be taken as a sign that this person has such barriers to employment that they should be recategorised and no longer considered available and able to seek work.

Sanctions for Non-compliance

In the event of "persistent and consistent" non-compliance, the file is closed and the person becomes ineligible for welfare payments until they can demonstrate that their circumstances have changed. One example of a change in circumstances is where the person, after having the benefit cancelled, had searched for and been offered a permanent job. If that job was not due to start for some time, the person could be assessed as having a change of circumstances and receive welfare payments in the interim.

This sanction applies to all Alberta employment programmes, not just to AJC.

DISPLACEMENT

Perhaps the most significant concern raised about a programme of this type is its potential to put unsubsidised employees out of work or to undermine local businesses by providing products and services at a cheaper, subsidised rate. If displacement is high, the programme will not ultimately be cost effective.

AJC has a number of rules to reduce the risk of displacement, including:

- a project must not last more than six months;
- there must be at least a two month break between projects for the same organisation; and
- agencies must certify that the work being offered is additional and does not displace current staff or result in a reduction in the hours that current staff work.

Alberta Family and Social Services will investigate complaints of displacement. If displacement is found, AJC will withdraw from the project. Programme planners do admit, however, that displacement can be difficult to monitor.

EVALUATION

Some monitoring information is available. In 1994/95, 74 (12%) of the 600 people who had positions on Job Corps were "off welfare" six months after leaving the programme. It is not clear whether those who went "off welfare" actually entered paid employment.

APPENDIX 6

PROJECT WORK, UK

INTRODUCTION

Project Work is an example of a mandatory job search and unpaid work experience programme. Preliminary evaluation evidence suggests that the programme has had a significant "register clearing" effect.

Project Work was originally piloted in two areas in the UK: Hull and Maidstone-Medway, from April 1996. The scheme offers a programme of structured job-search and practical work experience for people aged between 18-50 who have been unemployed for more than two years. Over 5000 people took part in the two pilots at a cost of £12 million.

From the start of 1997, Project Work will be extended to 29 new areas and to 100,000 people at a cost of £100 million.

BENEFIT PROVISION: THE UK CONTEXT

Like most OECD countries, income support for the unemployed in the UK combines a contributory insurance scheme with a basic welfare safety net. Unlike Canada and the US, however, the UK system now pays out the same rate for insurance as for welfare benefit.

Unemployed people who have contributed to National Insurance are eligible for the Job Seeker's Allowance (JSA) for six months regardless of their income. After six months (or sooner for people who are ineligible for insurance), the JSA becomes a means tested benefit. In order to receive the JSA, beneficiaries must be available for, and actively seeking, work.

OBJECTIVES OF PROJECT WORK

Project Work aims to help people who have not worked for a long time to refocus their efforts to find a job. It incorporates 13 weeks of job search or other activities (such as training) during which people can choose to avail themselves of a range of help, followed by 13 weeks of compulsory work experience.

Project Work aims to:

- help people who have been out of work for two years or more, move off benefits and into jobs;
- test whether people are available for work by forcing them to take up work experience or lose their benefit; and
- deter people who are fraudulently claiming unemployment-related benefits.

Project Work also aims to build on existing skills and experience, whilst enabling additional work to be undertaken which would be of benefit to the wider community.

The extended Project Work programme also aims to:

- test the Project Work approach across the country in a broader range of labour markets;
- test the effectiveness of placing greater emphasis on helping people who need to improve their literacy and numeracy skills in some pilot areas; and
- seek to extend the part played by the private sector.

INTERFACE WITH OTHER PROGRAMMES

UK employment programmes aim to help people, particularly the long term unemployed, compete more effectively for jobs by: encouraging active job-search; overcoming employer reluctance to take on unemployed people; overcoming disincentives to look for work caused by dependency on benefits; and improving employability. To achieve this, the UK Employment Service operates a range of interventions which intensify as duration of unemployment lengthens, from initial emphasis on job-search by claimants, through to regular six-monthly assessments and guidance with an emphasis on job-search skills (and training) and, for much longer duration claimants, work experience and financial incentives.

All unemployment-related benefit recipients are required to undertake job-search activities and be available for work. Currently a number of interventions are used to check that obligations are being carried out, including fortnightly attendance at Employment Offices' to sign an available for work declaration. Mandatory participation in other programmes increases as duration lengthens. Within this context, Project Work acts as a test of the willingness to work of the long-term unemployed.

PROJECT WORK: OPERATIONAL DETAIL

Project Work is overseen by the UK Department for Education and Employment and administered by the UK Employment Service. It is currently being piloted in two areas (Hull and Maidstone-Medway). From early 1997, the programme will be extended to 29 new areas.[1] It will cost £100 million for 100,000 participants.

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[1] New *Project Work* pilot areas include: North (Bolton - Bury, Bradford, Huddersfield, Wigan-St Helens, Preston, South Tyneside, Grimsby); Midlands (Derby, Budley-Sandwell, Leicester, Nottingham, Stoke); East Anglia (Norwich, Peterborough); South West (Bristol, Bath, Weston Super Mare); South East (Brighton, Hertford-Harlow, East & North East London, Portsmouth); Wales (Swansea, Neath-Port Talbot, Merthyr-Rhymney); Scotland (Dundee, Dunfermline, Edinburg, Lanarkshire).

Target Group

Project Work targets people aged 18-50 who have been unemployed for over two years. It is a compulsory programme for the two year plus unemployed. No other groups can opt for Project Work on a voluntary basis.

Components of Project Work

Project Work incorporates 13 weeks of job search or other activity during which people can choose from a range of help, followed by 13 weeks of compulsory work experience. Those on work experience receive an allowance equal to their benefit plus £10. Refusal to attend the compulsory work experience component of Project Work may lead to the claimant losing some or all of the benefit.

As detailed in the Design Flowchart (attached), the key components of Project Work are:

- placement following a Restart Interview;
- 13 weeks of Intensive Help (voluntary participation only); and
- 13 weeks compulsory work experience.

Restart Interview

Restart is a mandatory interview for all clients at 6 months unemployment, and every further 6 months that they remain unemployed. An Employment Advisor helps with job search advice on jobs, training and other opportunities. The interview aims to increase the client's chances of obtaining a job by improving and directing their job-search activities. It also aims to ensure that only those who fulfil the criteria for receipt of an unemployment benefit actually receive it. Job-seekers who are unemployed for 2 years or more are automatically placed on *Project Work*.

13 weeks Intensive Help (Voluntary)

A range of Employment Service interventions are offered to Project Work participants during this period. Intensive Help means that employment advisors utilise the most appropriate intervention that meets the specific needs of individual claimants. Intensive Help interventions include:

- *referrals to vacancies*, through mainstream job brokerage, vacancy search and submission and more individual help through the *Job Interview Guarantee* programme;
- *1-2-1* which involves a series of six mandatory interviews with an adviser. Specific tasks are agreed for clients' to undertake between each interview and recorded on a back-to-work plan. At each interview progress against the plan is reviewed and practical help offered to assist the individual's return to work. Interviews are usually weekly over a 6 week period, but may spread over a longer duration if appropriate;

- *Jobclub seminars* which provide assistance in the preparation of CV, developing interviewing skills and improving job-search techniques. Jobclub involves four half-days of formal sessions, followed by free access (four half-days per week) to facilities including telephones, photocopiers, newspapers, stationery and stamps to assist with job applications;
- *Training for Work*, the main training programme for unemployed adults in the UK. It provides training to gain occupational skills or vocational qualifications according to individual needs. In the 1995/96 year over 200,000 people accessed Training for Work;
- *Workstart subsidies* paid to an employer to take on a 2-year-plus or 4-year-plus unemployed person. The subsidy is £60 per week for 6 months and £30 per week for a further six months;
- *Work Trial* which aims to help the Employment Service's priority clients into work by giving them the opportunity to try out a job for up to 15 working days while remaining on a benefit. They particularly aim to help those clients who need a considerable amount of help to make the transition from unemployment to work; and
- *Job-finders Grant* which aims to encourage people who have been out of work for more than two years to take a job, by paying them a grant to help cover any additional expenses that they incur on account of taking the job. In some regions grants of £200 were made available to people taking a job paying £150 a week or less. It is still being tested in other regions and the amount paid may vary according to duration of unemployment.

13 weeks Work Experience (Compulsory)

In the second 13 weeks, participants must be on work placement, usually with a voluntary or charitable organisation. As far as possible, UK authorities attempt to place participants in positions where participants can make the fullest possible use of their skills and abilities. The hours that people work vary, however part-time work is more prevalent than full-time work. The average hours worked is around 18 hours per week.

As well as working, all participants must engage in some job search activity. Evaluations of other UK employment programme have found that a mix of both work experience and job-search activity provides better outcomes in terms of moving people off the benefit. This is because those on work experience programmes may substitute time spent in work for the job search activity they would otherwise be undertaking.

An important principle of Project Work is that individuals should not be able to avoid the second 13 week period of work placement, by choosing an option in the first 13 weeks that temporarily takes them off the unemployment register. If they return to unemployment then they will be put on a work placement. This is meant to stop individuals choosing options in the first 13 weeks solely with the intention of avoiding the second 13 weeks of work placement.

Sanctions for Non-compliance

Throughout the stages of Project Work, a number of the unemployed may fail to attend interviews, job-search activities, and work experience. These people are sanctioned by Income Support and lose their benefit until they reappear and attend the community work component of the programme.

Claimants who fail to complete components of Project Work will reappear during the mandatory reporting system or six monthly restart interview. Failure to re-comply will result in a loss of benefit.

EVALUATION FINDINGS

Pilots in Hull and Maidstone-Medway began in April 1996. To date, over 5,000 people have taken part. Approximately 1,900 completed their first 13 weeks of intensive help, of which nearly 400 were placed directly into a job. Over 1,600 have been referred to work experience, of which 1,000 commenced work experience. Approximately 90 people have been placed into a job during their period of work experience.

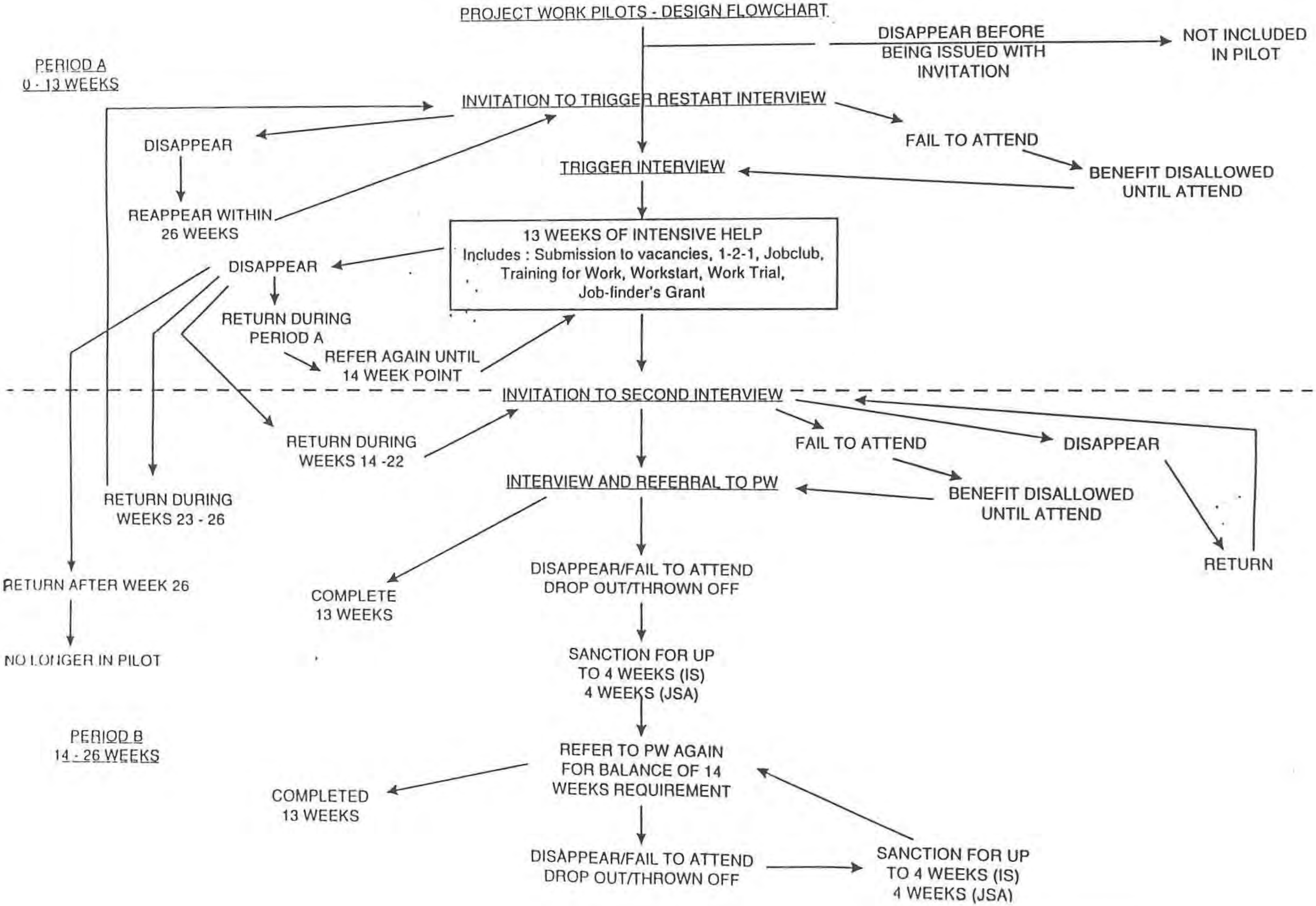
Over 400 claimants failed to turn up for their work experience and half have ceased to claim the benefit. Of the remaining half 47 have so far been adjudged not to have good cause for failing to attend and have received a benefit sanction. Overall, nearly 1,100 people have left the benefit since the pilot started - representing over 20 percent of participants.

A comparison of the Project Work outcomes with those in two control areas provides some striking results. Compared with the control areas, the exit rate for those in the pilot areas is 25 percentage points higher.

However, few are leaving unemployment for jobs. A significant number leave unemployment after the first 13 weeks before the period of work placement. Further work is being undertaken to try and determine where people are going from unemployment. These results indicate that the programme may be achieving its objectives in deterring people who are fraudulently claiming benefits and testing claimants availability for work. That is, Project Work may be having a significant "register clearing" effect.

Some long-term unemployed people who are leaving the unemployment register after the initial 13 weeks job search may not in fact be in receipt of unemployment benefits, but just of National Insurance credits which maintain their entitlement to the state old age pension. Since these people gain little financial return for remaining on the unemployment register they may exit rather than go on compulsory work placement.

Some people may also be moving onto other benefits (sickness or invalids). This possibility raises a concern that Project Work, which is designed to increase the effective supply of labour, may in fact be reducing it. Further evaluative research is required.


PROJECT WORK PILOTS - DESIGN FLOWCHART
PERIOD A
0 - 13 WEEKS
DISAPPEAR BEFORE BEING ISSUED WITH INVITATION
NOT INCLUDED IN PILOT
INVITATION TO TRIGGER RESTART INTERVIEW
DISAPPEAR
FAIL TO ATTEND
TRIGGER INTERVIEW
BENEFIT DISALLOWED UNTIL ATTEND
REAPPEAR WITHIN 26 WEEKS
13 WEEKS OF INTENSIVE HELP
Includes : Submission to vacancies, 1-2-1, Jobclub, Training for Work, Workstart, Work Trial, Job-finder's Grant
DISAPPEAR
RETURN DURING PERIOD A
REFER AGAIN UNTIL 14 WEEK POINT
INVITATION TO SECOND INTERVIEW
RETURN DURING WEEKS 14 -22
FAIL TO ATTEND
DISAPPEAR
INTERVIEW AND REFERRAL TO PW
BENEFIT DISALLOWED UNTIL ATTEND
RETURN DURING WEEKS 23 - 26
RETURN
RETURN AFTER WEEK 26
COMPLETE 13 WEEKS
DISAPPEAR/FAIL TO ATTEND DROP OUT/THROWN OFF
NO LONGER IN PILOT
SANCTION FOR UP TO 4 WEEKS (IS) 4 WEEKS (JSA)
PERIOD B
14 - 26 WEEKS
REFER TO PW AGAIN FOR BALANCE OF 14 WEEKS REQUIREMENT
COMPLETED 13 WEEKS
DISAPPEAR/FAIL TO ATTEND DROP OUT/THROWN OFF
SANCTION FOR UP TO 4 WEEKS (IS) 4 WEEKS (JSA)

CONFIDENTIAL

GF 513

22 November 1996

ALTERNATIVE ORGANISATIONAL AND DELIVERY OPTIONS TO ENSURE THE BEST DELIVERY OF SERVICES WHICH ASSIST UNEMPLOYED JOBSEEKERS TO MOVE INTO EMPLOYMENT.

Costing request

1. On 14 November 1996 you requested information on alternative organisational and delivery options to ensure the best delivery of services which assist unemployed jobseekers to move into employment.

You requested a comparison of the effectiveness and cost of:

- the one stop shop as previously discussed;
- the alternative options identified; and
- the current delivery structure.

A copy of the question is attached.

Executive Summary

2. The focus of the question is on assisting job seekers to move into employment and on delivery options which will best achieve this. "Best" in this context is taken to be most effective from the perspective of the job seeker as client and efficient from the perspective of the Government as purchaser and owner.

3. A great deal has been done in recent years to improve the effectiveness and efficiency of service delivery to the clients concerned. Both Income Support (IS) and the NZ Employment Service (NZES) have moved from transaction-based services to service delivery related to the needs of individual clients. Furthermore, both policy changes (e.g. administration of the work test, the Compass programme, the Job Start allowance and the Local Employment Co-ordination initiative) and a strategy of active co-operation between the two agencies will, within the next year, go a long way to eliminating the gaps and overlaps identified by the Employment Task Force in 1994.

4. There are essentially two approaches to integrating service delivery to individual clients: a structural approach involving physical and organisational

integration of the service providers; and a systems approach, which involves careful design of interfaces between information, operational and delivery systems. The analysis which follows concludes that there is (based on the information currently available) little between the two approaches in terms of financial cost. In the short to medium term, the systems approach under co-location is more likely to be effective and provide benefits in terms of the co-ordination and efficiency of employment and income support services. This is because it would avoid the disruption and associated risks which would accompany rapid structural change (into a fully integrated service). It would also allow the two main service providers (and consequently also contracted second level providers) to maintain their business focus.

5. The integration of systems is an inherent part of any structural integration. What is not clear at this stage is the size of potential benefits from this further step. Pursuing the systems approach, including co-location in the short to medium term, will provide the information for this judgment. Furthermore operating experience with systems integration and co-location would be likely to reduce transitional costs and risks if a structural change were to be undertaken at a later stage. At that point the risks, costs and benefits of going to full integration could be assessed.

6. This paper describes:

- the current co-location strategy - as a base for comparison
- the 'new entity' described in answer to the previous question (GF 504 - 2)
- accelerated co-location - a systems approach
- full integration - a structural approach

Figure 1: Initial Marginal Operating Balance Impact of Options for Change[1]

$m	1997/98	1998/99	1999/2000
New entity as per GF504-2	(55) - (65)	(30) - (30)	(30) - (30)
New entity as per GF504-2 (no redundancies)	(45) - (45)	(30) - (30)	(30) - (30)
Accelerated Co-location	(20)	(20)	-
Integration into new entity	(50) - (75)	(20)	-
Integration into new entity (no redundancies)	(20)	(20)	-
Integration into existing department	(20) - (25)	(20)	-
Integration into existing department (no redundancies)	(20)	(20)	-

[1] Excludes financing costs. Costs are rounded to the nearest $5 million. A positive number represents an improvement to the fiscal position.