



Report

Date: 20 November 2020

Security Level: BUDGET SENSITIVE

To: Hon Carmel Sepuloni, Minister for Social Development and Employment

Implementation advice on increasing main benefits and complementary changes to other settings

Purpose of the report

1. You have indicated that you want to progress a Cabinet paper for consideration on 7 December 2020 seeking agreement to a main benefit increase of \$25 per week and complementary changes to other income support settings.
2. This paper provides more detailed implementation and policy advice on these options and considers the flow-on implications to rates of student support. Appendix One also includes refined costings and distributional impacts using the Ministry of Social Development's (MSD) administrative data.

Recommended actions

It is recommended that you:

- 1 **agree** to progress a Cabinet paper for consideration on 7 December 2020 seeking approval to:
 - 1.1 increase rates of main benefits by \$25 per week per adult
 - 1.2 remove the cliff-face abatement for the Temporary Additional Support disability exception and allow this exception amount to fully meet the first \$100 of excess disability costs (instead of a partial subsidy)
 - 1.3 change the definition of income for Childcare Assistance to exclude other supplementary payments (such as Accommodation Supplement) as income.
- 2 **note** that following reprioritisation within the existing work programme, all the changes referred to in recommendation 1 above can be implemented on 1 April 2021 if Cabinet decisions are made on 7 December 2020;
- 3 **note** that while the changes in recommendation 1 above will remove the need to do Transitional Assistance Payments for any future changes to main benefits, a Transitional Assistance Payment would still be required for 1 April 2021 and approval for this payment will be sought through the Cabinet paper;

4 s 9(2)(f)(iv)

5 s 9(2)(f)(iv)

Yes/No

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s 9(2)(f)(iv)



Yes/No

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agree to forward a copy of this report to the Ministers for Child Poverty Reduction, Finance, Children, Education and Revenue.

Yes/No

Handwritten signature of Fiona Carter-Giddings in black ink.

Fiona Carter-Giddings
General Manager, Welfare System and
Income Support

19/11/2020

Date

Handwritten signature of Hon Carmel Sepuloni in blue ink.

Hon Carmel Sepuloni
Minister for Social Development and
Employment

21/11/20

Date

Complementary changes to other income support settings

Background

3. You have indicated that you want to progress a Cabinet paper for consideration on 7 December seeking agreement to a main benefit increase of \$25 per week per adult on 1 April 2021.
4. Main benefit increases impact entitlement to many other income support payments. To mitigate some of these impacts, you agreed to progress complementary changes to income support settings:
 - change the definition of income for Childcare Assistance to exclude other supplementary payments as income;
 - remove the cliff-face abatement for the Temporary Additional Support (TAS) disability exception and allow the TAS disability exception amount to fully meet the first \$100 of excess disability costs (instead of a partial subsidy);
 - s 9(2)(f)(iv)
5. This paper provides more detailed implementation and policy advice on the complementary options above and considers the flow-on implications to rates of student support. Appendix One also includes refined costings and distributional impacts using MSD administrative data.

Changing the definition of income for Childcare Assistance to exclude other supplementary payments

6. Some benefit assistance is considered income when determining eligibility for Childcare Assistance. This means small increases in incomes due to income support changes can result in relatively large reductions in overall assistance.
7. You have signalled that you would like to change the definition of income for Childcare Assistance to exclude other supplementary payments as income. This would help simplify the system, ensure consistency with other supplementary payments, better support employment outcomes and prevent people from being financially disadvantaged due to flow-on impacts.
8. This change will benefit around 2,100 working families with children, primarily sole parents, by around \$25 per week. It is estimated to cost around \$5.6m per year and \$28.7m over the five-year forecast period.
9. After undertaking an internal reprioritisation of the existing work programme, MSD can implement this change on 1 April 2021 alongside changes to main benefit and benefit abatement increases (instead of 1 July 2021 as previously signalled).
10. MSD will continue to progress a Budget 2021 bid for a wider suite of changes to improve the adequacy and administration of Childcare Assistance.

Removing the cliff-face abatement for the TAS disability exception and allow the TAS disability exception amount to fully meet the first \$100 of excess disability costs

11. Generally, clients can receive a maximum of 30 percent of their main benefit rate in TAS (the upper limit). Clients with high disability costs can receive support over this upper limit through the disability exception. The disability exception amount is calculated as 30 percent of the client's excess disability costs (total disability costs minus their Disability Allowance).
12. Due to a technical anomaly in the TAS formula, a small number of people on the TAS upper limit can receive more support for disability costs than the amount of disability costs claimed in TAS. Clients with high disability costs can therefore face a significant reduction in their income because of small changes to income support settings, or changes in circumstances, resulting in the complete loss of the disability exception.
13. You have agreed to amend the TAS formula so that the TAS disability exception better reflects disability costs by removing this double counting and the cliff-face abatement.

At the same time, it is proposed that the disability exception amount would be changed so that it meets the first \$100 of excess disability costs in full (rather than a partial subsidy). The remaining costs would continue to be subsidised at the current co-payment rate of 30 percent.

14. The changes above are expected to benefit around 1,600 people with high disability costs by an average of \$24 per week (in addition to any gains from the main benefit increase itself). It is estimated to cost around \$1.9m per year and \$8.5m over the five-year forecast period.
15. This change is consistent with the intent of a number of the recommendations made by the Welfare Expert Advisory Group, including recommendations related to reforming supplementary and hardship assistance to improve adequacy and improving the health and wellbeing of people with health conditions and disabilities.
16. As well as providing increased income support to people with high disability costs, this change will prevent any future instances of financial disadvantage if they have a change in circumstance and/or have an increase in income. Therefore, Transitional Assistance Payments will no longer be required for people with high disability costs in future years.
17. However, it is important to note that on 1 April 2021, 166 people with disability costs are still estimated to be financially disadvantaged when the change comes into effect. This is because some people will be worse off as they will no longer benefit from the anomaly in the TAS formula.
18. However, the number of people worse off is only slightly higher than the number of people who would be expected to be financially disadvantaged if a main benefit increase was progressed on its own. It is proposed that they will be compensated through a Transitional Assistance Payment on 1 April 2021.
19. After reprioritising the existing work programme, MSD can implement this change on 1 April 2021 alongside changes to main benefit and benefit abatement increases (instead of 1 July 2021 as previously signalled).

s 9(2)(f)(iv)



26. s 9(2)(f)(iv)

Implications of benefit increases for student loans and allowances

27. Officials noted in previous advice that further analysis is required to consider the impacts of main benefit increases on rates of student allowances and loan living cost support.¹ This is to ensure equitable outcomes across both population groups and to maintain appropriate incentives to study.
28. Policy responsibility for student support sits with the Minister of Education. This report provides some initial advice on the benefit and student interface. MSD recommend you forward this paper to the Minister of Education and discuss with him the implications of benefits increases for student loans and allowances.
29. Historically, the underlying base rates of the student support and benefit systems were aligned. However, the \$50 weekly increase to student allowance and student loan living cost rates in 2018 shifted that alignment in students' favour. The \$25 weekly increase to main benefits earlier this year improved relativities between the two sets of rates, but the base rates of main benefit are currently around \$25 per week lower.
30. However, to accurately compare government living support for students and beneficiaries, it is important to consider the additional accommodation assistance provided for each group. Student allowance recipients can receive the Accommodation Benefit whereas main benefit recipients receive AS instead.
31. When making this comparison, some people can receive less through student support than main benefits, particularly those with higher housing costs and students who rely solely on student loan living costs and do not receive any accommodation assistance². This is because, under current settings, tertiary students are expected to contribute to the cost of tertiary study from private sources. This is a deliberate design choice and should be considered in the context of any consequential decisions on rates of student support.
32. However, due to COVID-19, the Ministry of Education note that opportunities for students to work part-time continue to be scarce. For some people, the proposal to increase benefit rates would increase the gap in living support available through the benefit and student support systems. If people perceive that they are financially better off in the benefit system, they may choose to withdraw from study or choose to remain on benefit. This is more likely to be the case for those living in main urban, centres where accommodation costs are high, and for people who are Māori, Pacific, disabled or from lower socio-economic backgrounds.
33. Appendix Two provides more detailed comparisons of support received between the two systems.

¹ These policies interact with one another, so any increase needs to be consistently applied to both. For example, a student who is not eligible for a full allowance can borrow for student loan living cost to make up the difference to the maximum loan entitlement.

² Sole parents receiving a student allowance are paid the AB at the rate of the AS, so they receive the same level of accommodation assistance as someone on a main benefit.

Consequential impacts and/or outstanding decisions required

Consequential decisions are still required on whether to increase rates of Foster Carers Allowance, Orphan's Benefit and Unsupported Child's Benefit

34. As noted in previous advice [REP/20/11/1081 refers], Ministers may also want to increase rates of Foster Carers Allowance, Orphan's Benefit and Unsupported Child's Benefit (OB/UCB/FCA) in line with the main benefit increase. Increasing these rates would support broader goals of improving child wellbeing, however, main benefits and OB/UCB/FCA are different payments with different objectives. You may want to discuss these trade-offs with the Minister for Children.

Cabinet approval to establish a Transitional Assistance Payment will be required

35. You have indicated that you would like to implement a Transitional Assistance Payment to prevent people from being financially disadvantaged from any changes implemented, including your manifesto commitment to increase the benefit abatement thresholds. Similar to previous reforms, we recommend seeking Cabinet approval to establish a welfare programme and to delegate decisions on the detailed parameters of the payment once final decisions on any package of changes are made.

Any decisions regarding benefit increases have flow-on implications for the Minimum Family Tax Credit

36. Alongside this report, you have received advice on decisions needed regarding the Minimum Family Tax Credit (MFTC) threshold for the 2021 and 2022 income years [REP/20/11/1105 refers]. The advice considers whether to increase the MFTC threshold in line with previous benefit increases and the proposed benefit abatement changes. It also considers whether to fully increase the MFTC threshold to this level or do a partial increase, given the various trade-offs with each option.
37. Subsequent decisions on main benefit increases would also change the level the MFTC threshold needed to be in order to meet its policy intent³. Officials will provide further advice on any subsequent MFTC changes in the context of decisions made on main benefit increases.

Next steps

38. Subject to your agreement, officials will progress a Cabinet paper for consideration on 7 December 2020 seeking approval to the changes outlined in this paper.
39. As noted in the previous advice, there is opportunity for more structural changes to benefit rates as part of the medium to longer-term welfare overhaul work programme. Officials can provide further advice on levels of income support for those with a health condition and disability s 9(2)(f)(iv) [REDACTED]. Because these changes are more structural, further consideration is needed because:

- s 9(2)(f)(iv) [REDACTED]
- there are interactions with the wider review underway on eligibility and financial support for people with health conditions and disability.

³ The intent of the MFTC is to set a guaranteed minimum income level set to ensure that low-income eligible families in work are financially better off than remaining on benefit.

Appendix One: Updated fiscal costs and distributional impacts

40. Tables 1, 2 and 3 below provide updated fiscal costs, distributional and poverty impacts for the package of initiatives to be considered by Cabinet on 30 November and 7 December. This includes your manifesto proposal to increase benefit abatement thresholds and the options considered in this paper.

Table 1: Financial implications

	2020/21	2021/22	2022/23	2023/24	2024/25	5-year total
Benefit abatement increases	\$22.3m	\$99.2m	\$93.1m	\$86.5m	\$86.5m	\$387.5m
Main benefit increases	\$142.1m	\$573.4m	\$559.0m	\$559.5m	\$559.5m	\$2,393.6m
Changes to TAS DA exception	\$0.4m	\$1.9m	\$2.0m	\$2.1m	\$2.1m	\$8.5m
Change to CCA income definition	\$3.2m	\$5.6m	\$6.1m	\$6.9m	\$6.9m	\$28.7m
Cost of package	\$168.1m	\$680.0m	\$660.2m	\$655.0m	\$655.0m	\$2,818.3m

41. While these costings have been refined, they do not yet incorporate implementation costs, the costs of a Transitional Assistance Payment or reflect the updated HYEPU forecasts. These will be included for consideration in the draft Cabinet paper.

Table 2: Distributional impacts

	Average gains		Financially disadvantaged	
	Numbers who gain	Average gain	Numbers worse off	Average loss
Benefit abatement increases	82,900	\$18.21pw	145	\$16.30pw
Main benefit increases	499,400	\$22.70pw	109	\$10.38pw
Changes to TAS DA exception	1,600	\$23.67pw	166 (if progressed alongside benefit increase)	\$10.64pw
Change to CCA income definition	2,100	\$25.23pw	-	-
Total Package	503,000	\$25.56pw	137	\$10.49pw

42. The table above compares incomes with and without the policy change. The numbers of people worse off will differ slightly to the numbers who would qualify for a Transitional Assistance Payment because these types of payments compare incomes between 31 March with 1 April and include the impacts of the Annual General Adjustment.

43. Like other major reforms, such as Budget 2019 changes, there is an additional group of AS non-beneficiaries who are disadvantaged due to the increase to main benefits (around 12,000 would receive a reduction of around \$5.40pw). Similar to previous reforms, we do not recommend extending the TAP to cover this group as it's an intended flow-on impact and this group is likely to experience wage increases throughout the year.

Table 3: Poverty impacts (for options that can be modelled using TAWA)

Options	Child Poverty BHC	Child Poverty AHC
Benefit abatement increases	2,000 (±3,000)	6,000 (±3,000)
Main benefit increases	13,000 (±7,000)	17,000 (±6,000)
Total Package	15,000 (±7,000)	21,000 (±6,000)

Appendix Two: Example scenarios that compares rates of support provided through the benefit and student support systems

44. The table below compares the current overall assistance available for single people living away from home in Auckland under and over the age of 24 and if they qualify for the maximum rate of AS⁴. Note that this assumes a scenario where we might see the biggest differences in support because rental costs are higher in the main centres and the person receiving AS is assumed to receive the maxima.

Scenario	General weekly assistance	Weekly additional accommodation support	Total (weekly)
<i>Student support system (single under 24 years)</i>			
1 Student allowances (SA) eligible	\$237.90 net	\$60 (AB)	\$297.90 net
2 Abated SA and student loans living costs (SLLC) eligible	\$239.76 net	\$60 (AB)	\$299.76 net
3 SLLC only eligible (excluded by SA financial criteria) ⁵	\$239.76	N/A	\$239.76
<i>Benefit system (single 20-24 years)</i>			
4 Jobseeker Support	\$213.10 net	Up to \$165 (AS)	Up to \$378.10 net
<i>Student support system (single 24 years and over)</i>			
5 SA eligible	\$275.02 net	\$60 (AB)	\$335.02 net
6 Abated SA and SLLC eligible	\$239.76 net	\$60 (AB)	\$299.76 net
7 SLLC only eligible (excluded by SA financial criteria) ²	\$239.76	N/A	\$239.76
<i>Benefit system (single 25 years and over)</i>			
8 Jobseeker Support	\$250.74 net	Up to \$165 (AS)	Up to \$415.74 net
<i>Legend:</i>			
• Red shading: total amount in student support is less than the benefit			

⁴ Note that age cut offs differ slightly between the two support systems

⁵ Student Allowances financial criteria include the personal, partner and parental income tests.