The Treasury

Budget 2014 Information Release

Release Document

July 2014

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[13] Not in scope

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Office of the Minister of Labour

Cabinet Social Policy Committee

Additional Financial Support for Families with a Newborn

Proposal

1 This paper seeks agreement to enhance parental leave provisions and the parental tax credit to support families with a newborn.

Executive Summary

2 In the first year of a child's life, particularly the first six months, it is important for newborn development to get full time personal care and for parents to get support to manage budgetary and other pressures. Full time care and monetary support can greatly assist with mothers/caregivers and children developing close bonds, breast feeding for the first six months (which is the World Health Organisation recommendation), and reducing parental and family stress, all of which support children's health and development in the short and longer term.

3 It is also important, where appropriate, to encourage on-going attachment to the labour market, which has broad economic and social benefits.

4 There are concerns about the financial support that is currently provided to families with newborns. Insufficient levels of family income can lead to poor outcomes for children. Restrictions in the parental leave legislation make it difficult for some working parents to stay connected to the workforce, and prevent some working parents from being eligible for the provisions.

5 We propose a package of measures to enhance the parental leave provisions and the parental tax credit to support newborns and their parents. This package has been designed to reach a broad range of families and working arrangements in New Zealand and improve outcomes for children, while being fiscally responsible and recognising current economic conditions.

6 The proposals include:

- **Increasing the number of weeks paid parental leave (PPL) is provided for, from 14 weeks currently, to 16 weeks as of 1 April 2015, and to 18 weeks as of 1 April 2016**. This will provide benefits to a wide range of mothers, but most importantly it will allow many mothers who currently can only afford around four or five months of parental leave the opportunity to more easily reach the six month milestone, aligning with the World Health Organisation's guidelines around breastfeeding, and the minimum optimum period for full time personal care of children.

- **Broadening eligibility for paid parental leave so it covers non-standard workers** (i.e. seasonal or casual workers, or other workers with more than one employer) from 1 April 2016 providing these workers, who tend to be low paid often with a long work history, and their families, with appropriate support and on-going attachment to work.
- **Extending eligibility for paid parental leave to other permanent care arrangements** (Home for Life carers, permanent guardianship, parenting orders, and grandparents) to ensure children in different family arrangements in New Zealand get the necessary support they need, and potentially encourage more people to undertake permanent care arrangements for children, from 1 April 2016.
- **Introducing more flexibility into the Paid Parental Leave legislation so that employees can make visits to work and keep up skills development**, encouraging more effective labour attachment to the benefit of employers and employees.
- Changing **the Parental Tax Credit (PTC) from its current maximum of $150 per week to a new maximum of $220 per week for 10 weeks** and better targeting it towards lower and middle income working families. This will give these working families, with a child born on or after 1 April 2015, more money for longer.

7 The cost of this package comes to $9.25m in 2014/2015, $53m in 2015/2016, $75m in 2016/2017, and $77m in 2017/18.

8 The increases to PPL and PTC are recommended to be made in Budget day legislation; this is because the legislation must be enacted by November 2014 at the latest, in order for these changes to come into effect on 1 April 2015. We propose that the remaining changes to parental leave legislation (ie eligibility and flexibility) be agreed and announced, but that they be implemented following consultation on the detailed design with stakeholders, in an Employment Standards Bill which has a priority 5 (to be introduced this year) on the Legislation Programme.

Background

Current Assistance for Newborns

9 The primary financial support for families with newborns is currently:

- PPL of up to $488.17 per week before tax, for up to 14 weeks, for eligible parents.
- PTC of up to $1,200 for up to eight weeks ($150 p/w), for working families that do not qualify for PPL, provided the household does not receive a government welfare payment.
- Low- and middle-income families who have dependent children may also be assisted by Working for Families Tax Credits, and other assistance through the benefit system.

10 The number of live births registered in New Zealand in the year ended March 2012 was 60,860. Administrative data shows that the proportion of PPL recipients as a percentage of births is around 42 per cent and the number of PTC recipients as a percentage of births is around 25 per cent. Around 32 per cent of parents receive neither, although many would be eligible for one or the other.

11 Whilst numbers of PPL recipients have levelled off over the last few years to 26,000, numbers of PTC recipients have been steadily increasing to a level of between 16,000 and 18,000. Over 75 per cent of families receiving the PTC have a household income of less than $60,000, and 60 per cent of PPL recipients earn less than $50,000. Table 1 below summarises the current level of recipients and expenditure associated with these payments.

Table 1: PPL and PTC recipients and expenditure

Payment	Recipients no. (end Mar 2012)	Spending in the 2011/12 (Actual)
Paid Parental Leave	25,900	$157.6 m
Parental Tax Credit	15,500	$18.9 m

Source: IR and Budget Documents

Paid parental leave legislation

12 ***Purpose***: The objectives of the parental leave scheme, which was introduced in 2002, are to:

- achieve gender equity within the labour market with increased female labour force retention and the opportunity to return to paid work without disadvantage to position or pay
- improve health outcomes for both mother and child with a mother being able to recover from childbirth, bond with a new baby and return to work without negative consequences to her health and that of her child
- provide income stability for families to provide a period of financial security during the leave period.

13 ***Entitlement***: The Parental Leave and Employment Protection Act 1987 (the PLEP Act) provides for 14 weeks of employment protected paid parental leave (PPL) to employees with at least six months' continuous service with the same employer and 14 weeks of parental leave payments to the self-employed. Employees with at least 12 months' continuous service with their employer are also entitled to up to 52 weeks of employment-protected unpaid parental leave, less any PPL taken.[1] This can be shared between eligible spouses/partners. Up to two weeks of unpaid partner's/paternity leave is also available (one week for six months' continuous service and two weeks for 12 months' continuous service).[2]

Parental Tax Credit (part of Working for Families)

14 ***Purpose***: The PTC was introduced in 1999 to provide additional financial support to working families for the period following the birth of a child. The PTC was the third element of a wider package of credits designed for low to middle income working families, and is currently one of the four main components of the Working For Families (WFF) package. The PTC is targeted primarily at those working families who are not eligible for PPL. It is not linked to employment in the same way as PPL, and so it does not offer job protection.

15 ***Entitlement***: the Government provides up to eight weeks support at a maximum of $150 a week per child if the household does not receive a government welfare payment. The payment is per child. The maximum entitlement is $1,200 (tax exempt), and is abated as part of WFF. The PTC is not indexed, but the rate has been reviewed tri-annually since 2004. The rate has not increased since its introduction in 1999.

Comment and Proposals

16 There are a number of concerns about the way financial support is provided to families with newborns, which can contribute to poor outcomes for children and make it difficult for some working parents to stay connected to the workforce after taking time out to care for their children. These concerns and proposed responses are discussed below.

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[1] The hours criterion for 'continuous service' for PPL and the extended unpaid leave is for an average of at least 10 hours a week (including at least one hour in every week or 40 hours in every month).

[2] Transfers of PPL to a partner/spouse occur in less than 1 per cent of cases, and uptake of the unpaid partner/paternity leave is very low (4 per cent).

Many parents do not take the desired six months' leave from work, considered necessary for child and maternal health and welfare benefits

17 Data shows that one third (33 per cent) of PPL recipients are working five months after starting parental leave.[3]

18 The majority of PPL recipients take PPL at the end of other paid leave such as annual leave, in order to maintain income for as long as possible. Most mothers would ideally like to take longer out of paid work to be with their babies, and the key factor for an early return to work are the financial constraints.[4] An evaluation found that over half of the mothers who took PPL agreed that the ending of the payment had a significant impact on decisions of when to return to employment. Whilst some PPL recipients are in higher income brackets, the majority (60 per cent) earn $50,000 or less. It is this group who are most restricted in their ability to take additional unpaid leave on top of their paid leave, and who are likely to be the 33 per cent working five months after starting parental leave.

19 There is general consensus that there are child and maternal health and welfare benefits from a period of absence from work of at least six months. The Australian Productivity Commission found there was compelling evidence of child and maternal health and welfare benefits from a period of absence from work for the primary caregiver of around six months and a reasonable prospect that longer periods (nine to twelve months) are beneficial. The Organisation for Economic Co-operation and Development (OECD) concurs, stating that child development suffers when an infant does not get full-time personal care for the first 6-12 months of his/her life. The World Health Organisation recommended period for exclusive breastfeeding is also six months.

20 New Zealand's paid parental leave 14 week entitlement is one of the lowest in the OECD.

21 We propose to increase the length of PPL by four weeks (two weeks on 1 April 2015 and another two weeks on 1 April 2016).

22 This would provide benefit to the full range of mothers eligible for PPL, but most importantly it is likely to provide many of the mothers currently only achieving around five months of leave the opportunity to more easily reach the six month milestone[5], when a large amount of the benefits of full time personal care are achieved. It would also take New Zealand's entitlement levels closer to other countries we may compete for labour with, like Australia.

[3] Department of Labour and Statistics New Zealand (2008) 'Work Patterns after Paid Parental Leave'.

[4] ibid; Department of Labour (2007) 'Parental Leave in New Zealand 2005/2006 Evaluation'.

[5] While an extension of four weeks does not take PPL paid entitlements to the full six months, as stated above, the current 14 weeks takes many mothers to close to five months when added to savings and leave, so an additional four weeks should take them closer to the six month period.

23 This proposal is also a fiscally responsible one which, when combined with the rest of the proposals outlined in this paper, reaches a wide number of the carers of newborns in the first few months, and is affordable in the current economic climate.

Financial Costs

24 Below are the estimated costs for extending the PPL scheme by two weeks from 1 April 2015, and an additional two weeks (four weeks in total) from 1 April 2016.

Table 2: Estimated costs with a two week extension from 1 April 2015 and a four week extension from 1 April 2016 ($M)

	2014/15	2015/16	2016/17	2017/18	2018/19
Cost of existing PPL scheme (14 weeks)	$169	$174	$179	$185	$190*
Cost of additional 2 weeks (introduced 1 April 2015)	$6	$19			
Cost of additional 4 weeks (introduced 1 April 2016)		$12	$51	$53	$54
Total cost of additional weeks	**$6**	**$31**	**$51**	**$53**	**$54**

Notes:
Additional 2 weeks: the initial $6m cost is for 1/4 year from 1 April. The following estimate is for 3/4 year.
Additional 4 weeks: the initial $12m is for 1/4 year from 1 April. The following estimates are based on full financial years.
Figures are before tax and estimates are based on the 2011/12 financial year.
*Increase in average ordinary time weekly earnings estimates based on Treasury Budget 2013 nominal wage growth forecasts.

The current Parental Leave legislation is outdated and does not recognise modern working and care arrangements, and does not effectively facilitate attachment to work

25 The PLEP Act is now 26 years old and fails to adequately reflect current work trends or family arrangements. It also does not adequately meet its objective of promoting attachment to work for many employees. The issues with the Act and a range of proposed changes are outlined below.

The current eligibility criteria for PPL (and for job protection) does not recognise different working arrangements

26 The PLEP Act's lack of flexibility and strict eligibility criteria (relating to continuous employment with one employer prior to the baby's due date) not only discourages labour mobility but frequently causes employees to miss out on the necessary support payments and job protection. For example, non-standard workers, such as seasonal or casual workers, or other workers with more than one employer, who also tend to be low paid workers, are ineligible for PPL despite often having a long work history.

> ***Ana worked full time for 15 years as a meat grader for half the year and a fish processer for the other half.*** *Because she had to change jobs within six months of her baby's due date she is not entitled to PPL or job protection. However,* ***Emma just started her new full time job six months ago*** *and is now eligible for PPL and job protection.*

27 Employees who have a change of employer in the six month timeframe are not eligible for parental leave (including, for example, those who change jobs within a franchise or employees in a business that is sold).

> ***Mary, who was eight months pregnant, lost her job of 10 years after the Christchurch earthquake*** *because the supermarket where she worked was quake-damaged. She got a job in another supermarket within the same week, but because her employer was a different franchise she was no longer able to get PPL or job protection.*

28 Many other jurisdictions we compare ourselves to internationally have made adjustments to their regulatory regimes to address these issues. For example, Australia's 2011 scheme included non-standard workers.

29 We are proposing to extend the paid (but not unpaid) parental leave entitlement to those who have recently changed jobs and to non-standard workers (ie casual, seasonal, and employees with more than one employer). This would benefit families in the first few months and also promote greater labour attachment.

30 To do this, the eligibility criteria would be broadened and based on *workforce* attachment, rather than the current requirement for attachment to one *workplace*. The criteria would still determine eligibility for payment and job protected leave, but there would also be an entitlement to payment only.

31 To access payment only, employees and the self-employed will need to have worked an average of at least 10 hours per week over <u>any</u> 26 out of the 52 weeks immediately preceding the expected date of delivery/adoption.[6]

32 Entitlement to payment only would be consistent with current provisions for self-employed. It would also mean that employers would not have to hold open a job for an employee who had only been in their employment for a short period. However, employees may be able to negotiate job protected leave from their employer.[7]

33 Further engagement with stakeholders is required on the detailed design of this to ensure scope was appropriately designed and not too broad. The Australian regime will be used to provide assistance with this.

34 The cost of this is outlined in paragraph 38 below.

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[6] This differs from the current criteria for employment protected paid leave, whereby employees need to have worked an average of at least 10 hours per week over six months service with the same employer immediately prior to the expected date of delivery/adoption. The current requirement for employees to have also worked one hour in every week or 40 hours in every month would be dropped.

[7] Employees entitled to payment only would be required to take a break from work while they are receiving payments.

The current eligibility criteria for PPL (and for job protection) does not recognise different family arrangements

35 Family structures and parenting arrangements have become significantly more diverse since the PLEP Act was enacted, with a third of New Zealand families now being single-parent families, and permanent guardianship arrangements being more prevalent than formal adoption.

36 Some examples of the issues that arise are: the PLEP Act is set up to respond to the Adoption Act 1955, which no longer reflects 'adoption' in practice, often resulting in cases ending up with the Employment Relations Authority; grandparents, biological fathers, permanent guardians, and Home for Life carers who work but take time off work to care for young children are all excluded from the scheme.

> ***Helen*** *is keen to take on permanent guardianship of a newborn baby who would otherwise be under state care. Her work history would entitle her to PPL if she was formally adopting but Child, Youth and Family have told her they would prefer a guardianship arrangement. She has only two weeks of accumulated annual leave and is having to reconsider because she cannot afford to take a period of unpaid leave in order to care for and bond with the new baby.*

37 We propose that amendments be made to the PLEP Act to incorporate the notion of a 'primary carer' as the Australian scheme does. Each child would only be allowed one primary carer and they would have to meet eligibility criteria relating to attachment to the workforce. This would include: Home for Life carers, and other permanent care arrangements (such as permanent guardianship, parenting orders, and grandparents). This would ensure children get the necessary support they need, and potentially encourage more people to undertake permanent care arrangements for children.

Financial Costs

38 The estimated costs of the proposed eligibility changes to PPL of both working and family arrangements are set out in Table 3 below.

Table 3: Estimated costs of extending PPL eligibility to non-standard workers and permanent caregivers ($M)

	2014/15	2015/16	2016/17	2017/18
Costs of extending eligibility to non-standard workers				
Assuming eligibility increases from 90% to 95% and half those people take up PPL	$0.0	$5.7	$6.4	$6.6
Costs of extending eligibility to permanent caregivers				
Providing PPL to eligible Home for Life caregivers	$0.0	$0.6	$0.7	$0.7
Providing PPL to those holding a guardianship and/or parenting order	$0.0	$2.1	$2.3	$2.4
Providing PPL to those with mātua whāngai arrangements, grandparents raising grandchildren, and biological fathers	$0.0	$1.0	$1.1	$1.2
Total cost of extending eligibility to permanent caregivers	**$0.0**	**$3.7**	**$4.1**	**$4.3**
Total cost of extending entitlement and eligibility to non-standard workers and permanent caregivers	**$0.0**	**$9.4**	**$10.5**	**$10.9**

Notes:
Assumes entitlement of 16 weeks from 1 April 2015 and 18 weeks from 1 April 2016. Therefore 2015/16 estimate is 3/4 year at 16 weeks and 1/4 year at 18 weeks.
Figures are before tax and estimates are based on the 2011/12 financial year.
Increase in average ordinary time weekly earnings estimated based on Treasury Budget 2013 nominal wage growth forecasts.

The PLEP Act does not encourage connection to work as effectively as it could

39 Stakeholders (both employers and employees) are concerned that the PLEP Act fails to promote attachment to work or encourage employees to maintain skills. It discourages interactions between employers and employees during the leave period as any work undertaken results in the employee forfeiting any remaining paid or unpaid leave.

40 Limited attachment to work can be beneficial for both the employer and the employee (for example, enabling the employee to make visits to work to encourage attachment or keep up skills development). The PLEP Act's lack of flexibility also means that extended unpaid leave cannot be taken on a part time basis, as is the case in overseas jurisdictions.

> ***Nancy*** *was taking PPL but was asked by her employer to come in to the office for two hours and help her replacement find some files. Because she returned to the workforce, she became ineligible for PPL and payments ceased.*

__Jane__ works for a small IT consultancy firm that's about to undertake training on a new IT design system. Jane, who has just started her PPL, is willing to return for the two day course as she's a couple of weeks off her due date. If she doesn't do the training, and scheduled update sessions over the course of the year, she will not be able to operate the new system and is worried that her skills will be outdated and of limited value to her employer on her return to work. But if she does the training, she will lose her entitlement to her remaining PPL payments and job protection.

42 Many other jurisdictions we compare ourselves to internationally allow greater flexibility to maintain the connection to work.

43 We are proposing the following amendments to the PLEP Act to address these issues, which would have no or low costs, and benefit employers and employees:

a) **Keeping in Touch Days**- which enable employees to work limited hours or days during their paid and unpaid leave period if they choose.

b) **Enabling employees to take the <u>unpaid</u> parental leave part time and flexibly-** this would allow the unpaid leave period to be undertaken over time to suit family needs by mutual agreement with the employer and employee.

c) **Extended <u>unpaid</u> leave to be made available to workers who have been with their employer for more than six months** (but less than 12) as a pro-rata amount of unpaid leave according to length (eg seven months job tenure would equate to seven month's unpaid leave).

44 Further engagement with stakeholders is needed on these issues, particularly (c). However, we note there has been quite a bit of support from the business community for more flexibility.

PPL Administration and Implementation costs

45 Inland Revenue (IR) currently administers the PPL system and makes all PPL payments. The implementation of the proposed changes to the payment period, and the widening of the eligibility rules can be delivered though IR's existing PPL business processes. IR will be seeking funding to implement and administer these changes through Budget 2014. This amounts to $0.82 million over the five year forecast period of 2013/14 to 2017/18, and $0.065 million per annum from 2018/19. The five-year cost is operating cost; there is no capital funding required.

46 The Ministry of Business, Innovation and Employment (MBIE), with primary responsibility for the administration of the legislation, currently administers the eligibility of adoptive parents, and would acquire the role of determining eligibility for principal caregivers, and lead the determination process for all applications requiring further assessment. This will cost an additional $0.2m to administer, and will require further engagement with the Ministry of Social Development on design and implementation issues.

Table 4: Administration and Implementation costs of the proposed PPL changes ($M)

Costs	2013/14	2014/15	2015/16	2016/17	2017/18	Total over 5 years
Inland Revenue: Implementation costs[1]	0.018	0.501[2]	0.150	0.00	0.00	**0.561**
Administrative costs[2]		0.006	0.013	0.063	0.063	**0.235**
MBIE			0.05	0.2	0.2	**0.45**
Total	**0.018**	**0.507**	**0.213**	**0.263**	**0.263**	**1.264**

Note 1: A contingency of 50% applies to IR's implementation costs.
Note 2: A contingency of 25% applies to IR's on-going administration costs.[8]

The level of support provided by the PTC has not been adjusted to keep pace with inflation increases since its introduction

47 The PTC is available to a wide range of families. As with other WFF tax credits the PTC is income-abated so is not available to families on the highest incomes and is targeted towards more lower and middle income-earning families.

48 PTC spending is specifically focused around the birth of a child, so there are less labour market dis-incentives and less economic impact from changes to the PTC than with the other WFF tax credits.

49 The maximum PTC is currently $150 per week; eligibility is based on the status of the primary caregiver (usually the mother) for the eight weeks following birth, to a maximum of $1,200 per child. The PTC itself can be received either as a lump sum after the end of the tax year of birth, or in instalment payments over eight weeks. It is worth noting that this eight week period for instalments payments depends on the date the PTC application is made, and so could be any eight week period within the first five months after birth; this is in contrast to PPL payments/leave, which will generally always start (or continue) immediately after birth.

50 There is no single optimum level of PTC payment, as the costs of a new born will vary between families. However we note that the current PTC amount of $150 per week has not been changed since its introduction. Using the estimated CPI indexation up to April 2015, this would suggest a total payment of approximately $220 per week. There is, therefore, a prima facie case to increase the amount of PTC to match inflation increases from the date of introduction.

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[8] The contingency levels estimated are based on the best information to hand at the time the costing is done and within the timeframe allocated. Often the timeframe is determined by external requests, which means that a high level/best estimate approach is undertaken. To compensate for this IR use a process to arrive at a contingency factor based on an evaluation of the uncertainties and risk involved for the implementation of the project and associated with the high level cost estimate undertaken. This is applied to the base costs to provide a more robust overall cost. As the requirements and implementation dates are refined for the project further, the contingency factor is adjusted and the overall cost may be revised.

51 There is also no clear optimum payment period for those families that choose to receive the PTC by instalments. However as discussed at paragraph 19, there are child and maternal health and welfare benefits from providing financial support for this period of a child's life, and spreading this payment over a longer payment period may assist families in balancing their household budgets in this post-natal period.

52 We propose to increase the maximum amount of PTC to $220 per week, for all new born children born on or after 1 April 2015. We also propose to extend both the eligibility period and the period over which instalment payments are received from eight weeks to 10 weeks.

53 Increasing the weekly PTC amount to $220 will provide families with a total PTC payment of up to $2,200 in the first year of the child's life. This will go some way in providing extra assistance to lower and middle income families.

54 We also propose to adjust the amount of family income taken into consideration when the PTC is abated. Currently, because the PTC is only paid out in respect of the eight week period following birth, the WFF abatement formula only considers eight weeks' worth of annual income in determining the PTC abatement. This is in contrast to other WFF tax credits that are paid throughout the year and therefore abated against a full year's income.

55 The PTC was also brought in prior to the introduction of the In-work Tax Credit and the subsequent increases in the income threshold and Family Tax Credit amounts. As a result, the PTC now abates at higher levels of household income. For example, using the maximum proposed PTC amounts of $220 over 10 weeks, the PTC would not start to abate for a family with two young children until the family income reached $89,494, and would not be fully abated away until family income reached $143,482.

56 Taking into account the full year's income in this abatement calculation will not affect the amounts received by lower and middle income families. It simply lowers the level of income at which the PTC abates altogether. Using the two-child family example above, the PTC would still start to abate for when family income reached $89,494, and would then abate at a faster rate, and be fully abated away when the family income level reaches $99,847. Table 5 below illustrates the difference that changing the abatement formula would mean to the income level at which the PTC would be fully abated away.

57 It is estimated that changing the abatement threshold would reduce the number of families who would receive the proposed $220 PTC payment by approximately 1,000 families.

Table 5: Potential income threshold abatement rates of PTC ($220/week for 10 weeks)

	Number of children			
	1	2	3	4
Maximum PTC up to this income level (does not change)	$73,724	$89,494	$105,263	$124,703
If the abatement formula is not changed, i.e. PTC is abated 10 weeks income				
PTC of $220 /week for 10 weeks is fully abated at this income level	$127,712	$143,482	$159,251	$178,691
If the abatement formula is changed, i.e. PTC is abated against the full year's income				
PTC of $220/week for 10 weeks is fully abated at this income level	$84,077	$99,847	$115,616	$135,056

Financial Costs

58 The additional fiscal costs of the PTC increases are summarised in Table 6.

Table 6: Fiscal costs of proposed PTC changes ($M)

	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Costs of existing PTC scheme (8 weeks at $150/week)	$15	$14	$13	$12	$12
Additional costs of proposal: 10 weeks at $220 per week	$3.25	$13	$13	$13	$13

PTC Administration and Implementation costs

59 Inland Revenue has prepared a high-level impact analysis and costings for the proposed changes to PTC, and is confident it is able to deliver these changes from 1 April 2015. Inland Revenue will be seeking funding required to implement and administer these changes through Budget 2014. This amounts to $5.3 million over the five year forecast period of 2013/14 to 2017/18, and $0.500 million per annum from 2018/19. The five-year cost is operating cost; there is no capital funding required.

Table 7: Administration and Implementation costs of the proposed PTC changes ($M

Costs	2013/14	2014/15	2015/16	2016/17	2017/18	Total over 5 years
Inland Revenue: Implementation costs[1]	0.180	2.680	0.698	0.00	0.00	**3.558**
Administrative costs[2]		0.250	0.500	0.500	0.500	**1.750**
Total	**0.180**	**2.930**	**1.198**	**0.500**	**0.500**	**5.308**

Note 1: A contingency of 50% applies to IR's implementation costs. (see footnote 8)
Note 2: A contingency of 25% applies to IR's on-going administration

Consultation

60 The proposals contained in this paper have not been specifically consulted on, due to their Budget Secret nature.

61 However, there has been recent consultation on increasing PPL payment periods through the Government Administration Committee consideration of the Parental Leave and Employment Protection (Six Months' Paid Leave) Amendment Bill currently before Parliament.

62 MBIE will undertake consultation on the wider proposals in this paper (ie eligibility and flexibility) following Budget day announcements, with consultation to be undertaken with businesses, unions and other stakeholders.

Treasury comment

63 The Treasury is supportive of the provision of financial support to the carers of newborns, as there is evidence to suggest benefits across a range of outcomes. Treasury is also supportive of the changes to modernise and widen the eligibility to PPL. However, the Treasury would prioritise any additional support along the lines of that which would provide the greatest impact to more vulnerable families (typically, those on lower incomes). Therefore, the Treasury would prioritise proposals such as increasing the PTC, and widening/modernising the rules, ahead of other less targeted proposals, such as increasing the length of PPL. The Treasury's view is that there is no evidence of an 'optimal length' for the provision of financial support to parents of newborns, particularly with respect to PPL. Although an extension would, at the margin, assist parents who are currently unable to afford a longer absence from paid employment, the gains of an extension are likely to be small.

Human Rights

64 The proposals contained in this Cabinet paper appear to be consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993. A final view as to whether the proposals will be consistent with the Bill of Rights Act will be possible once the legislation has been drafted.

Legislative Implications

65 The proposals include a two stage approach to implementation:

Date	Proposal
1 April 2015	• Additional two weeks of PPL (increase from 14 weeks to 16 weeks) • Increase maximum PTC amount from $150 to $220 per week, to be paid for 10 weeks • Adjusting the PTC abatement formula, so that it restricts the amount of PTC paid to higher-income families.
1 April 2016	• Another additional two weeks of PPL (from 16 weeks to 18 weeks) • Broaden eligibility for PPL and unpaid leave (family and working arrangements)

66 A 1 April implementation for any PTC changes is highly desirable, to align these changes with the tax year which will reduce administrative costs. This will be the easiest approach for families and agents to understand and apply as it fits within the normal Working for Families tax credit cycle. The timing for the PPL extension is not as tied to the tax year as the PTC, and could, theoretically, be introduced at any point in the year. However we propose to introduce both the PTC and the PPL changes at the same time in April 2015, for ease of understanding, and also so not to distort decision making. All families will therefore benefit from April 2015, regardless of whether they claim PTC or PPL.

67 In order to meet the 1 April 2015 implementation date it is essential that legislation is passed by November 2014. If the necessary legislative changes are not in place by this date, there is a significant risk to Inland Revenue's ability to process applications and pay the increased PTC and PPL amounts from 1 April 2015.

68 For the PPL changes, we propose that a bill be introduced on Budget night, with a priority One, amending the Parental Leave and Employment Protection Act 1987 to make the increases to the length of payment for PPL on 1 April 2015 and 1 April 2016.

69 The PTC changes will require amendments to the Income Tax Act 2007. At its meeting on Monday, 31 March, the Cabinet Business Committee agreed to introduce a Budget taxation bill for another Budget item, namely proposed changes to cheque duty, because these are to come onto effect on 1 July 2014, (CBC Min (14) 1/2 refers). We therefore propose to include the PTC changes in this taxation bill.

70 While the Budget can announce the intention to fund the extension of the eligibility criteria in the PLEP Act to non-standard workers and other principal caregivers, it would be useful to consult with stakeholders on the detailed design of the legislative changes. The intention to refine the PLEP Act to allow more flexibility to promote attachment to work and to encourage employees to maintain skills could also be announced but it would be advisable to consult with stakeholders on the detail.

71 There is an Employment Standards Bill that is currently on the legislative programme with a priority five (to be introduced this year), which was intended to contain any potential PLEP Act changes and any other amendments to address issues with enforcement of employment standards. The PLEP Act changes could be included in this Bill, allowing for time to consult with stakeholders either on a targeted

discussion paper or an exposure draft. We recommend that the Minister of Labour undertake consultation on the detailed design, and report back to Cabinet by the end of the year in time for introduction late 2014.

Regulatory Impact Analysis

72 Regulatory impact statements (RIS) are required for the extension of PPL, and the proposed PTC changes. These are attached. Neither RIS has needed to be reviewed by Treasury's RIAT; both have been circulated to the Treasury as part of the consultation on this Cabinet paper.

Quality of the Impact Analysis

73 The General Manager, Strategic Policy Branch and the MBIE Regulatory Impact Analysis Review Panel have reviewed the attached RIS prepared by the MBIE. They consider that the information and analysis summarised in the RIS partially meets the criteria necessary for Ministers to fairly compare the available policy options and take informed decisions on the proposals in this paper. The paper is constrained by (i) its objectives which are not consistently applied in the Options and impact analysis section; and (ii) a lack of clarity on how preferred options have been selected.

74 The Quality Assurance reviewer at IR has reviewed IR's "*Providing additional financial assistance to working families with newborns*" RIS and considers that the information and analysis summarised in it meets the quality assurance criteria of the Regulatory Impact Analysis framework.

75 As directed by Ministers, Inland Revenue's analysis is focused only on options for increasing financial assistance to families of newborns through the PTC. Consequently, the RIS does not analyse the efficacy of providing financial support to families in improving life outcomes for children, nor does it analyse non-financial options. Secrecy requirements relating to Budget projects prohibited consultation on the suite of options.

Gender and Disability Implications

76 These proposals would have a positive impact on women and men if it resulted in the provision of improved parental leave to a wider range of working parents, and increased support to working families. The proposals in this paper are aimed at improving gender equity in the labour market and within families. The proposals outlined in this paper raise no specific implications for people with disabilities.

Publicity

77 Media releases will be made at key points of the amendment of the legislation, such as the Bill's introduction. A communication strategy will be developed prior to any implementation of changes to parental leave to inform key stakeholders about their respective rights and responsibilities. The communications strategy will also assist parents to make informed choices about other social assistance that may be available to them, including advice on whether the PTC or PPL would be the most beneficial for their situation.

Recommendations

The Minister of Labour and the Minister of Revenue recommend that the Committee:

1. **Note** that there is good evidence that the early years of life are critical for later outcomes, and that measures that support parents to provide full-time care for very young children, and alleviate financial stress can contribute to improving short and long-term child outcomes

   Changes to Parental Leave

2. **Note** that data shows that one third (33 per cent) of paid parental leave recipients are working five months after starting parental leave, and 40 per cent are working six months after starting leave

3. **Note** that extending paid parental leave entitlements by four weeks is likely to provide many of the mothers currently only achieving around five months of leave the opportunity to more easily reach the six month milestone, when a large amount of the benefits of full time personal care of children are achieved

4. **Agree in principle**, subject to Budget decisions, to introduce a Parental Leave and Employment Protection Amendment Bill on Budget night extending the current paid parental leave entitlement to 16 weeks as of 1 April 2015, and to 18 weeks as of 1 April 2016

5. **Note** non-standard workers, such as seasonal or casual workers, or other workers with more than one employer, who also tend to be low paid workers, are ineligible for paid parental leave despite often having a long work history

6. **Agree in principle**, subject to Budget decisions, to extend the paid (but not unpaid) parental leave entitlement to those who have recently changed jobs and to non-standard workers (i.e. casual, seasonal, and employees with more than one employer)

7. **Note** family structures and parenting arrangements have become significantly more diverse since the Parental Leave and Employment Protection Act 1987 was enacted, and that grandparents, permanent guardians, Home for Life carers who work but take time off work to care for young children do not get the same support, and that people may be discouraged from permanent care arrangements because of this

8. **Agree in principle**, subject to Budget decisions, that the Parental Leave and Employment Protection 1987 Act be amended to incorporate the notion of a 'primary carer' as the Australian scheme does, so that: Home for Life carers, and other permanent care arrangements (such as permanent guardianship, parenting orders, and grandparents) who work can receive entitlements under the Act

9. **Note** stakeholders (both employers and employees) are concerned that the Parental Leave and Employment Protection 1987 Act fails to promote attachment to work or

encourage employees to maintain skills, as it discourages interactions between employers and employees during the leave period as any work undertaken results in the employee forfeiting any remaining paid or unpaid leave

10. **Agree in principle**, subject to Budget decisions, to the following amendments to the Parental Leave and Employment Protection 1987 to provide greater flexibility and connection to work:

    10.1 Keeping in Touch Days: which enable employees to work limited hours or days during their paid and unpaid leave period if they choose

    10.2 Enabling employees to take the unpaid parental leave part time and flexibly to allow the unpaid leave period to be undertaken over time to suit family needs by mutual agreement with the employer and employee; and

    10.3 Extending unpaid leave to workers who have been with their employer for more than six months (but less than 12) as a pro-rata amount of unpaid leave according to length (eg seven months job tenure would equate to seven month's unpaid leave), subject to further testing with stakeholders.

11. **Agree in principle**, subject to Budget decisions, that recommendation 4 be implemented through a Budget night bill under urgency with a priority one to ensure that legislation is passed by 1 November 2014

12. **Agree in principle**, subject to Budget decisions, that recommendations 6, 8 and 10, be implemented through the Employment Standards Bill that is currently on the legislative programme with a priority five (to be introduced this year), enabling further consultation with stakeholders on the detailed design, and coming into effect by 1 April 2016

Changes to the Parental Tax Credit

13. **Agree in principle,** subject to Budget decisions, to increase the weekly amount of the Parental Tax Credit to $220 per week and increase the eligibility and payment period to 10 weeks, for all children born on or after 1 April 2015

14. **Agree in principle**, subject to Budget decisions, to amend the PTC abatement formula to include the full year's worth of family income in determining the amount by which the PTC is abated

15. **Agree in principle**, subject to Budget decisions, that the proposals agreed in recommendations 13 and 14 be included in the Budget taxation bill that Cabinet has already agreed to introduce for other Budget changes

16. **Invite** the Minister of Revenue to issue drafting instructions to Inland Revenue as necessary, to implement the agreed changes to the PTC

17. **Delegate** to the Minister of Revenue the authority to make such technical and minor policy decisions as are required to implement the agreed changes to the PTC

Financial Implications

Fiscal Costs

18. **Note** that changes in recommendations 4, 6, 8 and 10 have a fiscal cost as follows:

$M	2014/15	2015/16	2016/17	2017/18	Total over 4 years
Recommendation 4: Additional weeks of PPL (16 weeks from 1 April 2015, and 18 weeks from 1 April 2016	$6.00	$31.00	$51.00	$53.00	$141.00
Recommendations 6, 8 and 10: Widening PPL eligibility to non-standard workers and primary carers	$0.00	$9.00	$11.00	$11.00	$31.00
Recommendations 13 and 14 Increase PTC to $220 per week over 10 weeks, and change abatement thresholds	$3.25	$13.00	$13.00	$13.00	$42.25
Total for newborn package	$9.25	$53.00	$75.00	$77.00	$214.25

Implementation and administration costs

19. **Note** that the five year operating costs for Inland Revenue in implementing and administering the PPL changes in recommendations 4, 6, 8, and 10 is $0.813m , and for the PTC changes in recommendations 13 and 14, is $5.3m, from 2013/14 to 2017/18

20. **Note** the on-going annual operating cost of the PPL changes in recommendations 4, 6, 8, and 10 is up to $ 0.065 million for Inland Revenue and $0.2m for the Ministry of Business, Innovation and Employment, and for the PTC changes in recommendations 13 and 14 is up to $05.00 m for Inland Revenue, starting from 2018/19

21. **Note** that Inland Revenue's operational and administrative costs referred to in recommendations 19 and 20 include an appropriate level of contingency, as outlined in the table:

$M	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**Total over 5 years**	**2018/19 and Outer years**
Paid parental leave (recommendations 4, 6, 8 and 10)							
Inland Revenue implementation/ admin	0.012	0.339	0.110	0.050	0.050	**0.561**	**0.050**
Inland Revenue contingency	0.006	0.168	0.053	0.013	0.013	**0.253**	**0.013**
MBIE administration costs for PPL	0.00	0.00	0.05	0.2	0.2	**0.45**	**0.20**
PPL totals	***0.018***	***0.507***	***0.213***	***0.263***	***0.263***	***1.264***	***0.263***
Parental Tax Credit (recommendations 13 and 14)							
Inland Revenue implementation/admin	0.120	1.980	0.860	0.400	0.400	**3.760**	**0.400**
Inland Revenue contingency	0.060	0.950	0.338	0.100	0.100	**1.548**	**0.100**
PTC totals	***0.180***	***2.930***	***1.198***	***0.500***	***0.500***	***5.308***	0.500
Grand totals for PPL and PTC package	0.198	3.437	1.411	0.763	0.763	**6.572**	**0.763**

22. **Note** that funding for the fiscal and administrative costs summarised in recommendations 18 and 21 will be sought through the Omnibus Cabinet paper for Budget 2014 on 14 April, for all the agreed options.

Hon Simon Bridges
Minister of Labour

_____/_______/______