



**MINISTRY OF SOCIAL  
DEVELOPMENT**  
TE MANATŪ WHAKAHIATO ORA

**Service Delivery  
Traffic Light System – Phase One  
Operational Policy Design  
12 August 2024**

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# Traffic Light System – Phase One – Operational Policy Design

## Purpose

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The purpose of this operational policy design document is to set out the policy framework and guiding principles in detail for Phase One of the Traffic Light System. This document will be used to influence and determine decisions, within legislative requirements, for the day-to-day operations of MSD's core business.

The scope of an operational policy design document is to express policies in practice as opposed to process. It is the foundation document used to develop MSD's operational guidelines. This document also provides the policy context for business process and training documents.

## Background

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All assistance administered by MSD is paid subject to certain obligations which must be met by a client. For most working-age benefits, these include work obligations, work-preparation obligations and/or social obligations:

- **Work obligations** are applied to clients and partners where the benefit they are receiving includes a requirement to be available for, and seeking, either full- or part-time employment,<sup>1</sup>
- **Work-preparation obligations** are applied where work obligations may be required in future, but a client is currently only required to take reasonable steps to prepare for employment. This is when a client either:
  - has a current deferral or exemption from work obligations, e.g., they are temporarily unable to work due to a health condition, or
  - has a dependent child younger than 3 years old in their care,
- **Social obligations** apply for each dependent child in a client's care. They vary depending on a child's age, but all relate to the health and wellbeing of a child.

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<sup>1</sup> This includes clients granted Emergency Benefit (including Emergency Maintenance Allowance) where work obligations are a condition of grant.

When a client fails to comply with one of these obligations, MSD must first consider whether they had a good and sufficient reason for not complying.

If there is no good and sufficient reason, MSD must impose a sanction. A client is issued a written notice stating they have failed to comply with a specified obligation, the date on which this occurred, the effect this will have on their benefit and from what date, and notifying the client they have 5 working days in which to dispute the imposition of a sanction.

Obligations failures follow a graduated sanction regime:

- **First failure** – a benefit is reduced by 50%,
- **Second failure** – a benefit is suspended,
- **Third failure** – a benefit is cancelled, and a client is subject to a 13-week non-entitlement period.<sup>2</sup>

Clients with dependent children receive 50% payment protection i.e., the effect of a second or third failure is limited to a 50% reduction or cancellation of benefit.

Failures are counted individually for 12 months after a client has failed an obligation, as long as they have remained in continuous receipt of a main benefit,<sup>3</sup> whether or not it is the same benefit type.

For clients who have failed three times in a 12-month period, they can complete certain activities<sup>4</sup> for a continuous period of 6 weeks to have a provisional benefit granted (or for clients with children, their benefit rate increased to the full amount). The provisional benefit is granted from the date the client starts the activities. Once the 6-week activity is complete, the remainder of the non-entitlement period lapses. If a client leaves or does not satisfactorily participate in the assigned activity (without a good and sufficient reason), the provisional benefit must be reduced or stopped from the date it was increased or

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<sup>2</sup> An exception exists for a client refusing a suitable job offer without a good and sufficient reason. This is immediately subject to a grade 3 sanction, regardless of whether the client has any previous obligation failures.

<sup>3</sup> Continuous receipt of a main benefit is described in section 241 of the Social Security Act 2018. It is a period where a client has been receiving a main benefit, disregarding any period in which they were in employment for less than 10 working days. This continuum is broken where a client has transferred between a Youth Payment or Young Parent Payment to a working-age main benefit.

<sup>4</sup> Activities must meet the criteria outlined in section 324(1) of the Social Security Act 2018.

granted and the client is not entitled to any provisional benefit paid i.e., they must repay this amount.

No changes are being made to these settings as part of Phase One of the Traffic Light System.

## Introduction

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During the 2023 election, the National Party made a manifesto commitment to introduce a range of policies focused on reducing benefit dependency. One of these proposals was the introduction of a Traffic Light System (TLS) for clients with work-related obligations.

The purpose of the TLS is to communicate to clients that they must comply with their obligations or risk being sanctioned, and to expand the toolkit MSD staff have to respond to clients who are not meeting their obligations (without a good and sufficient reason).

The full TLS is intended to:

- assign a traffic light colour (Green, Orange or Red) to clients who are subject to the TLS, to indicate the current status of their compliance with their obligations,
- introduce non-financial sanctions as an alternative to a financial sanction, where a case manager has deemed this appropriate for a client,
- change the period of a time an obligations failure is counted for.<sup>5</sup>

Full implementation was planned to be on 1 July 2025, however a decision was made to bring forward changes that do not require legislative amendment.<sup>6</sup> Phase One of the TLS will go live on 12 August 2024, with a Bill for the Phase Two changes expected to be introduced in the House in November 2024 and the further changes implemented on 26 May 2025.

## Legislative authority

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Sanctions for failing a work, work preparation or social obligation are authorised under Part 5 of the Social Security Act 2018 (the Act) and Part 5 of the Social Security Regulations

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<sup>5</sup> Non-financial sanctions and extending the time an obligations failure is counted both require legislative change. These will be implemented as part of Phase Two.

<sup>6</sup> REP 24/05/503 refers.

2018. These provisions already allow for the practice changes in Phase One of the TLS, meaning no further legislative authority is required for this phase.

## **Clients who are subject to the Traffic Light System**

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The manifesto document indicated that the focus of the TLS was to be on work obligations. However, changes to a client's traffic light colour are triggered by obligation failures and sanctions, which can be initiated when a client fails a work, a work preparation, or a social obligation. Because these three obligation types are part of the current graduated sanction regime, any client who has one of these obligations will be designated a relevant traffic light colour. This includes clients with a current exemption or deferral from one of these obligations.

For the avoidance of doubt, clients who do not have work, work preparation, or social obligations will not be assigned a traffic light colour e.g. a client who only receives Accommodation Supplement as a non-beneficiary.

### **Youth Service clients**

Clients in receipt of Youth Payment or Young Parent Payment are also subject to a graduated sanction regime, but these are generally related to education and training obligations and the sanctions are different than those for working-age clients. Initial design work did not anticipate the inclusion of Youth Service clients.<sup>7</sup>

A late decision was made to include clients with youth activity obligations into the TLS to ensure consistency between cohorts. This is unable to be delivered in time for 12 August 2024, but is expected to be included in Phase Two. This will only apply to the assignation of a traffic light colour; no changes will be made to the types of sanctions MSD can impose on a Youth Service client who fails an obligation.

## **Movement between traffic light colours**

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The TLS is a communications tool, to better help clients understand their benefit obligations and how well they are currently meeting them. The messaging of each colour is as follows:

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<sup>7</sup> This includes clients in receipt of Youth Payment or Young Parent Payment with a partner on a work-age benefit.

- **Green** – a client is complying with their obligations and no intervention is required,
- **Orange** – MSD has issued a client with a notice stating they have failed to meet an obligation and they have five working days within which to dispute the failure,
- **Red** – a client is actively sanctioned and has not yet recomplied.

A client's traffic light colour will change in the system based on whether an obligations failure process has been initiated and how far through this process they are. The assigning of a traffic light colour is purely operational, and is unrelated to the type of activity or obligation a client has failed, or a client's current failure count i.e., having one or two previous obligation failures recorded does not affect the colour a client is showing as.

- A client will show as Green when they are currently compliant with their obligations,
- A client will show as Orange when MSD has initiated an obligations failure and it is within the five working day dispute period. **Note** as per existing policy and legislation, MSD must be satisfied that a client does not have a good and sufficient reason for not meeting an obligation **before** initiating an obligation failure and issuing the required notice,
- A client will show as Red when the five working day dispute period has passed, and a financial sanction has been imposed.

When the obligations failure has been resolved (i.e., when a client has either successfully disputed the failure or has recomplied), a client's traffic light colour will return to Green.

For clients who reach a grade 3 sanction and are subject to a 13-week non-entitlement period, their 'light' will continue to show as Red until either the 13-week period has passed, or they have completed a 6-week compliance activity. This is to help a client understand that the grade 3 sanction is not considered to be resolved until one of these two things has occurred.

## Assigning additional activities

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As well as introducing the traffic light colours, Phase One of the TLS is intended to reinforce focus on employment and seek ways to better support clients while they are preparing for or pursuing work. To achieve this, MSD may increase the number of activities or training opportunities a client is asked to complete.

At the time a client resolves an obligations failure, MSD should consider whether allocating additional activities or support would be appropriate for their individual circumstances. These activities must align with the type of obligations to which a client is subject to e.g.,



a client with work-preparation obligations should only be referred to services that will support them to prepare for work.

### *Example 1*

Bonnie is receiving Jobseeker Support and has full-time work obligations. On 2 September, she slept in and missed a seminar that her case manager had asked her to attend. When her case manager called to find out where she was, she explains what happened. Because this is not a good and sufficient reason for failing to attend, her case manager initiates an obligations failure, and her traffic light colour turns Orange. Bonnie makes an appointment for 4 September, where her case manager assigns a recompliance activity to go to a meet-and-greet event with a local employer the following day. Bonnie attends this event, her case manager is satisfied she has recomplied with her obligations, and her traffic light colour returns to Green. Her obligation failure count is now one.

Even though Bonnie has just completed an activity, Bonnie's case manager knows she is having a bit of trouble finding work on her own and thinks it would be beneficial to include her in a couple of seminars that are being held in the next two weeks. Bonnie is set an activity to attend both seminars, which will help with her job search as well as maintaining compliance with her work obligations.

### *Example 2*

Mikaere is receiving Jobseeker Support and currently has work-preparation obligations while he recovers from a serious illness. His local office knows that he's not able to work right now but should be able to in the near future. They ask Mikaere to come in on 14 October to attend a seminar focused on building confidence for people who are returning to the workforce after a period of unemployment. The weather was bad and he didn't want to go outside that day, so he didn't go to the seminar. He called the contact centre to explain why he didn't go and this is noted on his record. When the office checks to see if he's been in touch, they see the note and decide this was not a good enough reason for not attending the seminar. They initiate an obligations failure and Mikaere's traffic light colour turns Orange.

Mikaere attends an appointment on 17 October and it turns out the same seminar is being run that afternoon. He attends this time, a case manager is satisfied he has recomplied with his obligations, and his traffic light colour returns to Green. His obligation failure count is now one. The case manager knows from the conversation they had with Mikaere that he's well-prepared to look for work when he's ready to, and has clearly advised him what his obligations are. There aren't any other seminars they can offer him while he's still unable to work. They determine that additional activities aren't suitable at this time.

### *Example 3*

Dinesh is receiving Sole Parent Support and has part-time work obligations, as his youngest child is 5 years old. He was asked to attend a CV writing seminar on 5 November, but he already had lunch plans with a friend, so he didn't go. When the office followed up on why he wasn't at the seminar, he explained where he was, and the case manager decides this was not a good and sufficient reason. An obligations failure is initiated, and his traffic light colour turns Orange.

Dinesh knows he needs to make a time to come into the office for a recompliance appointment, but he forgets to book one until he gets a letter on 14 November to say that his benefit has been reduced by 50% and his traffic light colour has turned Red. He immediately calls to book his appointment and the office arranges for him to come in the next day. The case manager has a robust discussion with Dinesh to go over what his obligations are and what is expected of him, to help ensure this doesn't happen again. He is rebooked into the same seminar for the following week and this time he attends. The case manager is now satisfied Dinesh has met his obligations, so his payments return to the full rate and his traffic light colour goes back to Green. Based on the conversation they had at his recompliance appointment, the case manager also decides it would be helpful for Dinesh if they book him for another seminar in a weeks' time to help keep him on track with his search for work.

### **Clients with only social obligations**

If a client's relevant obligations are social obligations only, additional activities would not be appropriate. For example, a sole parent who qualified for Supported Living Payment through simplified access<sup>8</sup> has social obligations in relation to any child/ren included in their benefit but will never have work or work-preparation obligations. There are no additional activities necessary to support a person to meet their social obligations.

### **Failure to complete additional activities**

Additional activities should only be assigned after giving consideration to a client's individual circumstances, including what type of obligations they have and whether the activity is suitable for them. A client does not need to agree to the assigning of additional activities. If a client chooses not to complete any additional activities they have been asked

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<sup>8</sup> Simplified access to Supported Living Payment means a client will never have their capacity to work reassessed. This is when a client is totally blind, terminally ill, has a severe intellectual or cognitive impairment, or has a disorder that has deteriorated their condition to the extent that it severely impacts on their ability to function and is unlikely to improve.



to complete without a good and sufficient reason, this should be treated as a new obligation failure.

## Reviews and appeals

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Clients will be notified of any decision to impose an obligations failure and will have the standard review and appeal rights available to them should they want to review the decisions made.

## Appendix 1 – Cabinet minutes/Ministerial authority

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[SIGNED REP 24 5 412 Policy decisions and options to progress the Traffic Light System \(A16229827\)](#)

[SIGNED REP 24 5 503 Further design decisions to implement the Traffic Light System \(A16244241\)](#)

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