



**MINISTRY OF SOCIAL
DEVELOPMENT**

TE MANATŪ WHAKAHIATO ORA

- 2 MAR 2020

Dear [REDACTED]

On 3 February 2020, you emailed the Ministry of Social Development (the Ministry) requesting, under the Official Information Act 1982, the following information:

- *A copy of the Regulatory Impact Statement (or anything that has the same purpose as a RIS but under a different name) circulated prior to Temporary Additional Support being passed into law.*

Temporary Additional Support was introduced in 2006, replacing the Special Benefit, which was highly discretionary, with a rules-based payment. Temporary Additional Support exists as a last resort to meet costs which cannot be met from another source.

Attached is the Regulatory Impact Statement provided to Cabinet in 2004 when the introduction of Temporary Additional Support was initially agreed to as part of a wider suite of reforms to the welfare system.

Another attachment to the Cabinet paper is also provided as this contains contextual information regarding the change from Special Benefit to Temporary Additional Support and the impact of the change on Special Benefit recipients.

Please note that the information contained in these documents refers to the Special Benefit at the time of the change. This does not necessarily reflect the current administration of Temporary Additional Support. You may be interested in the way Temporary Additional Support is currently calculated, which is publicly available here: www.workandincome.govt.nz/map/income-support/extra-help/temporary-additional-support/calculating-the-rate-of-payment-01.html.

The principles and purposes of the Official Information Act 1982 under which you made your request are:

- to create greater openness and transparency about the plans, work and activities of the Government,
- to increase the ability of the public to participate in the making and administration of our laws and policies and
- to lead to greater accountability in the conduct of public affairs.

This Ministry fully supports those principles and purposes. The Ministry therefore intends to make the information contained in this letter and any attached documents

Page 1 of 2

available to the wider public. The Ministry will do this by publishing this letter and attachments on the Ministry of Social Development's website. Your personal details will be deleted, and the Ministry will not publish any information that would identify you as the person who requested the information.

If you wish to discuss this response with us, please feel free to contact OIA_Requests@msd.govt.nz.

If you are not satisfied with this response regarding the introduction of Temporary Additional Support, you have the right to seek an investigation and review by the Ombudsman. Information about how to make a complaint is available at www.ombudsman.parliament.nz or 0800 802 602.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Bede Hogan', with a long horizontal stroke extending to the right.

Bede Hogan
Policy Manager, Income Support Policy

Special Benefit

- 104 Special Benefit alleviates financial hardship by providing discretionary financial assistance to people with special needs or abnormally high levels of commitments whose ongoing needs cannot be met from their regular income.

Family Support related changes to Special Benefit

- 105 The increase in Family Support will directly address hardship amongst the beneficiary population with children and will therefore reduce the need for extra assistance through Special Benefit. It is therefore appropriate for adjustments to be made to the level of Special Benefits being paid to families to reflect their increased Family Support. This will require a policy change because Family Support is currently not charged as income in the assessment of Special Benefit.
- 106 We therefore propose to include Family Support as income in the assessment of Special Benefit and to standardise the amount allowed in the assessment for those with children to cover basic living costs. The standard costs will be set at 70% of the applicant's unabated main benefit and unabated Family Support combined.
- 107 We also propose that, for those with children, the rate of Special Benefit is generally fixed at the amount of the deficiency between income and costs, or 25% of the applicant's allowable costs, whichever is the lower. At present, the rate of Special Benefit is generally fixed at the amount of deficiency between income and costs, or 30% of the applicant's allowable costs, whichever is the lower. About 23% of Special Benefits paid to those with children are paid at the rate of 30% of allowable costs. Unless this 30% rule is changed these families will not have their Special Benefit adjusted to recognise their improved financial position as a result of increased Family Support payments and would therefore be treated more favourably than other recipients.
- 108 The proposed reduction from 30% to 25% of allowable costs when fixing the rate of a Special Benefit will only apply to the 66% of recipients with children. Although not involving a change in legislation, this different treatment is prima facie discrimination on the ground of family status and there is a risk that it is not justified in terms of section 5 of the New Zealand Bill of Rights Act 1990.
- 109 These new rules will apply to all new applications for Special Benefit received on or after 1 April 2005, and for existing cases as they come up for their three or six monthly review on or after that date (or earlier on a change of circumstances). Individual clients will be informed in writing at the time of the increases in Family Support that the next time their Special Benefit is reviewed the rate will be adjusted having regard to the increase in their Family Support.
- 110 These changes to Special Benefit will result in savings of \$5.5 million in 2004/05, \$21.8 million in 2005/06, \$25.2 million in 2006/07 and \$25.6 million in 2007/08.
- 111 We also propose to include the new In-Work Payment as income for all new applications and existing cases as they come up for review on or after 1 April 2006. This will generate additional savings of \$3 million a year. Further proposed Family Support increases in 2007 will automatically be taken into account under the new rules.

BUDGET : SENSITIVE

Impacts

112 The combined impact of the Special Benefit proposals is as follows:

Table 12: Combined Impact of Special Benefit proposals

| Special Benefit recipients with children | Impact | % Affected |
|--|----------------|------------|
| Number of Special Benefits reduced | 31,218 | 78% |
| Average amount of reductions | \$13.43 a week | - |
| Average Family Support increase for beneficiaries | \$27.51 a week | - |
| Number of Special Benefits marginally increased by change | 8,671* | 22% |
| Number of Special Benefits which will require individual case management to avoid any overall loss of income | 1,206 | 3% |

* Over 80% of these are sole parents with one child who would receive an increase in their Special Benefit of 14 cents a week. This is because the impact of including Family Support as income is offset by the standard living costs moving from 60.5% of the main benefit to 70% of the main benefit and unabated Family Support combined.

113 The Family Support related changes will reduce 78% of the Special Benefits being paid to those with children (i.e. 31,218 cases) by an average of \$13.43 a week, compared with the average increase in Family Support for beneficiaries of \$27.51 a week. People without children on Special Benefit will be unaffected. Eighty-two percent of the affected clients will be sole parents and 18% couples with children.

114 In no case (including cases where disability costs are included in the Special Benefit assessment) will the amount of the reduction exceed the increase the household will receive in their Family Income Assistance from 1 April 2005 (after taking into account the proposed removal of the child component of benefits from that date). The proposals will have no impact on Special Benefit recipients without children. A small minority of cases (3%) will require individual case management to ensure that the reduction in their Special Benefit does not exceed the overall increase in their family income assistance from 1 April 2005.

Further Changes to Special Benefit from 1 April 2006

115 As noted in paragraph 104 above, the purpose of Special Benefit is to alleviate financial hardship by providing discretionary assistance to people with special needs or abnormally high levels of financial commitments whose ongoing needs cannot be met from their regular income. Instead of last resort assistance to a small minority of beneficiaries, the benefit has increasingly, over the last 18 months, become a general income top-up. The average grant is now \$53 a week and the number in force has burgeoned from 16,718 at 26 July 2002 to 45,692 at 27 February 2004 (an increase of over 170% in 18 months). The number of benefits is estimated to continue to grow. The ratio of working age beneficiaries receiving Special Benefit is now 1:8, compared with 1:23 in August 2002.

116 While the escalating number of households receiving the benefit has played a critical role in responding to individual cases of hardship, it has highlighted the following fiscal, legal, delivery and policy risks:

- annual expenditure on the benefit has risen rapidly since mid 2002. Expenditure is estimated in DEFU 2003 to reach \$176.2 million by 30 June 2005 compared with \$49 million in 2001/02 and \$83 million in 2002/03
- the highly discretionary nature of the benefit results in inconsistent decision making. Decisions are frequently being challenged through the review and appeal system and through the courts
- administration of the benefit is staff intensive and the escalating number of benefits has put increased pressure on administrative resources. Processing applications and regular

BUDGET : SENSITIVE

reviews of existing benefits are impacting on the amount of time available to MSD staff to administer other services, including employment services

- research indicates that Special Benefit is a relatively poor instrument for addressing hardship
- because the benefit is available at high monetary rates, and is subject to a dollar for dollar abatement for earned income, it is reducing work incentives.

117 Though the proposed Family Support related changes above will reflect the increase in Family Income Assistance, these changes will not directly address the ongoing risks around Special Benefit. Without change these risks will persist, and probably increase, as the number of Special Benefits in force continues to escalate. We propose the following short-term changes to address the issues outlined in paragraph 116 above:

Rules based approach

118 When Special Benefit was first introduced in 1975, it was only taken up by a small number of recipients, making it feasible for grants to be discretionary and based on the individual circumstances of each case. This discretion was administered centrally to ensure consistency of decision making across the country. Greatly increased volumes, however, necessitated the decentralisation of the provision to a local level. The continued rise in the number of benefits has made it increasingly difficult to achieve consistency in a discretionary decision-making environment. Discretionary decisions are frequently being challenged through the review and appeal system and through the Courts.

119 A rules based approach is required to achieve consistency of decision making, to make the process more transparent and to reduce the legal risk of policies being overturned because they fetter discretion. The circumstances of Special Benefit applicants vary from case to case and some measure of discretion and judgement is appropriate to determine whether the particular circumstances of an applicant warrant a grant. However, this could be effectively achieved at the formula assessment stage by deciding which costs to allow in the assessment. Well developed stringent rules around essential outgoings would ensure that a formula deficiency is a true reflection of a client's financial situation.

120 We therefore propose to replace Special Benefit with a new rules based benefit, including a requirement to grant assistance if there is a deficiency between income and essential commitments. This proposal may have implications for the health sector, particularly for Vote Health funded services for people with disabilities. We will therefore be consulting with the Ministry of Health, and other relevant departments, on the proposed design of the new rules based benefit.

121 It will be important to preserve the temporary nature of Special Benefit and the existing obligations on recipients to actively seek ways to reduce their costs or increase their income. Officials will provide a further report back to the Minister of Finance and the Minister for Social Development and Employment on how this will be achieved in the rules based environment, by 30 April 2004. This report back will also cover the possible need for a residual discretion and for a more comprehensive case management approach to reinforce the client's obligations. We will consult with other relevant departments as appropriate, including the Ministry of Health.

Change to hardship assessment

122 As noted in paragraph 116, research indicates that Special Benefit is a relatively poor instrument in addressing hardship. This is largely due to the fact that the existing assessment tool does not provide a realistic measure of the likelihood that a household is experiencing

BUDGET : SENSITIVE

financial hardship. The means of assessing housing costs in particular has meant that some clients with only a very small deficiency are receiving the benefit.

- 123 Applicants for the Accommodation Supplement and Housing New Zealand Corporation tenants are expected to spend the first 25% of their income on accommodation costs. The effect of the present assessment of hardship can be that Special Benefit pays some or all of these costs rather than the applicant. In effect this circumvents the policy intent of the Accommodation Supplement and Income Related Rents.
- 124 Historically, this issue was addressed by imposing a standard deduction requirement that Special Benefit applicants have a deficiency between income and costs of at least \$45 a week before qualifying for the benefit. This amount was subsequently reduced until its abolition in 2000. The policy objective underpinning this approach was to limit payment of the benefit only to applicants with a significant gap between their income and costs.
- 125 A comprehensive review of hardship provisions is proposed for Phase 2 of the Future Directions project. We will consult with relevant departments on the proposed work programme for this review, for report back to joint Ministers by 30 July 2004. In the interim, we propose imposing an accommodation loading of \$20 a week. Unlike the standard deduction, this would directly reduce benefits by \$20 a week for all recipients with accommodation costs, not just those with a relatively small deficiency. This approach will ensure that all recipients make some contribution to their accommodation costs from their regular income, and would be consistent with Accommodation Supplement and Income Related Rents policy. This proposal also directly addresses research findings that there are clients with only a very small deficiency receiving Special Benefit.

Limiting rates

- 126 Currently, subject to discretion, the rate of Special Benefit is generally fixed as the amount of deficiency between income and commitments or 30% of the applicant's allowable costs (25% for those with children from 1 April 2005), whichever is the lower amount. There is, however, no monetary upper limit, which has resulted in a number of beneficiaries receiving higher net incomes than many full-time members of the workforce, reducing incentives for them to move into employment. New Zealand is the only country we are aware of that has an open-ended hardship provision. About 8% of recipients (about 3,600 households) are receiving Special Benefit of over \$100 a week.
- 127 We propose setting an upper limit of 30% of the applicant's parent benefit. This would help to alleviate the incentives issue by preventing beneficiaries receiving inappropriate levels of assistance, but continue to provide a reasonable maximum level of assistance. For example, based on current benefit rates, it would result in a limit of \$75.78 a week for a person on Domestic Purposes Benefit with two or more dependent children. Almost 80% of Special Benefits are paid at less than \$75 a week.
- 128 Some clients with a high Special Benefit have a large deficiency resulting from disability costs in excess of the maximum rate of Disability Allowance (about 11% of Special Benefits have disability costs included in their assessment). This reflects a number of factors, including the limitations of the existing Disability Allowance. These issues will be considered in the review of sickness and disability social assistance, which is proposed as part of Phase 2 of the Future Directions project. Grandparenting provisions will protect existing recipients. The report to Joint Ministers by 30 April 2004 (referred to in paragraph 121) will also cover the need for a residual discretion to exceed the 30% of main benefit limit if the applicant has disability costs which cannot be met from the Disability Allowance or through the Health system.

BUDGET : SENSITIVE

Standard costs

- 129 Currently, when assessing a person's eligibility for Special Benefit, a standard amount is included in the formula to cover basic everyday living costs such as gas, electricity and water, food and grocery costs, house contents insurance, and clothing. This approach ensures consistency of assessments and avoids individual clients having to provide details of what they spend on basic living costs. However, the current standard costs vary across and within benefit categories generally ranging from 60 to 70% of the main benefit. There is no sound policy reason for these variations.
- 130 As part of the Family Support related changes to Special Benefit arising from the increased rates of Family Support from 1 April 2006, it is proposed that the level of Standard Costs allowed for basic living costs for those with children be standardised from that date at 70% of main benefit and unabated Family Support combined. We propose that for the remaining 34% of Special Benefit recipients without dependent children, the amount allowed for basic living costs also be standardised at 70% of main benefit.
- 131 This approach would be consistent with the proposal for those with children. It would also fit with the percentage of benefit that recipients of Income Related Rents and the Accommodation Supplement are generally expected to use for their accommodation costs (25-30%).

Car payments

- 132 If an applicant for Special Benefit purchased a car prior to coming onto benefit or a car is needed for employment, training or disability purposes and no suitable public transport is available, the ongoing car payments are included in allowable costs. Twenty-one percent of Special Benefit recipients have car repayments included as an allowable cost.
- 133 There is no upper limit on the amount that can be included as car payments, which has been the cause, in some cases, of unusually high allowable costs and assessed deficiencies. We therefore propose to limit the car payments allowed in Special Benefit assessments to no more than \$50 a week (CPI adjusted). This amount would service the debt for a car valued at \$5,000 or less. Households living in remote areas who may need a more expensive car to cope with rural roads, generally have other expenses that are lower (eg accommodation costs) to compensate.

Introduction of Temporary Additional Support and grandparenting arrangements

- 134 We propose to package the above policy changes in a new benefit called Temporary Additional Support. The new benefit will only apply to new applications. The new name will give a clear signal that a different form of hardship assistance will apply from 1 April 2006 for new applicants, as well as emphasising the temporary nature of the benefit. Existing recipients' entitlement to Special Benefit will be grandparented to prevent any reductions in benefit income as a result of the changes. They will continue to receive Special Benefit subject to existing rules.
- 135 Grandparenting will protect the Special Benefits of an estimated 51,000 recipients. Based on current attrition rates, 90% of these cases will cease within two years. The grandparenting arrangements for the remaining 10% will be reviewed by the Minister of Finance and the Minister for Social Development and Employment in February/March 2008.

Legislative implications

- 136 The Family Support related changes to Special Benefit from 1 April 2005 will be implemented by way of changes to the existing Ministerial Direction and will not require legislation. The proposed change from 1 April 2006 to a rules based approach will, however, require

BUDGET : SENSITIVE

legislation. The preferred approach is to amend the Social Security Act 1964 to replace Special Benefit from that date with provision for the new benefit called Temporary Additional Support (with provision to grandparent the entitlements of existing recipients by saving the current Special Benefit provisions under the existing name of Special Benefit). The changes would include the general principles of Temporary Additional Support and make provision for it to be granted as prescribed by regulations. A similar approach is proposed for childcare assistance. The new Temporary Additional Support provisions and regulations would apply from 1 April 2006.

- 137 The intention is to include the amendment to the Social Security Act in the Social Security (Working for Families) Amendment Bill legislating for the changes in family income assistance.

Financial implications

- 138 The estimated savings from the Special Benefit changes, including the Accommodation Supplement related adjustments are \$7.364 million in 2004/05, \$45.832 million in 2005/06, \$77.045 million in 2006/07 and \$91.812 million in 2007/08.

Released under the
Official Information Act 1982

Regulatory Impact Statement

Statement of the nature and magnitude of the problem and the need for government action

- 200 Many families with children have insufficient money to provide an adequate standard of living. Income adequacy is particularly important for families with dependent children to ensure each child's wellbeing and positive development.
- 201 At any one time, more than one quarter of all dependent children in New Zealand are supported by benefits. Families have a higher likelihood of restricted living standards than single people or childless couples, and beneficiary families are more likely to have restricted living standards than other families. There is increasing international evidence that the negative effects of poverty on children, particularly younger children, intensify the longer a family is poor.
- 202 Many families with children on low incomes have insufficient money to provide for an adequate standard of living. Income adequacy is particularly important for families with dependent children, to ensure each child's wellbeing and positive development. There is increasing evidence that the negative effects of poverty on children, particularly younger children, intensify the longer a family is poor.
- 203 A significant number of low income people are experiencing housing affordability problems, which for some, are persistent. People on low incomes are increasingly having their accommodation costs met through a combination of both Accommodation Supplement and Special Benefit. There is increasing pressure on the Accommodation Supplement maxima in high-priced housing markets, and the current Accommodation Supplement areas and groupings of localities within areas are not optimal.

Statement of the public policy objectives

- 204 The objectives of the Working for Families package are to:
- **make work pay**, by supporting families with dependent children, so that they are rewarded for their work effort. This involves better alignment of benefits and in-work support (including Family Income Assistance, Childcare Assistance and Accommodation Supplement) so that people are better off as a result of the work they do
 - **ensure income adequacy**, with a focus on low and middle income families with dependent children, to significantly address issues of poverty, especially child poverty. The package also addresses housing affordability problems by responding to the increased cost of private housing for low income people, and
 - **achieve a social assistance system that supports people into work**, by making sure that people get the assistance they are entitled to, when they should, and with delivery systems that support people into employment. This involves steps to streamline the social assistance system so that it is easier for people to understand and access, and initiatives to improve take-up and enhance the effectiveness of delivery.

BUDGET : SENSITIVE

Statement of feasible options (regulatory and/or non-regulatory) that may constitute viable means for achieving the desired objectives

- 205 Existing instruments used to address work incentives, income adequacy and accommodation costs are contained in the Social Security Act 1964 and the Income Tax Act 1994. Changes to these instruments require amendments to the appropriate legislation.
- 206 Childcare assistance provisions could continue to be contained in a Welfare Programme established and approved by the Minister for Social Development and Employment. These provisions, however, are not overly accessible to the public and are subject to little parliamentary or public scrutiny. Moving the power to grant childcare assistance into primary legislation, with a regulation-making power and principles of the programme in primary legislation and the detail of the programme in regulations, addresses these issues.
- 207 The new Temporary Additional Support benefit could be administered through a Ministerial Direction (as Special Benefit is currently), but this would undermine the move to a rules based approach to eligibility.

Statement of the net benefit of the proposal, including the total regulatory costs (administrative, compliance and economic costs) and benefits (including non-quantifiable benefits) of the proposal, and other feasible options

- 208 The Working for Families package will cost \$233 million in 2004/05, \$680 million in 2005/06, \$911 million in 2006/07 and \$1.14 billion in 2007/08.

Impact on Work Incentives

- 209 The package will have the following key impacts by 2007:
- the changes will help make work pay for low and middle-income families with dependent children. About 60% of the new expenditure will be directed to families in work
 - the In-Work Payment and the Family Tax Credit Increase will provide improvements in work incentives, especially for sole-parents
 - the Childcare Assistance changes will help reduce childcare costs, which can act as an important barrier to employment, particularly for women
 - effective marginal tax rates (EMTRs) will be improved for low income working families with total income between \$20,000 to \$27,500 a year, thereby improving work incentives. However, EMTRs will be higher for some middle and higher income families not previously eligible for assistance
 - most of the work incentive gains will occur in April 2006, with some from October 2004 and October 2005

Impact on Incomes⁵

- 210 The package will have the following key impacts by 2007:
- from 2007 around 61% of families with dependent children will get more Family Income Assistance. Around 290,000 families will gain on average \$66 a week (with an average of \$95 a week for families with annual incomes in the range \$25,000 to \$45,000) from

⁵ These changes are over and above current annual indexation of main benefits and childcare rates. Family Income Assistance is not currently indexed.

BUDGET : SENSITIVE

the cumulative Family Income Assistance changes (including in-work payment and benefit rate). These figures do not include the effects of the Childcare Assistance, Accommodation Supplement and Special Benefit changes

- around 28,000 families (33,000 children) will gain from increases to Childcare Assistance with average gains of \$23 a week per child from 2005
- around 99,500 Accommodation Supplement recipients will get an average increase in accommodation assistance of \$19 a week in 2005/06⁶.

Child Poverty Impact Assessment

211 Income support is a key instrument for poverty alleviation and for improving living standards. Given the large investment through the Working for Families package, we would expect a significant reduction in measured income poverty. Using two internationally recognised income poverty measures, with thresholds (poverty lines) set at 50% and 80% of median household income, we estimate that after full implementation there will be:

- a 70% reduction in child poverty at the lower threshold, and
- a 30% reduction in child poverty at the higher threshold.

212 The estimated reduction in measured income poverty is mainly driven by the measures in the package itself but it is also dependent on factors in addition to the package, especially the state of the economy.

Statement of consultation undertaken

213 This paper has been developed in consultation with the Treasury, Inland Revenue, Housing New Zealand and the Ministry of Education. The preparation of the paper has been overseen by a steering group of senior officials comprising the Ministry of Social Development, Department of Prime Minister and Cabinet, Treasury, Inland Revenue and Housing New Zealand.

Business Compliance Cost Statement

214 There are no compliance costs for businesses associated with this proposal.

⁶ These gains include the adjustment in the Accommodation Supplement entry threshold due to the changes proposed as part of the Family Income Assistance initiatives

