



Report

Date: 7 February 2019 **Security Level:** IN CONFIDENCE

To: Hon Grant Robertson, Minister of Finance
Hon Phil Twyford, Minister of Housing and Urban Development
Hon Chris Hipkins, Minister of Education
Hon Carmel Sepuloni, Minister for Social Development
Hon Dr David Clark, Minister of Health
Hon Ron Mark, Minister for Veterans
Hon Tracey Martin, Minister for Children

2019 Annual General Adjustment to Rates and Thresholds for Financial Assistance

Purpose of the report

- 1 This report seeks your agreement to increase from 1 April 2019:
 - rates of New Zealand Superannuation and Veteran's Pension by 2.57 percent to keep the net married couple rate at a minimum of 66 percent of the net average wage, as agreed to by Cabinet
 - rates and thresholds for benefits and allowances and various forms of supplementary assistance by 1.69 percent in line with the increase over the year to December 2018 in the consumers price index (all groups less cigarettes and tobacco subgroup).

Executive summary

- 2 The Annual General Adjustment (AGA) involves an annual increase to:
 - rates of New Zealand Superannuation and Veteran's Pension
 - rates and some thresholds for main benefits (including Youth Payment and Young Parent Payment), Student Allowances, Student Loan Living Costs and Foster Care Allowance
 - rates and some thresholds for supplementary assistance
 - thresholds for the Community Services Card.

- 3 Financial assistance is adjusted using the increase in the consumers price index (CPI) to ensure that rates and thresholds do not have their real value reduced over time. As agreed by Cabinet, the CPI increase to be used for the 2019 AGA excludes the impact of the rise in tobacco excise tax [CAB-16-MIN-0189 refers]. The increase in the adjusted CPI figure for the year ending 31 December 2018 is 1.69 percent.
- 4 The increase of 2.57 percent to the net rates of New Zealand Superannuation and Veteran's Pension keeps the net married couple rate at a minimum of 66 percent of the net average wage.
- 5 Cabinet has delegated authority for approving changes to rates and thresholds included in the AGA to the Minister of Finance and Ministers responsible for New Zealand Superannuation, Veteran's Pension, social security benefits and allowances, the Community Services Card and Student Allowances.
- 6 This paper seeks your agreement to increase these rates and thresholds from 1 April 2019. These increases require regulatory changes to be made. Decisions are required by 12 February 2019 to ensure changes can be implemented by 1 April 2019.

Recommended actions

It is recommended that you:

- 1 **approve** new rates of New Zealand Superannuation and Veteran's Pension from 1 April 2019 to keep the net married couple rate at a minimum of 66 percent of the net average wage, as set out in the Appendix

Agree / Disagree	Agree / Disagree	Agree / Disagree	Agree / Disagree	Agree / Disagree	Agree / Disagree	Agree / Disagree
Hon Grant Robertson	Hon Phil Twyford	Hon Chris Hipkins	Hon Carmel Sepuloni	Hon Dr David Clark	Hon Ron Mark	Hon Tracey Martin

- 2 **approve** new rates and thresholds for main benefits, Student Allowances, Student Loan Living Costs and Foster Care Allowance to take effect from 1 April 2019, based on a CPI increase of 1.69 percent, as set out in the Appendix

Agree / Disagree	Agree / Disagree	Agree / Disagree	Agree / Disagree	Agree / Disagree	Agree / Disagree	Agree / Disagree
Hon Grant Robertson	Hon Phil Twyford	Hon Chris Hipkins	Hon Carmel Sepuloni	Hon Dr David Clark	Hon Ron Mark	Hon Tracey Martin

- 3 **approve** new rates and thresholds for supplementary assistance to take effect from 1 April 2019, based on a CPI increase of 1.69 percent (as well as some income thresholds for Disability Allowance and the Community Services Card which are based on the increase in New Zealand Superannuation) as set out in the Appendix

Agree / Disagree	Agree / Disagree	Agree / Disagree	Agree / Disagree	Agree / Disagree	Agree / Disagree	Agree / Disagree
Hon Grant Robertson	Hon Phil Twyford	Hon Chris Hipkins	Hon Carmel Sepuloni	Hon Dr David Clark	Hon Ron Mark	Hon Tracey Martin

Recommendations 4-6 are for the Minister for Social Development, Minister of Health and Minister for Children only

- 4 **note** that a Cabinet paper seeking approval to submit the required regulatory changes and Orders in Council to give effect to these changes will be provided on 12 February 2019 for submission to the Cabinet Office on 14 February 2019, for consideration by the Cabinet Legislation Committee on 19 February 2019 and Cabinet and the Executive Council on 25 February 2019
- 5 **note** that this Cabinet paper will mainly affect the Social Development portfolio, with minor changes affecting the Children portfolio due to Foster Care Allowance and the Health portfolio due to the Residential Care and Disability Support Services Regulations and the Community Services Card
- 6 **agree** that the Minister for Social Development will present this paper on behalf of the Minister of Health and Minister for Children

Agree / Disagree	Agree / Disagree	Agree / Disagree
Hon Carmel Sepuloni	Hon Dr David Clark	Hon Tracey Martin

7 **note** there are regulatory changes required for three remedial matters, which overlap with the changes required for the Annual General Adjustment. All four sets of changes will be progressed together to provide efficiencies for Cabinet, the Parliamentary Counsel Office and officials

8 **note** that the Treasury, Ministry of Health, Ministry of Housing and Urban Development, Ministry of Education, Inland Revenue, Oranga Tamariki–Ministry for Children and Veterans’ Affairs New Zealand have been consulted and support these recommendations

9 **agree** to forward a copy of this report to the Minister of Revenue for his information.

Agree / Disagree	Agree / Disagree	Agree / Disagree	Agree / Disagree	Agree / Disagree	Agree / Disagree	Agree / Disagree
Hon Grant Robertson	Hon Phil Twyford	Hon Chris Hipkins	Hon Carmel Sepuloni	Hon Dr David Clark	Hon Ron Mark	Hon Tracey Martin

s 9(2)(a)
Policy Manager
Employment and Income Support Policy

Date

<hr/> Hon Grant Robertson Minister of Finance <hr/> Date	<hr/> Hon Phil Twyford Minister of Housing and Urban Development <hr/> Date	<hr/> Hon Chris Hipkins Minister of Education <hr/> Date	<hr/> Hon Carmel Sepuloni Minister for Social Development <hr/> Date	<hr/> Hon Dr David Clark Minister of Health <hr/> Date
<hr/> Hon Ron Mark Minister for Veterans <hr/> Date	<hr/> Hon Tracey Martin Minister for Children <hr/> Date			

Various rates and thresholds are adjusted each year as part of the AGA

- 7 The AGA delivers an annual increase to:
 - rates of New Zealand Superannuation and Veteran's Pension
 - rates and some thresholds for main benefits (including Youth Payment and Young Parent Payment), Student Allowances, Student Loan Living Costs and Foster Care Allowance¹
 - rates and some thresholds for supplementary assistance
 - thresholds for the Community Services Card.
- 8 There is a legislative requirement to adjust, with effect from 1 April² each year, the rates of New Zealand Superannuation, Veteran's Pension, the main social security benefits, Student Allowances and the Foster Care Allowance. Other rates and thresholds have been adjusted annually by convention. The adjustments have occurred every year since the early 1990s.³
- 9 The real value of assistance over time is preserved by adjustments based on inflation measures. Cabinet has agreed to use the consumers price index for all groups less cigarettes and tobacco subgroup [CAB-16-MIN-0189 refers]. This will prevent ongoing increases in tobacco excise and any other price changes for tobacco products from flowing through to increases in financial assistance. References to the CPI in this report should be read as references to the consumers price index for all groups less cigarettes and tobacco subgroup.
- 10 The net married couple rate of New Zealand Superannuation and Veteran's Pension is kept at a minimum of 66 percent of the net average wage, as agreed to by Cabinet.
- 11 The increase in the CPI for all groups less cigarettes and tobacco subgroup for the year ending 31 December 2018 is 1.69 percent (as calculated by Stats NZ). This compares with the headline CPI increase of 1.9 percent, which includes cigarettes and other tobacco products.
- 12 There is another AGA for the asset thresholds and income-from-asset exemptions for the Residential Care Subsidy.⁴ These amounts are increased from 1 July every year, using the CPI movement over the year to March 2019. The Minister of Health and the Minister for Social Development hold joint responsibility for the Cabinet paper for that process.

¹ While Foster Care Allowance is treated like a main benefit for the purposes of the AGA, it is not strictly a main benefit as its purpose is to cover board, personal items and pocket money for foster children, rather than to replace income. The birthday, Christmas and clothing allowances that are paid with Foster Care Allowance are also conventionally adjusted by the CPI through Oranga Tamariki internal processes.

² All references to 'from 1 April', include on and from 1 April.

³ In 2016, the CPI was negative. Most rates and thresholds were not adjusted.

⁴ The changes to the Residential Care Subsidy are not included in the 1 April AGA because a 1 July date aligns better with the District Health Boards' pay cycle.

Given the range of rates and thresholds in scope for the AGA, multiple Ministers are involved

- 13 In 2002, Cabinet delegated the authority for approving AGA adjustments to the Minister of Finance and the Ministers responsible for New Zealand Superannuation, Veteran's Pension, social security benefits and allowances, the Community Services Card and Student Allowances [CAB Min (02) 7/1A refers].
- 14 Consequently, officials seek your agreement to increase rates and thresholds from 1 April 2019.
- 15 Ministers need to make decisions outlined in this paper by 12 February 2019. This will allow time to amend the various regulations that need to be amended to account for the updated rates and thresholds.
- 16 The regulatory changes that are part of the AGA will mainly affect the Social Development portfolio, with minor changes affecting the Children portfolio due to Foster Care Allowances and the Health portfolio due to the Residential Care and Disability Support Services Regulations and the Community Services Card. Officials recommend that only the Minister for Social Development presents the Cabinet paper and instruments to the Cabinet Legislation Committee (LEG). This is because the AGA process works on a tight timeframe and having one Minister take the paper and instruments to LEG and Cabinet and the Executive Council will streamline the process.
- 17 The following sections of this paper outline the items to be adjusted in the 2019 AGA. The rates and thresholds for each item are included in the Appendix.⁵

Various rates and thresholds are part of the AGA

New Zealand Superannuation and Veteran's Pension

- 18 Legislation sets out a two-step process that must be followed for the annual adjustment of rates of New Zealand Superannuation and Veteran's Pension:
 - the net weekly rates must be adjusted on 1 April each year in line with any annual percentage increase in the CPI for the year ending the previous 31 December
 - the net weekly amount payable to a married/civil union/de facto couple must not be less than 65 percent, or more than 72.5 percent, of the net average wage
 - the single living alone and single sharing rates must be adjusted to be 65 percent and 60 percent of the net married couple rate respectively.
- 19 Cabinet has agreed for the net married rate of New Zealand Superannuation and Veteran's Pension to not be set below 66 percent of the net average wage (ie higher than the minimum level required by legislation). This cost has already been included in budget forecasts.

⁵ The 'opening rates' columns in the tables in this appendix are dated '01/07/2018'. This is because as part of the Families Package, some payments and thresholds were increased (and the Best Start Tax Credit was introduced) on 1 July 2018. The AGA model was updated accordingly, hence why the 'opening rates' columns are dated 01/07/2018. The vast majority of these figures were not affected by the Families Package, so are actually the same as at 1 April 2018 (ie the last AGA).

- 20 Following the CPI increase of 1.69 percent, the net weekly amount of New Zealand Superannuation and Veteran's Pension for a married couple from 1 April 2019 (\$627.14) would be 65.44 percent of the net average wage (\$958.38).
- 21 A further adjustment will therefore be included in the AGA to meet the minimum 66 percent commitment this year. This additional increase means that the net amount of New Zealand Superannuation and Veteran's Pension for a married couple will increase by a further \$5.40 a week this year to \$632.54 to give a total increase of 2.57 percent over 1 April 2018 rates. The single living alone and single sharing rates will be set at 65 percent and 60 percent of this figure respectively as per usual.
- 22 The adjusted rates of New Zealand Superannuation and Veteran's Pension are included in the Appendix for your approval.
- 23 To avoid the consequential impact of the AGA causing some superannuitants to lose entitlement to the Community Services Card and Disability Allowance, additional increases will be made to some superannuitant specific Community Services Card and Disability Allowance income thresholds in accordance with a Cabinet decision made in 2015 [CAB-15-MIN-0273 refers].

Main Benefits

- 24 Main benefits are weekly benefits paid to people who are:
- currently unemployed (Jobseeker Support)
 - unable to work due to sickness, disability or caring responsibilities (Supported Living Payment, Sole Parent Support)
 - young people whose parents are unable to support them (Youth Payment)
 - young parents aged 16 – 19 who are in need of financial assistance (Young Parent Payment)
 - caring for a child whose parents are unable to provide support (Foster Care Allowance, Orphan's Benefit and Unsupported Child's Benefit).
- 25 Main benefits will be increased in line with the CPI increase of 1.69 percent. The abatement-free income threshold associated with the Youth Payment and Young Parent Payment will also be increased in line with the CPI, so that it continues to align with the equivalent Student Allowance threshold.
- 26 A full list of all main benefits showing current rates and new rates is in the Appendix.

Student Allowances and Loans

- 27 Support for living costs while studying is provided through:
- Student Allowances – grants for living costs for students from low or middle-income backgrounds
 - the Student Loan Scheme (living costs component) – students can access a living costs component that is paid weekly. This is available to students who do not qualify for Student Allowance, or as a top-up if they do not receive a rate of Student Allowance that is equal to or more than the living costs amount.
- 28 Legislation passed in 2010 provides that rates of Student Allowances must be adjusted for upward movement in the CPI on 1 April each year. Thresholds are adjusted by the CPI as a matter of convention. The abatement-free income thresholds are also adjusted by CPI as a matter of convention for Student

Allowances. Living costs have been CPI adjusted since 1 April 2009 [CAB Min (08) 14/1(46) refers].

- 29 In 2015, Cabinet agreed to maintain the Student Allowance parental income threshold (the point above which parental income reduces the amount of Student Allowance received by students under the age of 24) without CPI adjustment until 31 March 2019 [CAB Min (15) 12/2(30)]. CPI adjustments resume for this item at 1 April 2019.
- 30 A full list of all Student Allowance and Student Loan Living Cost rates and thresholds is in the Appendix.

Supplementary assistance

- 31 The term “supplementary assistance” refers to a wide range of different payments that are provided for particular costs, and are extended to those with greatest need (subject to meeting eligibility criteria). These payments are often received by beneficiaries, superannuitants and veteran pensioners, but are also paid to some people who do not receive benefits (eg working people on low-to-middle incomes may receive AS and Childcare Assistance).
- 32 Approximately 40 items of supplementary assistance are, by convention, subject to annual CPI adjustments, with increases to Childcare Assistance, Disability Allowance and Child Disability Allowance making up most of the cost. This CPI adjustment ensures that rates and thresholds do not have their real value reduced over time. A CPI adjustment has occurred every year since the early 1990s. Adjustments may include the rate of assistance and/or income and asset testing thresholds.
- 33 A list of all supplementary payments that are annually adjusted using the CPI is in the Appendix, along with the proposed new rates and thresholds.

Home Help

- 34 Home Help is a payment that provides financial assistance to people who require temporary part-time help to complete tasks such as laundry, housework and food preparation. This could be because of a multiple birth, or because a person requires other domestic support.
- 35 The rate payable for Home Help is raised in line with the percentage increase in the minimum wage, in accordance with a Cabinet decision made in 2005 [CAB Min (05) 13/7(53) refers]. Increasing the Home Help rate in line with increases in the minimum wage ensures that the programme continues to provide enough assistance to pay wages for Home Help workers.
- 36 Cabinet approved an increase to the Minimum Wage of \$1.20 in December 2018 (from \$16.50 to \$17.70 from 1 April 2019) [DEV 18-MIN-0309] refers. The new Home Help rate will therefore be \$20.13 (including holiday pay) from 1 April 2019 (up from \$18.77).

Community Services Card

- 37 The Community Services Card (CSC) is available to low- or middle-income earners to enable them and their families to access subsidised health services.
- 38 Raising the income thresholds ensures that people on low-to-middle incomes retain their eligibility for the subsidies provided by the CSC.

- 39 Increasing income thresholds in line with the 1 April 2019 CPI adjustment is not expected to impact significantly on the overall number of people eligible for the CSC. Some people who are currently over the threshold may become eligible for the CSC from 1 April 2019. Those most likely to qualify will be earners on lower incomes. This is expected to carry a small fiscal cost.
- 40 To avoid the consequential impact of the AGA causing some superannuitants to lose entitlement to CSC, additional increases will be made to some superannuitant-specific CSC income thresholds as decided by Cabinet in 2015 [CAB-15-MIN-0273 refers].
- 41 The current and proposed CSC income thresholds from 1 April 2019 for those receiving New Zealand Superannuation and those in other circumstances are shown in the Appendix.

Disability Allowance

- 42 Disability Allowance covers additional costs related to the client's disability. The amount paid is estimated in relation to the actual costs that have been or will be incurred on a regular basis.
- 43 To avoid the consequential impact of the AGA causing some superannuitants to lose entitlement to Disability Allowance, additional increases will be made to the single without dependent children and married Disability Allowance thresholds as decided by Cabinet in 2015 [CAB-15-MIN-0273 refers]. This means that some non-beneficiaries could also gain, as these rates are not specific to superannuitants.

There are a number of consequential adjustments that also need to be made as part of the AGA

- 44 The design of the social assistance system includes a number of links between the rates and thresholds for different types of assistance. This means that changes to rates or thresholds for some forms of assistance increase the rates or thresholds for other types of assistance.
- 45 One example is the income threshold at which people who do not receive main benefits have their AS abated. This threshold is set at the cut-out point for Jobseeker Support. This ensures that people with earned income equivalent to Jobseeker Support receive the same amount of AS as those who receive Jobseeker Support.
- 46 As part of the AGA, the following rates and thresholds will change:
 - AS entry thresholds
 - AS income abatement thresholds for non-beneficiaries
 - AS income limits for New Zealand Superannuation and Veteran's Pension
 - maximum Social Rehabilitation Assistance Payments (based on the maximum Disability Allowance rate)
 - maximum rate of Employment Transition Assistance (equivalent to single Supported Living Payment rate)
 - Special Assistance to the Rural Sector (equivalent to Jobseeker Support rate)
 - Student Allowance Transfer Grant (equivalent to the relevant benefit payment).

The AGA amounts to an increase in expenditure that is already included in budget forecasts

- 47 The impact of the AGA is already included in budget forecasts. The annual CPI increase of 1.69 percent is lower than the 1.70 percent figure assumed in the Half-Year Economic and Fiscal Update 2018 (HYEFU). This will result in a slight decrease in forecast expenditure for main benefits compared to HYEFU 18. In Table 1 below the change to appropriations is considered sufficiently marginal that it has been left as \$0 each year.
- 48 The CPI impact is offset by the higher-than-expected wage result, which means expenditure for New Zealand Superannuation and Veteran's Pension will be higher than expected at HYEFU 18 (Table 1 refers).

Table 1: Net of Tax Impact of the AGA on Existing HYEFU Baseline (\$ million)

	2018/19	2019/20	2020/21	2021/22	2022/23	Five Year Totals
NZ Superannuation and Veteran's Pension	\$3.6	\$11.0	\$0.0	\$0.0	\$0.0 ⁶	\$14.6
Income Tested Benefits and Student Allowances	(\$0)	(\$0)	(\$0)	(\$0)	(\$0)	(\$0)
Supplementary Allowances and Grants	(\$0)	(\$0)	(\$0)	(\$0)	(\$0)	(\$0)
Total Net Fiscal Cost (Vote: Social Development)⁷	\$3.6	\$11.0	\$0.0	\$0.0	\$0.0	\$14.6

- 49 While Table 1 above shows the expected impact on existing HYEFU forecasts, Table 2 shows the full 12-month expected expenditure due to the AGA (including the wage commitment for New Zealand Superannuation and Veteran's Pension).

⁶ There is no net impact in 2020/21 onwards because the wage assumptions have not been adjusted going forward – that is, the wage assumptions are the same. The impact in the 2018/19 and 2019/20 columns come from replacing the forecasted CPI and wage results with the actual CPI and wage result.

⁷ Due to rounding the yearly fiscal totals may not add up to the five-year totals.

50 The AGA adjustment to Vote: Social Development amounts to an increase in expenditure of \$423.6 million, representing the 12 months from April 2019 to March 2020 (Table 2). This is mainly due to the consumers price index result. The estimates will be adjusted as part of the Budget forecast round, along with the effects of updated CPI and wage forecasts from the Treasury.

**Table 2: Expected expenditure due to the AGA (\$ millions, net of tax) over the 12 months:
1 April 2019 to 31 March 2020**

	12 months expenditure
NZ Superannuation and Veteran's Pension	\$339.2
CPI impact	\$223.8
Wage commitment impact	\$115.4
Income Tested Benefits and Student Allowances	\$88.1
Supplementary Allowances and Grants	(\$3.6)⁸
Total Expenditure (for Vote Social Development benefits)⁹	\$423.6

Items not adjusted as part of the AGA

51 Not all forms of assistance are adjusted each year. The list below outlines some of the rates and thresholds not indexed:

- AS cash asset levels (last adjusted 1988)
- AS maximum rates
- Income abatement thresholds for main benefits
- Payment limits for various hardship costs
- Emergency Benefit/Hardship Benefits cash asset levels (last adjusted 1991)
- Away from Home Allowance
- Participation Allowance
- Guaranteed Childcare Assistance Payment and other payments associated with Youth Payment and Young Parent Payment, eg, the \$10 incentive payment (for education, parenting and budgeting obligations)
- The School and Year Start Up Payment and Establishment Grant payments for Orphan's Benefit and Unsupported Child's Benefit carers
- Rates of the Winter Energy Payment
- Income thresholds for Childcare Assistance.

8 This saving predominately comes from people who receive less, or lose eligibility to, AS due to an increase in main benefits (as outlined in paragraphs 56-58).

9 Note that numbers in the table may not add exactly due to rounding.

- 52 No decisions have been made to include adjustments to these rates in the AGA and no funding has been allocated to these in the HYEPU. Any increase to these items would require Cabinet approval and new funding.

The AGA affects a significant amount of people, with flow-on effects for particular groups as well

- 53 Based on current figures, about 1.2 million individuals are expected to receive increased financial assistance as a result of the AGA. This includes approximately:
- 775,000 people receiving New Zealand Superannuation and Veteran's Pension
 - 300,000 beneficiaries
 - 65,000 students receiving Student Allowance
 - 65,000 people receiving supplementary assistance only.
- 54 As at 1 April 2019, the increase in the Sole Parent Support rate will be \$5.64 per week in the hand (an increase from \$334.05 to \$339.69 a week) and the increase in the single Jobseeker Support rate for those over 25 will be \$3.64 (from \$215.34 to \$218.98). The impact on New Zealand Superannuation and Veteran's Pension is higher because of the wage commitment. The net married couple rate will increase by \$15.82 per week (from \$616.72 to \$632.54 net a week), an increase of 2.57 percent.

People receiving Temporary Additional Support or Special Benefit

- 55 Temporary Additional Support (TAS) and Special Benefit are both temporary payments, made to top up a person's weekly income to meet essential costs. These payments generally reduce by \$1 for every \$1 increase in a person's income. For this reason, some people receiving TAS or Special Benefit, who also receive a CPI adjusted main benefit, will not have an increase in income.

Beneficiaries receiving AS

- 56 Increasing main benefit rates will slightly reduce the amount of AS that many beneficiaries receive. In all cases the reduction in AS will be significantly smaller than the increase in the rate of main benefit, leaving beneficiaries better off overall.
- 57 This is an effect of the design of AS, which requires people to contribute a percentage of their benefit to accommodation costs (25 percent for renters and boarders and 30 percent for those paying mortgages). When a person receives an increase in benefit, a portion is tagged toward accommodation costs. As a result of this, the amount of AS they receive slightly reduces. This effect only applies to beneficiaries that are not receiving the maximum rate of AS.

Non-Beneficiaries receiving Accommodation Supplement

- 58 Increasing entry thresholds will mean that some non-beneficiaries will receive less financial assistance overall. In some cases any reduction resulting from an increase in the entry threshold will be offset by the increase in the income threshold, which reduces abatement. The rise in the cut-out point will also allow some currently ineligible non-beneficiaries to become eligible for small amounts of AS.
- 59 This higher entry threshold is the intended design of the system, where people are expected to contribute a minimum proportion of their income to their housing costs before they are eligible for extra financial support. This also reflects an implicit

assumption that the incomes of those in work are likely to increase each year, so families are likely to be better off overall after any wage increases.

Income-Related Rents and Income-Related Rent Subsidy

- 60 Many beneficiaries live in social housing properties and pay Income-Related Rents. Increasing the rates of benefit that beneficiaries receive will increase the amount of Income-Related Rents paid. Rent is charged at 25 percent of a tenant's net income up to a certain threshold.¹⁰ For income above this threshold, rent is charged at 50 percent of net income up to the market rate.
- 61 Income-Related Rents are reviewed annually on the anniversary of the commencement of the tenancy, and increases require a period of notice. Adjustments to beneficiaries' income made because of the AGA will not affect a tenant's rent until the annual rent review.
- 62 Any increase in rent will be more than offset by the increase in their Superannuation or main benefit income so that they will be better off overall.
- 63 Tenants whose income is not from a benefit and who earn above the 50 percent threshold will have a rent reduction if their income stays the same (as the threshold increases when New Zealand Superannuation increases).

Regulatory changes are required for the AGA

- 64 To give effect to the AGA changes, Orders in Council and amending regulations are required for rates of main benefits and allowances, Student Allowances, New Zealand Superannuation, Veteran's Pension, Foster Care Allowance, and the Community Services Card. A Cabinet paper will be provided by 12 February 2019, for submission to the Cabinet Office by 14 February 2019 for consideration by LEG on 19 February 2019 and Cabinet and the Executive Council on 25 February 2019.
- 65 Regulatory changes are also required in response to three remedial matters. As there are overlaps between the regulations for the AGA and these remedial matters, officials will progress all changes at the same time.

Technical matters following the rewrite of the Social Security Act 1964

- 66 As part of the rewrite of the social security legislation, 24 sets of regulations were rewritten and consolidated into two sets of regulations. The regulations that became the Social Security Regulations 2018 were explicitly revoked, but the regulations that became the Residential Care and Disability Support Services Regulations 2018 were only implicitly revoked. For clarity and to avoid doubt, we will explicitly revoke the now redundant Social Security (Long-Term Residential Care) Regulations 2005.
- 67 The Health Entitlement Cards Regulations currently have a reference to the now repealed Social Security Act 1964. For clarity, this reference will be removed.

Back-payments for the AS Boundaries Issue

¹⁰ For single tenants without children, the threshold is equivalent to the net New Zealand Superannuation Living Alone rate; for sole parents and married couples, the threshold is equivalent to the net New Zealand Superannuation Married couple rate.

- 68 AS area boundaries were required by the Social Security Act 1964 to align with the Government Statistician defined area boundaries. These AS boundaries were not always updated. The Families Package (Income Tax and Benefits) Act 2017 corrected this by including an amendment that fixed the AS area boundaries to Statistics New Zealand boundaries as at 26 June 2017. This means that AS area boundaries no longer need to be updated when Stats NZ updates boundaries.
- 69 However, there are approximately 1,700 current and past AS recipients affected by the historical error, with approximately 1,100 underpaid between January 2001 and 1 April 2018.
- 70 The Minister of Housing and Urban Development and the Minister for Social Development have agreed that MSD should proactively review clients' entitlements and make back-payments where these are owed.
- 71 Unless specifically exempted, a lump sum back-payment of AS may affect current eligibility to income- and cash asset-tested financial assistance. On 8 October 2018, Cabinet agreed to exempt these back-payments, and any income derived from them, from income and cash asset tests for a period of 12 months after receipt [CAB-18-MIN-0484 refers].
- 72 Cabinet agreed to amend the following regulations under the Social Security Act 1964:
- Social Security (Income and Cash Assets Exemptions) Regulations 2011
 - Social Security (Temporary Additional Support) Regulations 2005
 - Social Security (Long-term Residential Care) Regulations 2005.
- 73 As noted in paragraph 66, social security legislation has recently been rewritten. Under the new Social Security Act 2018, the equivalent regulations to the ones Cabinet agreed to amend are as follows:
- Social Security Regulations 2018
 - Residential Care and Disability Support Services Regulations 2018.

Consultation

- 74 The Ministry of Health, Ministry of Housing and Urban Development, Ministry of Education, Inland Revenue, Oranga Tamariki—Ministry for Children, the Treasury and Veterans' Affairs New Zealand have been consulted on the AGA and all agencies agree with the recommendations in this report.

Next steps

- 75 Subject to the approval of the Minister of Health, Minister for Social Development and Minister for Children, a Cabinet paper will be provided to the Minister for Social Development by 12 February 2019. This paper will be submitted to the Cabinet Office by 14 February 2019 for consideration by LEG on 19 February 2019 and Cabinet and the Executive Council on 25 February 2019.
- 76 Welfare Programmes and Ministerial Directions will also require amendments. These will be provided to the Minister for Social Development by 26 February 2019 for approval.

77 The adjustment of the Decorations Allowance rate under the Veterans' Support Act 2014 to account for the increase in the CPI is the subject of a separate paper, which has been prepared by Veterans' Affairs New Zealand and is being provided to the Minister of Finance and Minister for Veterans alongside this paper.

File ref: REP/19/1/003

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