



Report

Date: 28 May 2021

Security Level: IN CONFIDENCE

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

Sole parent students affected by flow-ons from the Budget 2021 main benefit increases

Purpose of the report

- 1 This report seeks your agreement to pay a Transitional Assistance Payment to a group of sole parent students receiving the Accommodation Benefit, to ensure they do not experience a drop in assistance from 1 July 2021 as a result of flow-on impacts from the Budget 2021 increases to main benefits.

Recommended actions

It is recommended that you:

- 1 **note** around 1000 sole parent students will experience a reduction in Accommodation Benefit of between \$1 and \$5 per week from 1 July 2021 due to the unintended flow-on effects from the Budget 2021 increases to main benefit rates
- 2 **agree** to provide a Transitional Assistance Payment to affected sole parent students so they do not face a reduction in assistance from 1 July 2021

AGREE / DISAGREE

- 3 **note** if you agree to recommendation two, we will provide you with an instrument amending the Benefit Rate Increase (Transitional Assistance Programme) 2021 by 17 June 2021, for your approval
- 4 **agree** to forward a copy of this report to the Minister of Education

AGREE / DISAGREE


Bede Hogan
Policy Manager
Income Support Policy


Date


Hon Carmel Sepuloni
Minister for Social Development and Employment


Date

Main benefits and other changes agreed through Budget 2021 are being implemented in two stages

- 2 Budget 2021 provides for increases to main benefits and complementary changes. The main benefit increases will be implemented in two stages, with an immediate \$20 per adult per week increase on 1 July 2021.
- 3 The second increase will be on 1 April 2022 to lift rates to align with a key recommendation from WEAG. In addition, for families with children, main benefit rates will be increased by a further \$15 per adult per week to continue to make progress towards the child poverty reduction targets. Student allowance and student loan living costs will also be increased by \$25 per adult per week on 1 April 2022.

Officials have identified a group of sole parents receiving student allowance who will experience an unintended drop in income from 1 July 2021

- 4 MSD have now undertaken IT testing ahead of the increases to main benefits on 1 July 2021. This testing identified a new group of clients who will have a reduction in assistance due to the changes on 1 July 2021. These are people receiving a sole parent rate of the student allowance and the sole parent rate of the Accommodation Benefit (AB).
- 5 This group was not previously identified because people receiving support through the student support system were not included in the modelling of distributional impacts, as it was not expected that any students would be affected by the proposal to increase main benefits on 1 July 2021.

This issue occurs as sole parents who qualify for the AB are paid the sole parent equivalent rate of Accommodation Supplement

- 6 The AB is an additional payment which is made to eligible students who are receiving a student allowance to support them with accommodation costs while they are studying. The maximum amount for most students of AB is \$60 per week.
- 7 From 2015, sole parents receiving the AB were able to receive the equivalent of a sole parent rate of the Accommodation Supplement (AS). This policy change was intended to better support sole parents with accommodation costs while studying, as the AS rate can be significantly more generous than the AB rate (up to \$305pw compared to \$60pw).

Clients receiving the sole parent rate of AB will experience a drop in income from 1 July 2021 due to flow on effects from the main benefit increase

- 8 When main benefits are increased, there are flow on impacts to the AS. AS recipients are expected to use 25 percent (or 30 percent for homeowners) of their main benefit and eldest child rate of Family Tax Credit to meet their housing costs. Therefore, any increases to benefit rates flow through to a lower AS payment for those not receiving the AS maxima. People receiving both a main benefit and AS will still be better off overall, as the increase in their benefit is greater than the reduction in their AS.
- 9 However, the student allowance rates are not being increased on 1 July 2021. Due to this, a group of around 1000 sole parents who are receiving the AB will have a reduction in their overall assistance of between \$1 to \$5 per week from 1 July 2021. This interaction was not intended and has not previously been identified by officials. See the Appendix for an illustrative example of how the change in AS entry thresholds leads to a reduction in assistance.
- 10 Sole parent students will not have a reduction in their total income on 1 April 2022. The \$25 increase to student allowance rates will be enough to offset any reduction in AB payments. Across the two implementation dates, these students are expected to be better off overall from the Budget 2021 changes.
- 11 All other students who are eligible for the AB will not be affected by the changes on 1 July 2021, as the standard rate of AB is not linked to main benefits or the AS.

These sole parents could be paid a Transitional Assistance Payment from 1 July 2021 to ensure they do not lose due to the changes

A Transitional Assistance Payment will be paid to a small group of beneficiaries who will also face a drop in income from 1 July 2021

- 12 372,000 beneficiaries are estimated to be better off by an average of \$41 per week across the two implementation dates. However, a small group of clients receiving a main benefit will be worse off on 1 July 2021. These clients will qualify for a Transitional Assistance Payment (TAP), the Benefit Rate Increase (Transitional Assistance Programme) 2021, for up to 12 months.
- 13 As noted in previous advice [REP/21/4/423 refers], there are also around 23,000 non-beneficiaries estimated to be worse off on average \$5 per week due to flow-on impacts to the AS. It was agreed that the TAP would not extend to this group as this flow-on impact is intended, and reflects that this group is likely to experience wage increases throughout the year (e.g. in part due to the minimum wage increase occurring on 1 April 2021). This approach is consistent with policy design choices made with previous TAPs.

A TAP could also be paid to this group of sole parent students

- 14 As sole parent students were not included in any of the distributional modelling, they have not been included under the existing TAP for 1 July 2021. If this issue had been identified earlier, it is likely this group would have been included in the existing TAP.
- 15 As this interaction was unintended, we recommend that you consider a TAP for this group, to help them transition to their new level of income.
- 16 There is existing funding available in the TAP appropriation for financial year 2021/22 of \$500,000. It is expected that providing sole parent students a TAP will increase expenditure by \$89,000, resulting in an increased forecast spend of \$209,000 when including those already expected to qualify for TAP as part of the Budget 21 changes.
- 17 Treasury have advised that the fiscal implications of extending the TAP to the affected sole parent students can be met within the current appropriation, given that this is in line with the original Cabinet decision [CAB-21-MIN-0116 refers] and that it does not represent a significant policy change or amount of funding.
- 18 If you decide to pay sole parent students a TAP, changes would be required to the Benefit Rate Increase (Transitional Assistance Programme) 2021 to include this new group. Any amendments to the programme will not meet the 28-day rule. As the amendments will only confer benefits on the affected clients you can waive the 28-day rule.

Longer term policy work on these settings is needed

- 19 Whilst there is a short-term option to prevent sole parent students from facing an unintended reduction in income from 1 July 2021 through a TAP, there is a need to consider the long-term implications of these settings.
- 20 This is because the purpose of the AS entry threshold is that people should be expected to meet a contribution of their housing costs from their own income. However, for sole parent students the expected contribution is currently linked to the level of the benefit income, which is different to the level of student income. When the 2015 policy change to the AB was introduced these were set at the same rates, however recent changes to student and income support settings means this is no longer the case. These Budget 2021 changes have now highlighted this can create unintended consequences.
- 21 This issue will continue to occur in future, such as through the Annual General Adjustment (AGA). Main benefits are now indexed to average wages, while student allowances are indexed to the CPI (all groups). Wages generally rise faster than inflation, which means main benefits will increase by a greater percentage than student allowances each year through the AGA. As increases to main benefits flow

through to the AS entry thresholds, there will be a greater percentage increase in the AS threshold than in the student allowance rates, which will erode the amount of AB sole parent students receive over time.

- 22 Officials will review these settings further s9(2)(f)(iv) OIA

Next steps

- 23 If you agree to provide a TAP to affected sole parent students receiving the AB, amendments to the Benefit Rate Increase (Transitional Assistance Programme) 2021 will be required. We will provide you with a report and an amended instrument by 17 June 2021 for your agreement.

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Appendix

Example showing how the change in AS entry threshold can lead to a reduction in total assistance for some sole parent students

Scenario: A sole parent with 2 children, living in Auckland (AS Area 1) paying \$500 per week for a 2-bedroom house

Payment	Pre 1 July 2021	Post 1 July 2021
Student Allowance (net)	\$402.32	\$402.32
<i>AS Entry Threshold</i>	\$125	\$130
<i>Calculation of AB payment</i>	$(500-125) \times 0.7$	$(500-130) \times 0.7$
AB payment	\$263	\$259
Total income (per week)	\$665.32	\$661.32
Difference (per week)		-\$4