



# Report

**Date:** 28 March 2019

**Security Level:** BUDGET SENSITIVE

**To:** Rt Hon Jacinda Ardern, Minister for Child Poverty Reduction  
Hon Grant Robertson, Minister of Finance  
Hon Carmel Sepuloni, Minister for Social Development

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## Welfare and Child Poverty Budget Package: Information to Support Ministerial Decision-Making

### Purpose of the report

- 1 This report provides specific information requested by joint Ministers on welfare options for Budget 2019.
- 2 The report has been jointly prepared by the Ministry of Social Development, Treasury, and the Child Poverty Unit.

### Executive Summary

#### Background

- 3 The Ministers for Child Poverty Reduction, Finance, and Social Development have requested additional information on the combined costs for the following package of options:
  - removing the S192 sanction (formerly S70A) on sole parents who do not identify the other parent of the child and apply for Child Support
  - s 9(2)(f)(iv) [REDACTED]
  - indexing main benefits to wages each year, using the growth rate in net average wages.
- 4 Joint Ministers have also requested updated TAWA modelling of the impact of the package on the before-housing-cost primary measure of poverty (BHC50).
- 5 You have also requested:
  - s 9(2)(f)(iv) [REDACTED]
  - s 9(2)(f)(iv) [REDACTED]
  - supporting analysis for the proposed package, including:

- o s 9(2)(f)(iv) [redacted]
- o any expected reduction in Special Needs Grants resulting from benefit increases or other income transfers.

6 s 9(2)(f)(iv) [redacted]

*Summary of advice*

7 s 9(2)(f)(iv) [redacted]

- s 9(2)(f)(iv) [redacted]
- s 9(2)(f)(iv) [redacted]
- s 9(2)(f)(iv) [redacted]
- s 9(2)(f)(iv) [redacted]

8 The estimated impact of the core package on the before-housing cost primary measure of poverty (BHC50) will be a reduction of around 10,000 children for 2020/21 (the last year of the target period), rising to around 15,000 for 2021/22 and 2022/23. [redacted]

s 9(2)(f)(iv) [redacted]

[redacted] Removing S70A s 9(2)(f)(iv) [redacted] cannot be modelled using TAWA (so we would have to rely on MSD figures previously provided).

**Recommended actions**

It is recommended that you:

1 **Indicate** the initiatives that you want to include as part of a welfare package for Budget 2019:

a) removing the S192 sanction (formerly section 70A); and/or

<b>Yes / No</b>	<b>Yes / No</b>	<b>Yes / No</b>
<i>Minister for Child Poverty Reduction</i>	<i>Minister of Finance</i>	<i>Minister for Social Development</i>

b) s 9(2)(f)(iv) [redacted]

<b>Yes / No</b>	<b>Yes / No</b>	<b>Yes / No</b>
<i>Minister for Child Poverty Reduction</i>	<i>Minister of Finance</i>	<i>Minister for Social Development</i>

c) indexing main benefits to annual net average wage growth; and/or

<b>Yes / No</b>	<b>Yes / No</b>	<b>Yes / No</b>
<i>Minister for Child Poverty Reduction</i>	<i>Minister of Finance</i>	<i>Minister for Social Development</i>

d) s 9(2)(f)(iv) [redacted]  
 [redacted]

<b>Yes / No</b>	<b>Yes / No</b>	<b>Yes / No</b>
<i>Minister for Child Poverty Reduction</i>	<i>Minister of Finance</i>	<i>Minister for Social Development</i>

e) increases to the benefit abatement threshold.

<b>Yes / No</b>	<b>Yes / No</b>	<b>Yes / No</b>
<i>Minister for Child Poverty Reduction</i>	<i>Minister of Finance</i>	<i>Minister for Social Development</i>

2 s 9(2)(f)(iv) [redacted]  
 [redacted]

a) s 9(2)(f)(iv) [redacted]

<b>Yes / No</b>	<b>Yes / No</b>	<b>Yes / No</b>
<i>Minister for Child Poverty Reduction</i>	<i>Minister of Finance</i>	<i>Minister for Social Development</i>

b) s 9(2)(f)(iv) [redacted]  
 [redacted]

<b>Yes / No</b>	<b>Yes / No</b>	<b>Yes / No</b>
<i>Minister for Child Poverty Reduction</i>	<i>Minister of Finance</i>	<i>Minister for Social Development</i>

c) s 9(2)(f)(iv) [redacted]  
 [redacted]

<b>Yes / No</b>	<b>Yes / No</b>	<b>Yes / No</b>
<i>Minister for Child Poverty Reduction</i>	<i>Minister of Finance</i>	<i>Minister for Social Development</i>

d) s 9(2)(f)(iv) [redacted]  
 [redacted]  
 [redacted]

<b>Yes / No</b>	<b>Yes / No</b>	<b>Yes / No</b>
<i>Minister for Child Poverty Reduction</i>	<i>Minister of Finance</i>	<i>Minister for Social Development</i>

3 s 9(2)(f)(iv) [redacted]

a) s 9(2)(f)(iv) [redacted]

<b>Yes / No</b>	<b>Yes / No</b>	<b>Yes / No</b>
<i>Minister for Child Poverty Reduction</i>	<i>Minister of Finance</i>	<i>Minister for Social Development</i>

b) s 9(2)(f)(iv)

Yes / No

Minister for Child Poverty Reduction

Yes / No

Minister of Finance

Yes / No

Minister for Social Development

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

a) s 9(2)(f)(iv)

Yes / No

Minister of Finance

b) s 9(2)(f)(iv)

Yes / No

Minister of Finance

5 **Note** that officials will provide final advice on the confirmed welfare package, including advice clarifying the recommendations to be included in the Budget Cabinet paper, the legislative process and a transitional assistance payment for those unintentionally financially disadvantaged from the package

6 **Agree** to forward a copy of this report to the Minister of Revenue.

Yes / No

Minister for Child Poverty Reduction

Yes / No

Minister of Finance

Yes / No

Minister for Social Development

Kristie Carter  
Director  
Child Poverty Unit  
Department of Prime Minister  
and Cabinet

s 9(2)(a)  
Manager  
Welfare and Oranga Tamariki  
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Policy Manager  
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Rt Hon Jacinda Ardern  
Minister for Child Poverty  
Reduction

Hon Grant Robertson  
Minister of Finance

Hon Carmel Sepuloni  
Minister for Social  
Development

## Updated costings for the proposed package

- Table 1 below sets out the expected fiscal impacts for the initial package of options identified by Ministers. These options are:
  - removing the S192 sanction (formerly S70A) on sole parents who do not identify the other parent of the child and apply for Child Support
  - § 9(2)(f)(iv)
  - indexing main benefits to wages each year, using the growth rate in net average wages.
- These figures include the cost of any consequential impacts on Temporary Additional Support and any other flow-on impacts on other payments within the income support system.

**Table 1: Cost of § 9(2)(f)(iv) indexation for main benefits, and S192**

Net fiscal cost	2019/20	2020/21	2021/22	2022/23	4 year total
§ 9(2)(f)(iv)					
S192 implementation costs	\$0.911m	\$0.250m	\$0.070m	-	\$1.231m
§ 9(2)(f)(iv)					

§ 9(2)(f)(iv)

3 § 9(2)(f)(iv)

4 § 9(2)(f)(iv)

5 § 9(2)(f)(iv)

### Implementation costs

- Implementation costs have been included for removing S192, and there are no implementation costs for wage indexation. § 9(2)(f)(iv)

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

s 9(2)(f)(iv) [REDACTED]

s 9(2)(f)(iv) [REDACTED]

9 s 9(2)(f)(iv) [REDACTED]

10 It is worth noting that s 9(2)(f)(iv) [REDACTED] a large proportion of the abatement costs are related to increased Accommodation Supplement support for non-beneficiaries. This is because the change indirectly increases the Accommodation Supplement abatement threshold which means the payment begins to abate at a higher income level for non-beneficiaries.

s 9(2)(f)(iv)

11 s 9(2)(f)(iv)

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

### Distributional impacts

12 Table 4 below includes the high-level distributional impacts of Package 1 (removal s192, s 9(2)(f)(iv), wage indexation of all main benefits) on 1 April 2020. Because an average is used, and the gains are spread across a large number of individuals and families that will be affected by indexation, the impact may appear smaller than expected. s 9(2)(f)(iv) and will continue to rise over time due to indexation. We can provide more detailed distributional impacts as part of future advice on the final package.

**Table 4: Distributional impacts**

Gainers		Worse off	
Numbers who gain	Average gain	Numbers worse off	Average loss
	s 9(2)(f)(iv)		

13 The social welfare system is complex and the component parts are often interdependent. Changes in one type of assistance often cause a change in entitlement to other assistance. While these “flow-on” impacts are often appropriate, they can create unintended financial disadvantage for a small number of clients.

14 s 9(2)(f)(iv) it is important to note that some of these people would likely have been worse off anyway as part of the Annual General Adjustment (even if the package wasn’t implemented). However their reduction in assistance will be greater because of the changes. s 9(2)(f)(iv)

15 In previous reforms such as the Families Package, a small fiscal provision was set aside for a payment to families who were financially disadvantaged. Such a payment ensures that complexity in the system does not create unintended consequences for families receiving financial assistance. Officials can provide further advice on this once final decisions on the package are made.

- 16 The distributional analysis above was produced using MSD administrative data. Once Ministers identify a preferred option, the TAWA model can produce a broader set of distributional results for that option, in particular distributional impacts by decile and by household.

## Poverty modelling for the proposed package

- 17 Table 5 below includes modelling of the expected impact of different options on the before-housing-cost primary measure of poverty (BHC50).
- 18 The estimated impacts of these packages on before BHC50 rates have been produced by the Treasury's TAWA model.<sup>1</sup> All estimates are rounded to the nearest 5,000 and should be considered as broad indications of impacts on the low income before housing costs measure, rather than specific predictions. All the packages listed here may also have impacts on the other two poverty measures – low income after housing costs and material hardship. We are currently unable to model estimated impacts for these measures.
- 19 The poverty modelling here assumes that there are no other policy changes that affect the income distribution. Because this is a moving line measure, there may be less of an impact if these options are combined with a policy that raises the after tax median household income (e.g. changes to tax personal tax rates).
- 20 Statistics NZ will release new child poverty statistics on 2 April 2019, ie next week. There is a risk that the new estimates of children in low income households will be at different levels to previous data, including the material provided here. However, we consider it likely that the proportional impacts will be robust to updates to the levels.
- 21 Consequently, in presenting the modelling results below we have included both the raw numbers of children/households estimated to be moved out of poverty and also the proportional reduction of children/households in poverty that that would entail. Based on our current understanding of Statistics NZ's approach, we think the proportional reduction results are likely to continue to be robust once the new statistics are released.
- 22 TAWA is not able to model the poverty impacts of removing S192/70A. Using MSD administrative data, our best estimate is around a 1,000 reduction across both BHC50 and AHC50. These numbers may change slightly when included in the different packages that have been modelled, but any change in this particular instance is not likely to be significant.
- 23 As noted in previous advice, we expect that TAWA's estimated impact of the abatement change is likely to be an overestimate. We also note that indexation has a greater impact on poverty measures over a longer time horizon, s 9(2)(f)(iv)

s 9(2)(f)(iv)

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<sup>1</sup> Access to the anonymised data used in this study was provided by Statistics NZ in accordance with security and confidentiality provisions of the Statistics Act 1975 and secrecy provisions of the Tax Administration Act 1994. Statistics NZ confidentiality protocols were applied to the data sourced from the Ministry of Social Development. The results have been confidentialised to protect individual persons, households, businesses and organisations from identification. The results presented in this study are the work of the Treasury, not Statistics NZ.



s 9(2)(f)(iv)

- 24 Appendix two also provides modelling of the expected impact of different options on the reduction in the number of households below the BHC50 poverty line.

### **Consequential impacts on Temporary Additional Support**

- 25 Temporary Additional Support (TAS) is a non-taxable supplementary payment that can be paid for a maximum of 13 weeks at a time. It is paid as a last resort to help clients with their regular essential living costs that cannot be met from their income and other resources. TAS essentially provides for a guaranteed minimum level of income after regular essential costs are taken into account. TAS generally decreases when there are increases in income from higher income support payments.

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





- s 9(2)(f)(iv) [redacted]  
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### Next Steps

- 44 Once Ministers have settled on their preferred package, officials can provide further advice on:
- a summary of final decisions made on the welfare package for inclusion in the Budget 2019 Cabinet paper
  - more detailed distributional analysis for different family types
  - updated implementation costs, if required depending on your decisions in this paper
  - advice on legislative process
  - a potential transitional payment for families who are worse off as an unintended consequence of the package.

**Appendix One:** s 9(2)(f)(iv) [Redacted]

45 As a reminder, under current settings Jobseeker Support recipients are subject to an abatement regime intended to encourage them to take up full time work (income over \$80 a week is abated at 70 cents in the dollar), with separate settings designed to encourage part time work for Sole Parent Support and Supported Living Payment recipients (30 cents for each additional dollar over \$100 and 70 cents for each dollar over \$200).

46 s 9(2)(f)(iv) [Redacted]

47 s 9(2)(f)(iv) [Redacted]

48 s 9(2)(f)(iv) [Redacted]

s 9(2)(f)(iv) [Redacted]



### Appendix Three: Technical policy decisions / assumptions made as part of the options used in this paper

- The wage indexation in April 2020 will occur s 9(2)(f)(iv) [REDACTED]
- The wage indexation approach uses a simple net average wage growth approach (not a wage band approach or higher of CPI/wage growth).
- No wage indexation s 9(2)(f)(iv) is applied to:
  - Orphans Benefit, Unsupported Childs Benefit, and the Foster Care Allowance
  - Student Allowance rates
- The link between benefit abatement thresholds and the minimum wage is applied as at today's minimum wage (and not using April 2019) and the current \$80pw and \$100pw abatement thresholds.
- s 9(2)(f)(iv) [REDACTED]
- The poverty impacts are based on tax years, so there will be no poverty impacts in 2019/2020 even though there is a fiscal impact