

# The Treasury

## Budget 2012 Information Release

### Release Document

June 2012

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THE TREASURY

Kaitohutohu Kaupapa Rawa

Date: 11 May 2012

To: Minister of Finance

## **Aide Memoire: Further advice on Welfare Reform Savings**

### **Purpose**

This aide memoire responds to the questions you raised in the fiscal issues meeting on 9 May. It provides further advice on welfare reform savings and how they will be reflected in benefit forecasts, [Not Relevant]

### **We are currently updating the modelling which showed \$1 billion in savings from welfare reform...**

As you are aware, preliminary modelling carried out in October 2011 indicated that welfare reform could result in 28,000-46,000 people moving off benefit, if the reforms are well-implemented and the labour market strengthens. This would result in benefit savings of \$1 billion over four years.

This assessment was based on what has been achieved from similar reform elsewhere, rather than based on our assessment of the decisions that have been made. We are currently in the process of reassessing the assumptions and expect to report back shortly, [6]

### **Welfare reform savings will be increasingly picked up in forecasts as decisions are made and reforms are implemented...**

Broadly speaking the welfare reform savings can be split into three components:

- Bill 1 policy impacts: changes to the work tests and associated provisions for sole parents and partners, and the youth package and youth pipeline.
- Bill 2 policy impacts: introduction of new benefit categories and changes in provisions for people with sickness and impairment.
- Overall package, operational performance and messaging impacts: improved operational performance and better targeting of resources, interactions between the policy and service delivery design and between components of the package, which will depend critically on implementation, communications and service delivery.

Of the estimated \$1 billion in welfare reform savings, approximately \$205 million was for Bill 1 (including youth package and youth pipeline). The remaining \$800 million is

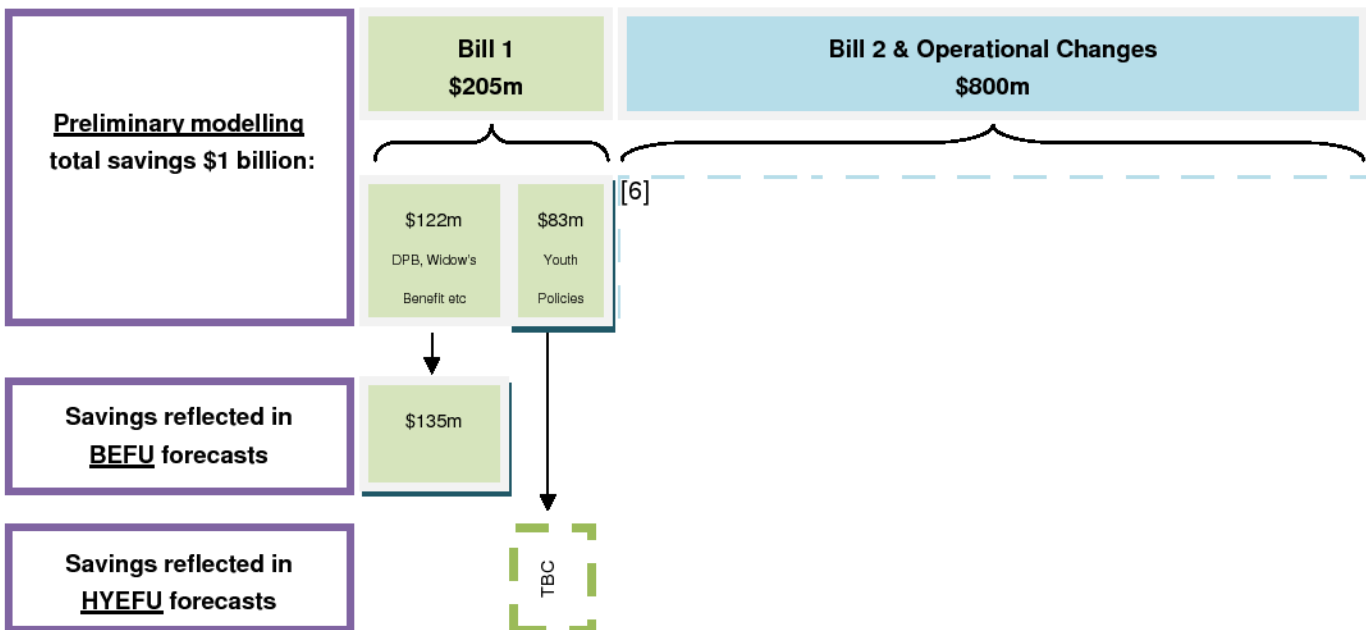
for Bill 2 policy impacts and, most importantly, the overall package, operational performance and messaging impacts.

BEFU forecasts incorporate Bill 1 decisions, where forecasters have reasonable certainty about the impacts. Accordingly, \$135 million of the \$205 million previously modelled has been reflected in BEFU forecasts. The \$135 million is based on the estimated impacts of the Bill 1 policy changes, excluding the Youth package and Youth pipeline. For these forecasts Cabinet decisions have been reached; there are clear implementation plans and good understanding about the policy impacts of these reforms. The \$135 million broadly reflects the low end scenario that we provided to you in October (excluding the youth package and youth pipeline).

The youth policies, delivery changes and modelling were not sufficiently certain to be included in BEFU. We expect that these will be included in HYEFU forecasts, although the exact magnitude of the savings is less certain at this stage and it is possible that only part of the savings indicated in preliminary modelling will be picked up at this stage.

An overview of the timeframes over which welfare reform savings will be reflected in benefit forecasts is outlined below.

**Figure 1: Overview of welfare reform savings modelled and reflected in forecasts**



We are currently in the process of estimating the impact of the Bill 2 changes and welfare reform overall, on benefit expenditure. [6]

[6]

[6]

[6]

[Not Relevant]

Not Relevant

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