

The Treasury

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report

MINISTRY OF
SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora



Date: 16 May 2012
To: Hon Bill English, Minister of Finance
Hon Paula Bennett, Minister for Social Development

JOINT MSD/TREASURY REPORT: 2012 BUDGET ECONOMIC AND FISCAL UPDATE (BEFU) OF BENEFIT FORECASTS FOR VOTE SOCIAL DEVELOPMENT

Purpose of the report

- 1 This report has been prepared by the Ministry of Social Development (MSD) and seeks your approval for the forecast changes in the 2012 Budget Economic and Fiscal Update (BEFU) to be included in Vote Social Development baselines. Cabinet has delegated authority for approving the forecast changes to baselines to the Minister of Finance and the Minister for Social Development [CO (11) 6 refers].
- 2 The current legal appropriations for Vote Social Development were set using the forecasts prepared for the 2011 Pre-Election Economic and Fiscal Update (PREFU). These need to be updated using the forecasts prepared for the 2012 BEFU.

Executive summary

- 3 The forecast changes are shown in Table 1. The 2012/13 to 2015/16 figures are mid-point forecasts while the 2011/12 figures include an agreed reasonable upper bound of \$94 million for Benefits and Other Unrequited Expenses and \$27 million for Capital Expenditure to reduce the likelihood of unappropriated spending.

Table 1: Summary Table of Forecast Changes

Vote Social Development 2012 BEFU forecast	2011/12 (\$ million)	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	Five Year Total (\$ million)
Benefits and Other Unrequited Expenses	17,517	18,059	18,642	19,366	20,198	93,782
<i>change from 2011 PREFU</i>	119	4	29	(65)	(226)	(140)
<i>% change from 2011 PREFU</i>	0.68%	0.02%	0.16%	(0.34%)	(1.11%)	(0.15%)
Capital Expenditure	1,783	1,792	1,846	1,857	1,905	9,182
<i>change from 2011 PREFU</i>	47	22	35	38	66	209
<i>% change from 2011 PREFU</i>	2.69%	1.23%	1.96%	2.12%	3.59%	2.32%
Capital Receipts	597	626	655	691	726	3,295
<i>change from 2011 PREFU</i>	(25)	(20)	(28)	(26)	(16)	(115)
<i>% change from 2011 PREFU</i>	(3.97%)	(3.07%)	(4.15%)	(3.66%)	(2.11%)	(3.37%)

Note: The numbers in the table may not add up due to rounding.

- 4 The following table shows the change in forecasts for Benefits and Other Unrequited Expenses, broken down by major factors of the change. Over the five years, there is a downward revision for total Benefits and Other Unrequited Expenses caused by the downward revisions due to indexation changes outweighing the upward revisions from demand driven changes.

Table 2: Change in forecasts for Benefits and Other Unrequited Expenses

Vote Social Development Benefit Expenditure	2011/12 (\$ million)	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	Five Year Total (\$ million)
2011 PREFU Forecast	17,398	18,055	18,613	19,431	20,424	93,921
(i) Forecast Demand Driven Changes	54	141	178	145	76	594
(ii) Indexation Changes	(39)	(147)	(129)	(187)	(272)	(774)
(iii) Supplementary Estimates add-on	94					94
Forecast Before Policy Changes	17,506	18,049	18,662	19,389	20,228	93,835
<i>Change from 2011 PREFU</i>	<i>108</i>	<i>(6)</i>	<i>48</i>	<i>(42)</i>	<i>(195)</i>	<i>(86)</i>
(iv) Policy Changes	11	10	(19)	(23)	(31)	(53)
2012 BEFU Forecast	17,517	18,059	18,642	19,366	20,198	93,782
<i>Total Change From 2011 PREFU</i>	<i>119</i>	<i>4</i>	<i>29</i>	<i>(65)</i>	<i>(226)</i>	<i>(140)</i>
<i>Percentage changes</i>	<i>0.68%</i>	<i>0.02%</i>	<i>0.16%</i>	<i>(0.34%)</i>	<i>(1.11%)</i>	<i>(0.15%)</i>

Note: The numbers in the table may not add up due to rounding.
 (i) Forecast Demand Driven Changes – refer to Appendix 2
 (ii) Indexation Changes – refer to Appendix 3
 (iii) Supplementary Estimates Add-on – refer to Appendix 4
 (iv) Policy Changes – refer to Appendix 5

The total forecast number of working-age (18-64 years) benefit recipients is revised up from the 2011 PREFU.

- 5 The main overall expenditure changes are from upward revisions to:

- Unemployment Benefit and Emergency Benefit
- Accommodation Assistance

And from downward revisions to:

- Domestic Purposes Benefit
- Disability Assistance
- Invalid's Benefit.

- 6 **Welfare Reform – Bill One and Youth Package policies reduce overall expenditure over the next five years**

Policies including Welfare Reform – Bill One and the Youth Package have downward impacts on forecast benefit numbers. Welfare Reform – Bill One will reduce benefit expenditure by \$135.5 million over the five years to June 2016, while the Youth Package will increase benefit expenditure by \$50.3 million.

- 7 **The largest overall downward revision is to Domestic Purposes Benefit**

The largest downward change to forecast benefit expenditure is \$508.4 million over five years for Domestic Purposes Benefit compared to the 2011 PREFU. This is mainly because recent trends in the number of recipients have been lower than expected, and

because of the estimated impact on the number of recipients from the Youth Package and Welfare Reform – Bill One policy. The revision reflects:

- fewer recipients than previously expected
- the recent fall in the total sole parent families in New Zealand
- an expected improvement in the employment outlook for sole parents
- policy impacts ensuring the number of recipients continues falling over the next five years.

8 The largest overall upward revision is to Unemployment Benefit and Emergency Benefit

The largest upward change to forecast benefit expenditure is \$357.4 million over five years for Unemployment Benefit and Emergency Benefit compared to the 2011 PREFU. This is mainly because of the recent slowdown in the decline in the number of recipients, in line with a weaker than expected economy and a sluggish labour market. The number of recipients will fall over the forecast horizon, but at a slower rate than was estimated at the 2011 PREFU.

Recommended actions

We recommend that joint Ministers:

- 1 **note** that Cabinet has delegated authority for approving forecast changes to baselines to the Minister of Finance and the Minister for Social Development [CO (11) 6 refers]
- 2 **note** that the baselines are already included in the Supplementary Estimates of Appropriations 2011/12 and Estimates of Appropriations 2012/13
- 3 **note** that the 2011/12 amounts in Appendix 1 Column B are the mid-point forecasts that make up the 2011/12 'Estimated Actual' in the Estimates of Appropriations
- 4 **note** that the Supplementary Estimates of Appropriations 2011/12 includes an 'add-on' amount to reduce the likelihood of an overspend and the need for Parliamentary validation
- 5 **note** that the revised forecasts include the impact of Welfare Reform – Bill One, which reduces benefit expenditure by \$135.5 million over the five years to June 2016
- 6 **note** that the revised forecasts include the impact of the Youth Package, which raises overall benefit expenditure by \$50.3 million over the five years to June 2016
- 7 **note** that under the fiscal management approach the net impact of changes to forecasts will be counted against future operating allowances. The net impact will be determined once all between-budget economic and fiscal updates and baseline updates of forecasts of benefits and all other expenses are finalised
- 8 **note** that Study Scholarships and Awards has been reduced from 2013/14 onwards to continue to reflect the intention of ECC Min (09) 6/2 to cease awarding Step Up and Bonded Merit scholarships after the 2009 round
- 9 **note** that the forecasts in this report use available benefit information as at 23 April 2012 and Treasury's macroeconomic forecasts finalised on 19 April 2012 and have been incorporated in the 2012 BEFU

10 **approve**, in accordance with CO (11) 6, the changes to appropriations for 2011/12 set out in Appendix 1 Column A being met from imprest supply until the Supplementary Estimates of Appropriations 2011/12 are enacted

Agree / Disagree

Agree / Disagree

11 **approve** the revised baselines for 2011/12 to 2015/16 set out in Appendix 1 column A and columns C to F.

Agree / Disagree

Agree / Disagree

Fiona Carter-Giddings

Team Leader

Labour Market and Welfare

for Secretary to The Treasury

Date

Sue Mackwell

Deputy Chief Executive

Social Policy and Knowledge

Ministry of Social Development

Date

Hon Bill English

Minister of Finance

Date

Hon Paula Bennett

Minister for Social Development

Date

Purpose of the report

- 9 This report seeks your approval for the forecast changes in the 2012 BEFU to be included in Vote Social Development baselines. Cabinet has delegated authority for approving the forecast changes to baselines to the Minister of Finance and the Minister for Social Development [CO (11) 6 refers].
- 10 The current legal appropriations for Vote Social Development were set using the forecasts prepared for the 2011 PREFU, and need to be updated using the forecasts prepared for the 2012 BEFU.

2012 Budget Economic and Fiscal Update

- 11 This report outlines the 2012 BEFU five-year forecasts for New Zealand Superannuation, working-age benefits, supplementary payments, Student Allowances and Student Loans, and compares these to the forecasts made for the 2011 PREFU. Three components are discussed separately:
 - Benefits and Other Unrequited Expenses (BOUE)
 - Capital Expenditure items
 - Crown Capital Receipts.
- 12 The forecasts in this report are based on The Treasury's macroeconomic forecasts finalised on 19 April 2012 and available benefit information as at 23 April 2012.
- 13 As an appropriation is a legal upper limit on expenditure, using mid-point forecasts to determine the amount of each appropriation item could result in unappropriated expenditure for some forecast items. Unappropriated expenditure requires separate Ministerial approval and Parliamentary validation. Therefore, to reduce the likelihood of unappropriated expenditure, the appropriation for each forecast item for the final three months of the 2011/12 year is set at a small margin above the mid-point forecast.

What has changed since the 2011 PREFU Forecasts

Changes in 2012 BEFU – Vote Social Development

- 14 Table 3 summarises the annual forecast amounts for BOUEs, Capital Expenditure and Capital Receipts, and the changes in the forecasts since the 2011 PREFU forecasts reported to joint Ministers on 19 October 2011 [REP/11/10/528 or T2011/2241 refers]. All figures are mid-point forecasts, except for the 2011/12 year where a margin has been added as discussed in paragraph 13.

Table 3: 2012 BEFU Forecast Summary

Vote Social Development 2012 BEFU forecast	2011/12 (\$ million)	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	Five Year Total (\$ million)
Benefits and Other Unrequited Expenses	17,517	18,059	18,642	19,366	20,198	93,782
<i>change from 2011 PREFU</i>	119	4	29	(65)	(226)	(140)
<i>% change from 2011 PREFU</i>	0.68%	0.02%	0.16%	(0.34%)	(1.11%)	(0.15%)
Capital Expenditure	1,783	1,792	1,846	1,857	1,905	9,182
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<i>% change from 2011 PREFU</i>	(3.97%)	(3.07%)	(4.15%)	(3.66%)	(2.11%)	(3.37%)

Note: The numbers in the table may not add up exactly due to rounding.

- 15 Appendix 1 outlines the overall 2012 BEFU forecasts, incorporating all the changes discussed in this report.

Changes in Benefits and Other Unrequited Expenses

- 16 Overall, total forecast benefit expenditure is revised down by \$139.7 million (or 0.15%) over the five fiscal years 2011/12 to 2015/16 compared with the 2011 PREFU (Table 4). Excluding the supplementary estimates add-on, benefit expenditure would be \$233.3 million (0.25%) lower than the 2011 PREFU.

Table 4: Main Revisions to Benefits and Other Unrequited Expenses¹

Benefits and Other Unrequited Expenses	Gross (\$ million)	Debt (\$ million)	OSP (\$ million)	Five Year Total (\$ million)
Domestic Purposes Benefit	(520.2)	11.8	(0.0)	(508.4)
Disability Assistance	(151.7)	N/A	N/A	(151.7)
Invalid's Benefit	(137.7)	17.6	1.4	(118.7)
Sickness Benefit	(101.9)	40.7	(0.0)	(61.3)
Independent Youth Benefit	(50.9)	1.3	0.0	(49.6)
New Zealand Superannuation	(67.9)	2.2	47.6	(18.1)
Widow's Benefit	(27.8)	1.4	0.0	(26.4)
Student Allowances	26.0	0.0	0.0	26.0
Hardship Assistance	33.7	N/A	N/A	33.7
Childcare Assistance	53.2	N/A	N/A	53.2
Accommodation Assistance	151.6	N/A	N/A	151.6
Youth Payment and Young Parent Payment	175.6	(1.3)	0.0	174.3
Unemployment Benefit and Emergency Benefit	377.0	(19.8)	0.2	357.4
All Other Benefits	(1.6)	(0.2)	0.0	(1.8)
Total BOUE Changes	(242.5)	53.7	49.2	(139.7)

Note: The numbers in the table may not add up exactly due to rounding.

¹ "Debt" refers to new Debt Establishments and "OSP" refers to Overseas Pension Recoveries.

- 17 The largest downward change to forecast benefit expenditure is \$508.4 million over five years for Domestic Purposes Benefit (DPB). This is mainly because recent trends in the number of recipients have been lower than expected, and because of the estimated impact on the number of recipients from the Youth Package and Welfare Reform – Bill One policy changes. The revision reflects:
- fewer recipients than previously forecast
 - the recent fall in the total sole parent families in New Zealand
 - an improving employment outlook for sole parents
 - policy impacts ensuring the number of recipients continues falling over the next five years.
- 18 The largest upward change to forecast benefit expenditure is to Unemployment Benefit and Emergency Benefit (UB), which has been revised up by \$357.4 million over the five years. This is mainly because of the recent slowdown in the decline in the number of recipients, in line with a weaker than expected economy and a sluggish labour market. The number of recipients will fall over the forecast horizon, but at a slower rate initially than was estimated at the 2011 PREFU.
- 19 Table 5 splits the changes in forecast benefit expenditure since the 2011 PREFU forecasts into four main components:
- **Forecasting changes** – These are changes in projected recipient numbers and average payment rates (before indexation). Forecasting changes increase forecast expenditure by \$594 million over five years compared to the 2011 PREFU (see Appendix 2).
 - **Indexation changes** – These changes are caused by changes in Treasury’s Consumers Price Index (CPI) and Average Ordinary-Time Weekly Earnings (AOTWE) forecasts. Indexation changes causes forecast expenditure to decrease by \$774 million over five years compared to the 2011 PREFU (see Appendix 3).
 - **Supplementary Estimates add-on** – This is the difference between the mid-point and the reasonable upper bound and reduces the likelihood of an item being unappropriated. The Supplementary Estimates add-on increases the 2011/12 appropriations by \$94 million (see Appendix 4).
 - **Policy changes** – These are known policy changes since the 2011 PREFU and result in a decrease in forecast expenditure of \$53 million over five years (see Appendix 5).

All these factors combined result in a downward change in total benefit expenditure.

Table 5: Components of Change for Benefits and Other Unrequited Expenses

Vote Social Development Benefit Expenditure	2011/12 (\$ million)	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	Five Year Total (\$ million)
2011 PREFU Forecast	17,398	18,055	18,613	19,431	20,424	93,921
(i) Forecast Demand Driven Changes	54	141	178	145	76	594
(ii) Indexation Changes	(39)	(147)	(129)	(187)	(272)	(774)
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Forecast Before Policy Changes	17,506	18,049	18,662	19,389	20,228	93,835
<i>Change from 2011 PREFU</i>	<i>108</i>	<i>(6)</i>	<i>48</i>	<i>(42)</i>	<i>(195)</i>	<i>(86)</i>
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2012 BEFU Forecast	17,517	18,059	18,642	19,366	20,198	93,782
<i>Total Change From 2011 PREFU</i>	<i>119</i>	<i>4</i>	<i>29</i>	<i>(65)</i>	<i>(226)</i>	<i>(140)</i>
<i>Percentage changes</i>	<i>0.68%</i>	<i>0.02%</i>	<i>0.16%</i>	<i>(0.34%)</i>	<i>(1.11%)</i>	<i>(0.15%)</i>

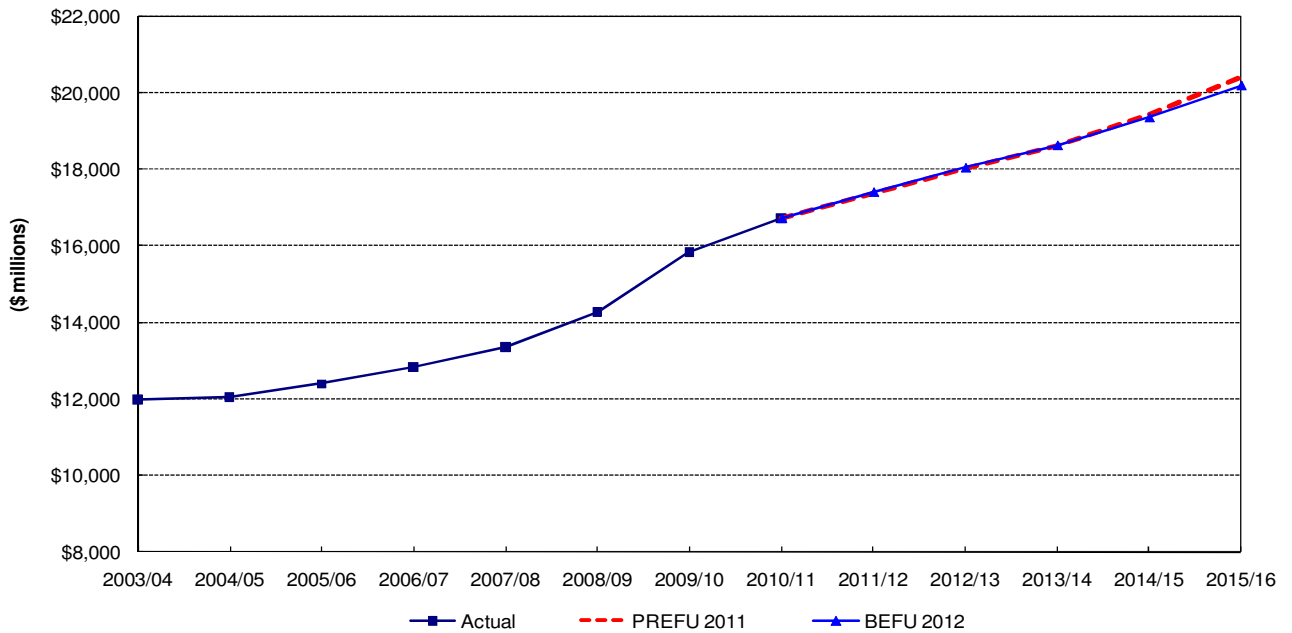
Note: The numbers in the table may not add up due to rounding.

- (i) Forecast Demand Driven Changes – refer to Appendix 2
- (ii) Indexation Changes – refer to Appendix 3
- (iii) Supplementary Estimates Add-on – refer to Appendix 4
- (iv) Policy Changes – refer to Appendix 5

20 Figure 1 compares total expenditure on Benefits and Other Unrequited Expenses for the 2012 BEFU with the 2011 PREFU.

Figure 1

**VOTE SOCIAL DEVELOPMENT
Expenditure on Benefits and Other Unrequited Expenses**



Note: that the y-axis does not start at zero.

Demand Driven Changes (excluding Debt Establishments and Overseas Pension Recoveries)

21 The demand driven changes reflect changes in the population, benefit take-up rates and average payment rates (before indexation). The average payment is affected by changes in the proportion of recipients on the various rates of payment within a benefit, the level of abatement and the level of *ad hoc* payments being made. Major influences on demand driven changes include changes in:

- the state of the economy
 - operational policy
 - demography
 - behaviour.
- 22 Demand driven changes do not include policies such as the Youth Package policy or Welfare Reform – Bill One, due to come into effect in July 2012 and October 2012, respectively. These will be discussed in the New Policies section, as well as in Appendix 5.
- 23 The net increase in expenditure caused by demand driven changes, which excludes debt establishments and Overseas Pension Recoveries, is \$491.1 million. Table 6 shows the significant demand driven changes in individual benefit forecasts since the 2011 PREFU.

Table 6: Impact of Other Demand Driven Changes on Benefits

Other Demand Driven Changes	2011/12 (\$ million)	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	Five Year Total (\$ million)
Domestic Purposes Benefit	(11.1)	(33.7)	(46.0)	(54.2)	(61.1)	(206.1)
Disability Assistance	0.0	(10.1)	(14.4)	(18.4)	(22.1)	(65.0)
Sickness Benefit	(1.1)	(11.1)	(10.9)	(10.1)	(9.6)	(42.6)
Invalid's Benefit	(1.7)	(3.7)	(7.6)	(12.0)	(23.1)	(48.1)
Widow's Benefit	(0.8)	(1.7)	(1.6)	(1.6)	(1.5)	(7.2)
Childcare Assistance	6.5	4.9	2.4	2.4	(0.8)	15.4
Hardship Assistance	1.0	13.4	7.0	6.0	4.3	31.6
New Zealand Superannuation	(2.8)	24.3	26.9	20.7	16.1	85.3
Accommodation Assistance	4.2	21.6	32.6	34.1	28.5	121.0
Student Allowances	17.1	44.0	41.7	36.5	34.5	173.7
Unemployment Benefit and Emergency Benefit	33.5	71.7	115.0	113.6	93.9	427.6
All Other Benefits	1.6	2.7	2.1	0.5	(1.3)	5.5
Total Demand Driven Changes	46.3	122.3	147.1	117.6	57.8	491.1

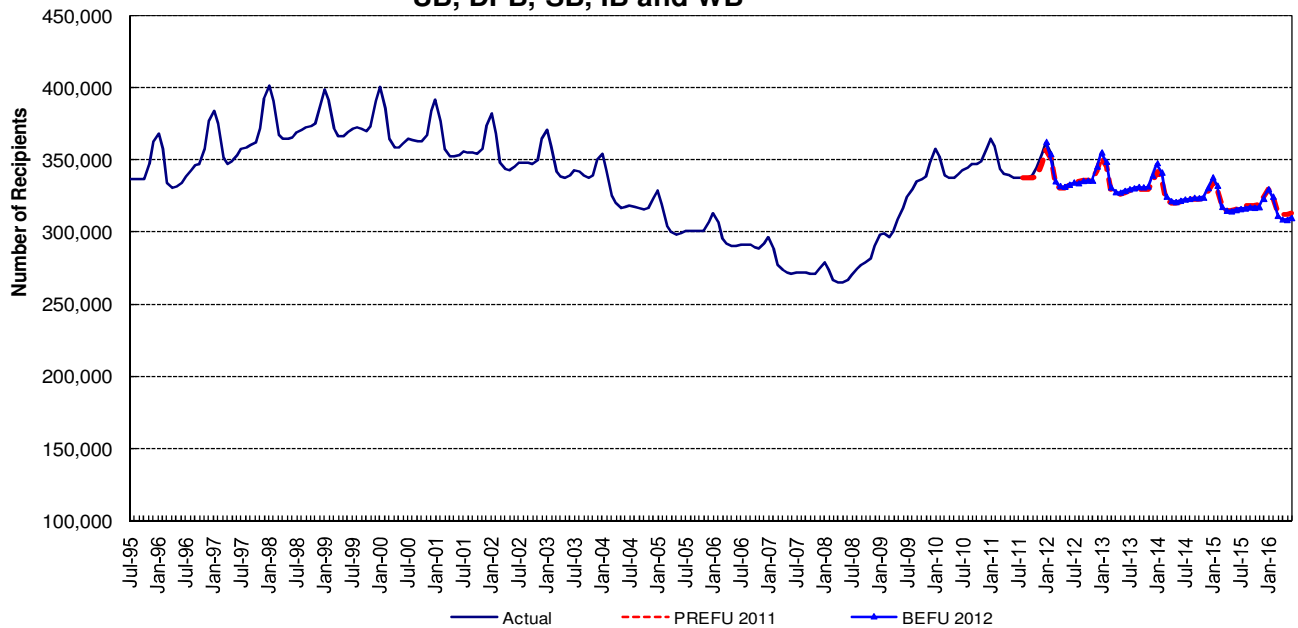
Notes: The numbers in the table may not add up due to rounding.

- 24 The total forecast number of working-age benefit recipients is revised up from the 2011 PREFU on average (numbers are higher until early 2015 and then lower thereafter). The main change is an upward revision to the forecast number of UB recipients. This is partly offset by downward revisions to forecast numbers of DPB, Sickness Benefit (SB) and Invalid's Benefit (IB) recipients. Forecast New Zealand Superannuation (Nzs) recipient numbers have been revised up slightly from the 2011 PREFU.
- 25 By 2015/16, the number of working-age benefit recipients² will be around 2,000 lower than forecast in the 2011 PREFU (refer to Figure 2).
- 26 Appendix 6 shows the flows between the main benefits, and highlights the shifts observed in these flows over the past year.

² That is, recipients of the working-age benefits, regardless of actual age.

Figure 2

**WORKING AGE BENEFITS
Actual and Forecast Number of Recipients
UB, DPB, SB, IB and WB**



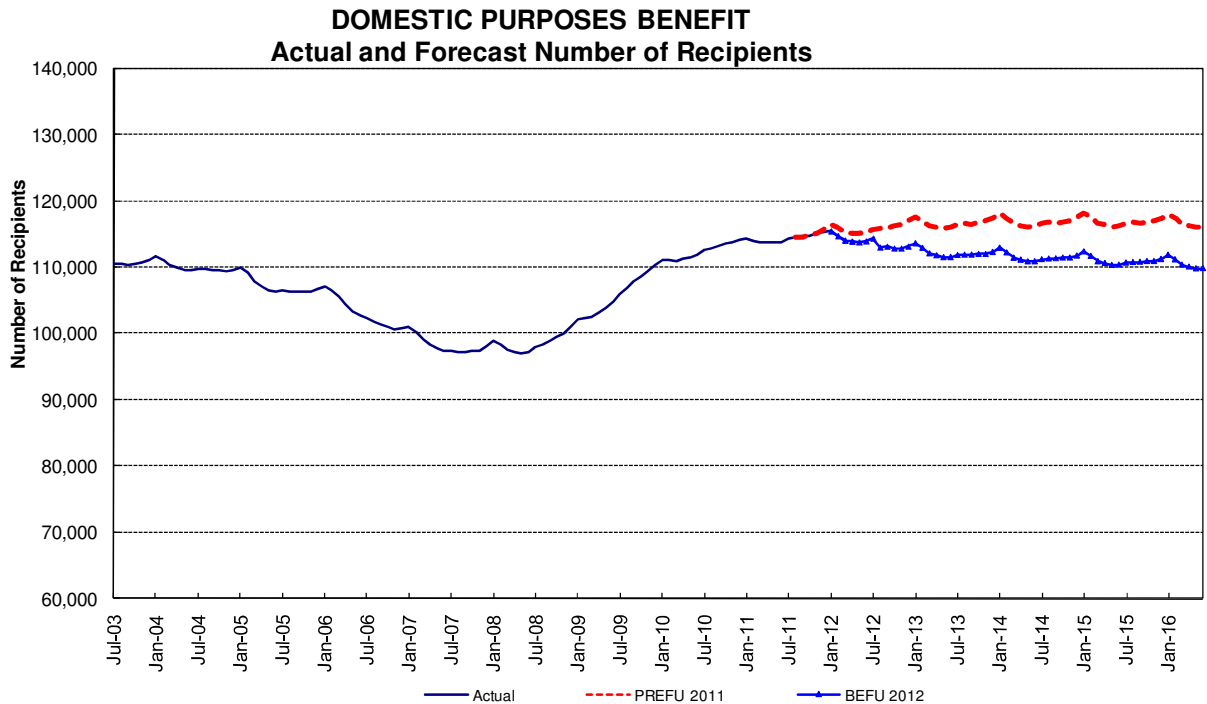
Note: that the y-axis does not start at zero.

27 The main downward **Demand Driven** changes are:

- **Domestic Purposes Benefit** – Revised down by \$206.1 million (2.1%) over five years. This is mainly caused by a lower forecast number of recipients, contributing \$164.7 million to the revision. Recent trends have shown that the number of DPB recipients exiting benefit because they have re-partnered is higher than the number coming on to DPB because they have separated. This is in line with a fall in the estimated total number of sole parent families in New Zealand. The number of sole parent families in the March 2012 quarter was 14,900 (9.2%) lower than its peak of 161,800 in the December 2010 quarter.

As the economy gradually improves, employment outcomes for sole parents are expected to improve. However, the number of DPB recipients is forecast to fall gradually because they will face additional barriers to work compared to other jobseekers (e.g. arranging suitable childcare).

Figure 3

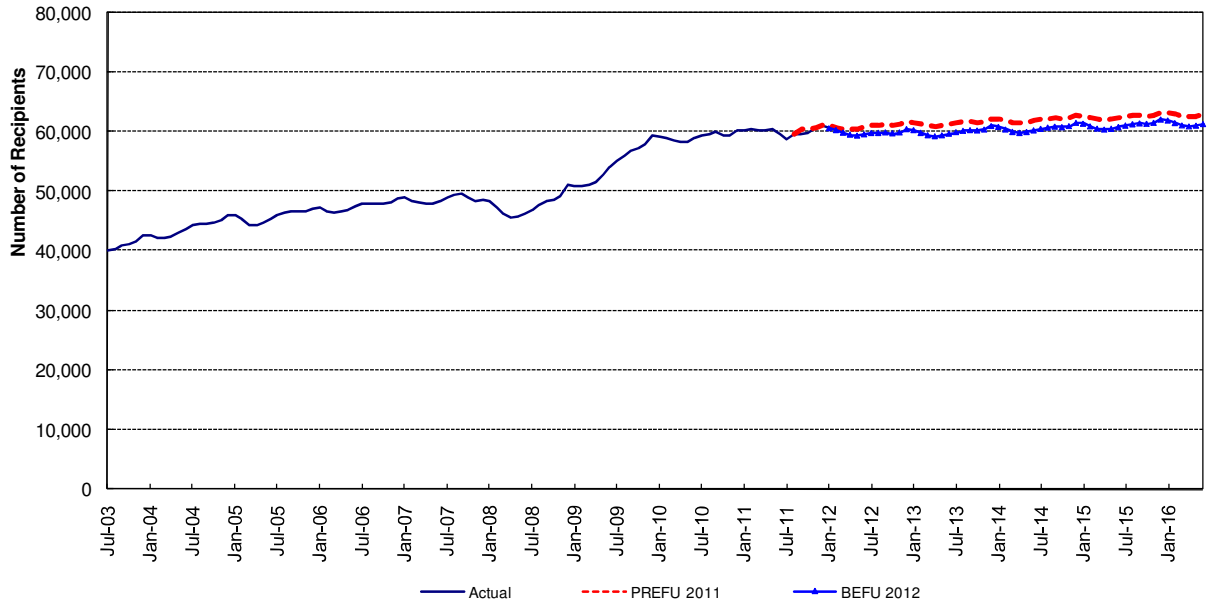


Note: (i) that the y-axis does not start at zero
(ii) that the 2012 BEFU includes policy impacts.

- Disability Assistance** – Revised down by \$65.0 million (3.2%) over five years. This consists of the Child Disability Allowance (CDA) and the Disability Allowance (DA). The downward revision is mainly caused by a fall in the number of both DA recipients and CDA recipients. The lower number of DA recipients reflects a lower proportion of NZS and IB recipients accessing DA. The lower number of CDA recipients is due to ongoing efforts to ensure recipients meet eligibility criteria. Note that the change to prescription charges from \$3 to \$5 per item that was announced on 14 May 2012, is not included in the DA forecast. [6]
- Sickness Benefit** – Revised down by \$42.6 million (1.0%) over five years. This is mainly caused by a downward revision to the number of recipients. The revision is driven by an increase in the expected flows from SB to IB. This is likely to offset any impact that the weaker labour market may have on lowering outflows to the non-benefit population in the near term. Relatively low growth in the number of recipients is expected to be the dominant trend over the next five years.

Figure 4

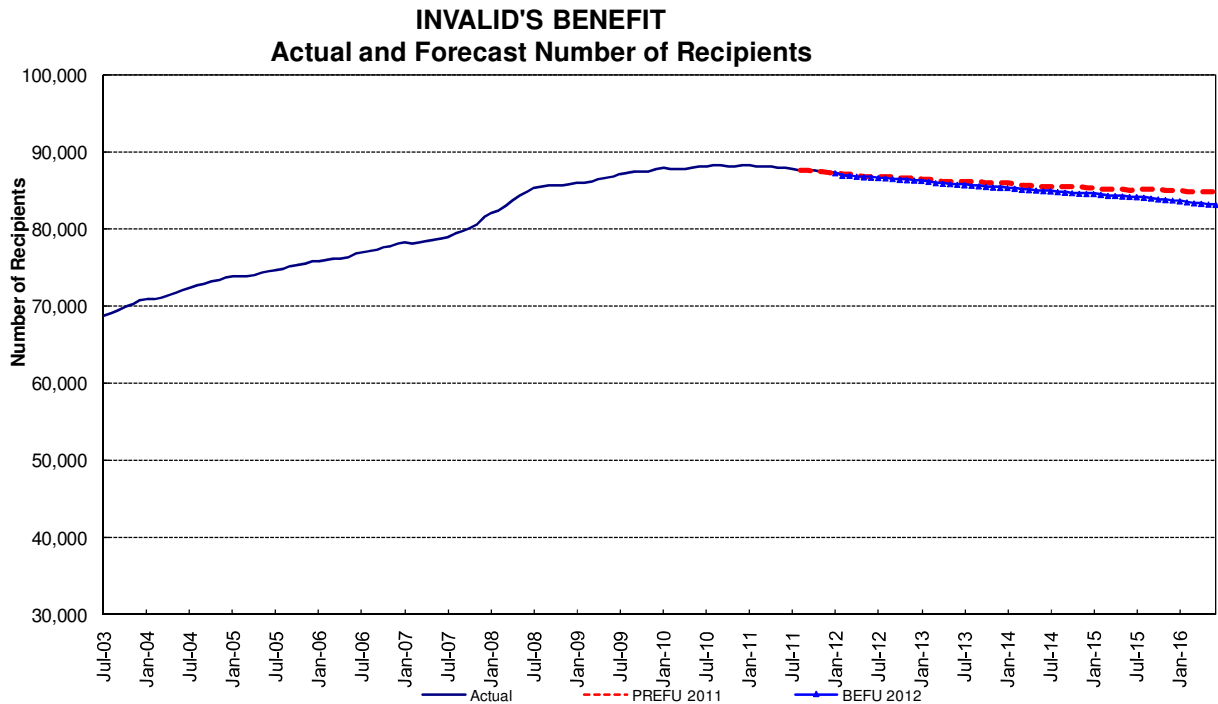
SICKNESS BENEFIT
Actual and Forecast Number of Recipients



Note: that the 2012 BEFU includes policy impacts.

- Invalid's Benefit** – Revised down by \$48.1 million (0.7%) over five years. This is mainly a result of a downward revision to the number of recipients, accounting for \$41.2 million of the revision. Despite the increase in expected inflows from SB (as mentioned in the previous paragraph), increased outflows to NZS and non-benefit are expected to outweigh the inflows, resulting in a falling number of recipients over the next five years. The number of recipients is expected to fall over the forecast horizon at an average of around 900 per annum.

Figure 5



Note: (i) that the y-axis does not start at zero
(ii) that BEFU the 2012 BEFU includes policy impacts.

- **Scholarships and Study Awards** – The Step Up and Bonded Merit Scholarship Programmes within the Study Scholarships and Awards appropriation have been revised to fall to zero by the final year of forecast. This reflects the intention of CAB Min (09) 11/4, which confirmed ECC Min (09) 6/2 in March 2009, that ceased awarding new scholarships under these programmes after the 2009 round. The ECC minute contained changes to appropriations out to '2012/13 & Outyears'. As this is a capped appropriation then the 2012/13 amount was retained in the outyears. It is clear that the outyears, for these two programmes, should have continued to fall toward zero. This is corrected in 2012 BEFU, and revises five year expenditure down by \$2.6 million (1.8%).

28 The main upward **Demand Driven** changes are:

- **Unemployment Benefit and Emergency Benefit³ (UB)** – Revised up by \$427.6 million (11.3%) over five years. This is mainly due to an upward revision to the number of recipients, which increases expenditure by \$493.7 million compared to the 2011 PREFU. This upward revision is the result of the recent slowdown in the decline in the number of recipients, in line with a weaker than expected economy and a sluggish labour market. The number of recipients will fall over the forecast horizon, but at a slower rate initially than was estimated at the 2011 PREFU.

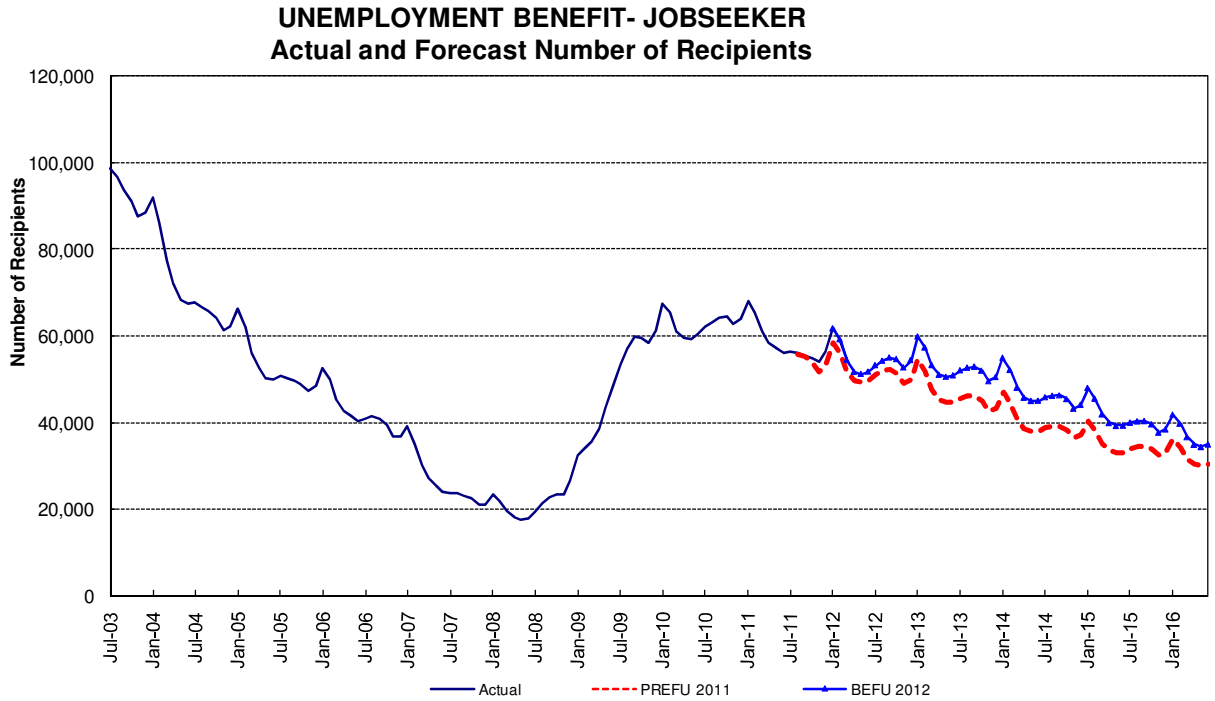
Contributing to the upward revision in the number of recipients is the revised GDP forecast from Treasury, with a slower recovery in the short term and higher growth from June 2013 onwards.

³ This appropriation consists of six benefits. The benefits are UB-Jobseeker, UB-Hardship Jobseeker, UB-Training, UB-Hardship Training, UB-Hardship Student and Emergency Benefit. UB-Jobseeker numbers have accounted for around 76% of all UB recipients over the past year. This has grown from an average of about 56% just prior to the 2008 recession.

Over the last 12 months, we have seen a large net outflow of recipients to UB - Training (UB -T). This is because recipients are being transferred from UB-JS to UB -T, with the majority then moving off benefit entirely rather than returning to UB - JS. However, not all recipients who are on UB -T have been flowing out to non-benefit, resulting in a growing number of UB -T recipients.

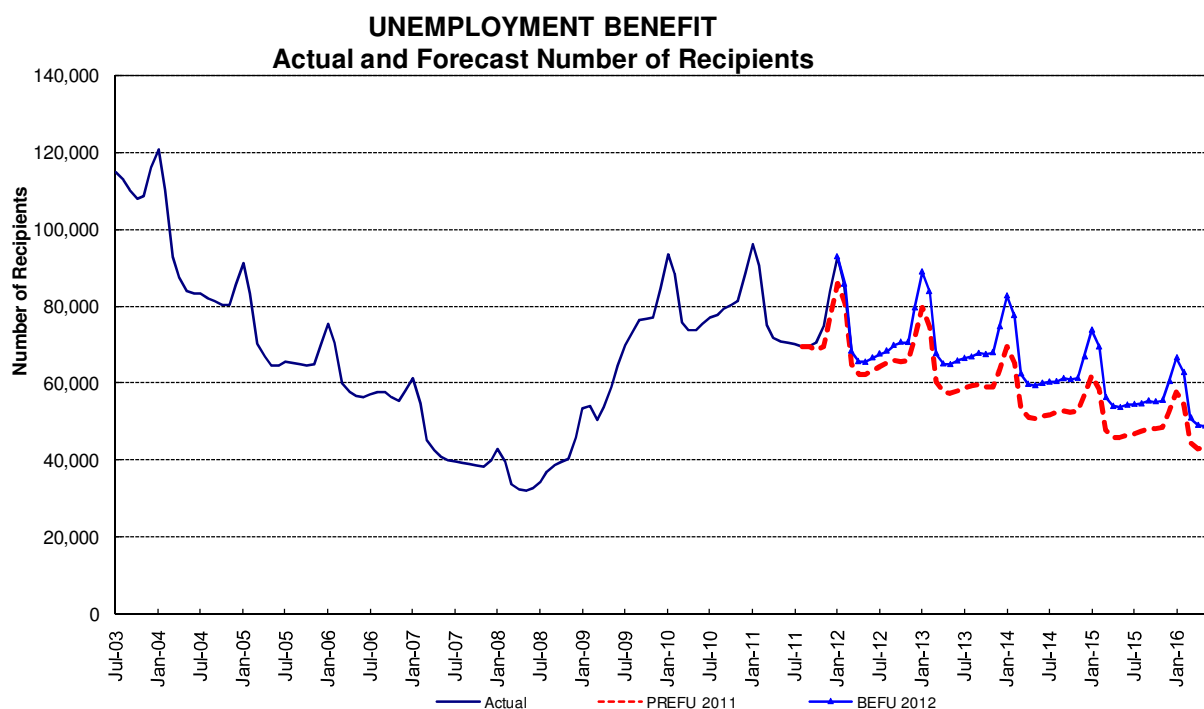
Figure 6 shows the actual and forecast number of UB - Jobseeker recipients and Figure 7 shows the total number of UB recipients.

Figure 6



Note: that the 2012 BEFU includes policy impacts.

Figure 7



Note: that the 2012 BEFU includes policy impacts.

- **Student Allowances** – Revised up by \$173.7 million (6.3%) over five years compared to the 2011 PREFU. This is mainly caused by an upward revision to the number of recipients which is partly offset by a downward revision to the average payment rate.
- **Accommodation Assistance** – Revised up by \$121.0 million (2.0%) over five years. This mainly reflects an upward revision to the average payment rate. The higher average rate reflects ongoing and expected increases in housing costs.
- **New Zealand Superannuation** – Revised up by \$85.3 million (0.2%) over the five years compared to the 2011 PREFU. This is caused by an upward revision of \$246.3 million to the number of recipients, caused by an increase in the estimated take-up of NZS from the population of those aged 65 years and older. The revision to the number of NZS recipients is partially offset by a downward revision to the average payment (before indexation), reducing expenditure by \$161.0 million compared to the 2011 PREFU.
- **Hardship Assistance** – Revised up by \$31.6 million (2.4%) over five years. This is a combination of Special Benefit, Special Needs Grants (SNGs), Temporary Additional Support (TAS), and Temporary Accommodation Assistance.

TAS is revised up by \$59.6 million compared to the 2011 PREFU. The number of TAS recipients has been revised up mainly because of the upward revisions to the take-up of TAS by parent benefit recipients (UB, DPB/WB, IB and SB) as well as to the expected number of non-beneficiary recipients.

SNGs is revised down by \$39.4 million compared to the 2011 PREFU. This is mainly caused by the recent fall in the number of grants accessed across all parent benefit groups except for UB. The number of grants fell over late 2010 to

early 2011 as a result of the Future Focus changes in September 2010⁴. The 2011 PREFU forecast had incorporated a bounce back in grants which has not eventuated, so the 2012 BEFU forecast has been revised down. We expect that the number of SNGs accessed will remain fairly stable over the forecast horizon.

New Policies in BEFU 12

- 29 The largest policy impacts are from the Welfare Reform – Bill One and the Youth Package policies. Welfare Reform – Bill One will reduce benefit expenditure by \$135.5 million over the five years to June 2016, while the Youth Package will increase benefit expenditure by \$50.3 million.

Welfare Reform – Bill One

- 30 Welfare Reform – Bill One introduces more work obligations for Sole Parents, Widows, Women Alone and partners within the benefit system to increase the focus on getting these recipients back into the labour market and off benefit. Specifically, parents on benefit whose youngest child is aged five or older must look for part-time work and parents whose youngest child is aged 14 or older must look for full-time work. As well as this, parents who have subsequent children while receiving a benefit will be subject to work obligations based on the age of their previous youngest child when their subsequent child turns one.
- 31 The benefits most affected by the Welfare Reform – Bill One changes are DPB – Sole Parent (DPB-SP), DPB – Woman Alone (DPB-WA) and Widow's Benefit (see Table 7). It is expected that the larger focus on getting recipients back into work will reduce the number of recipients on these benefits.
- 32 The lower number of recipients on these benefits will have flow-on impacts for some supplementary assistance payments such as Accommodation Assistance, Hardship Assistance and Childcare Assistance. With fewer recipients of the main benefits there will be less need for supplementary assistance. However, given that these recipients have dependant children it is expected that they will require increased Childcare Assistance payments.

Table 7: Summary of Welfare Reform – Bill One Policy

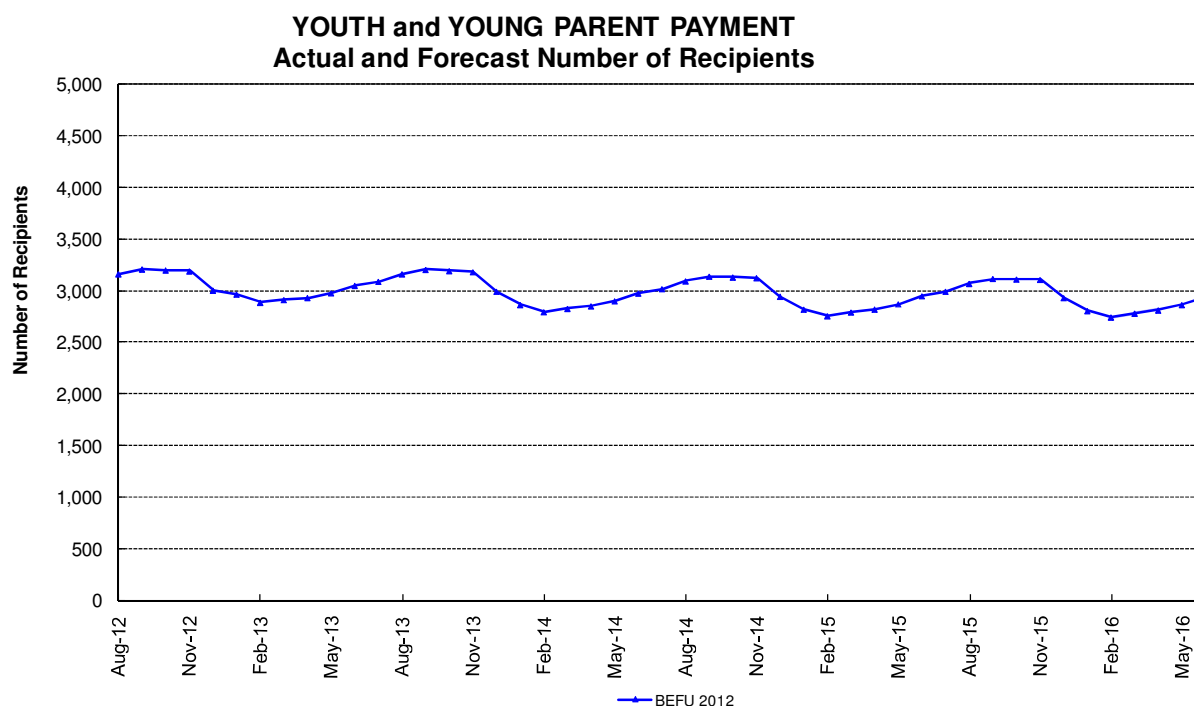
Appropriations Welfare Reform Bill 1 Policy	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	Five-Year Total (\$ million)
Domestic Purposes Benefit	(\$10.2)	(\$24.1)	(\$29.7)	(\$33.1)	(\$97.1)
Widow's Benefit	(\$1.7)	(\$3.6)	(\$4.8)	(\$5.8)	(\$16.0)
Unemployment Benefit and Emergency Benefit	(\$0.5)	(\$1.2)	(\$1.3)	(\$1.3)	(\$4.3)
Sickness Benefit	(\$0.6)	(\$1.3)	(\$1.7)	(\$1.9)	(\$5.5)
Invalid's Benefit	(\$0.7)	(\$1.6)	(\$2.0)	(\$2.3)	(\$6.6)
Childcare Assistance	\$0.2	\$0.6	\$0.7	\$0.7	\$2.2
Accommodation Assistance	(\$0.3)	(\$0.5)	(\$0.7)	(\$0.8)	(\$2.3)
Hardship Assistance	(\$0.6)	(\$1.4)	(\$1.8)	(\$2.1)	(\$5.9)
Total Welfare Reform Bill 1	(\$14.3)	(\$33.2)	(\$41.4)	(\$46.6)	(\$135.5)

⁴ From the third Special Needs Grant accessed within a 52-week period, clients must meet their hardship obligations by completing both reasonable steps and a budgeting activity. On the sixth grant within a 52-week period, referrals to budget advice services occur.

Youth Package

- 33 The Youth Payment and Young Parent Payment will replace Independent Youth Benefit (IYB) from 30 July 2012. This payment will be accessed by 16-17 year olds without children and by 16-18 year old parents. There will be Incentive Payments of \$10 per week, per obligation for recipients who meet their obligations for education, budgeting and parenting. However, the Youth Package does not include behavioural impacts and therefore does not include any savings from changes in the behaviour of young people. Figure 8 shows the estimated number of Youth and Young Parent Payment recipients per month. The estimated seasonal pattern is the result of allowing Youth Payment and Young Parent recipients to continue on this payment until 1 January of the year after they turn 18 (19 years for Young Parent recipients).

Figure 8



- 34 This new payment will impact on IYB, DPB – SP and Emergency Maintenance Allowance (EMA), and, to a lesser extent, UB and SB (see Table 8). All 16-18 year olds will transfer from their current main benefit to either the Youth Payment or Young Parent Payment on 30 July 2012. This will have the effect of reducing the number of recipients on the main benefits (most notably on DPB-SP and EMA), and the number of recipients on IYB will fall to zero.
- 35 The overall cost of the Youth Package comes from the increase in Childcare Assistance and the \$10 Incentive Payments, while movements of the eligible recipients into the Youth Payment and Young Parent Payment are fiscally neutral.

Table 8: Summary of Youth Package Policy

	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	Five- Year Total (\$ million)
Appropriations Youth Package					
Independent Youth Benefit	(\$11.1)	(\$12.7)	(\$12.8)	(\$13.1)	(\$49.7)
Domestic Purposes Benefit	(\$22.9)	(\$25.5)	(\$25.8)	(\$26.5)	(\$100.7)
Sickness Benefit	(\$1.2)	(\$1.4)	(\$1.4)	(\$1.4)	(\$5.4)
Unemployment and Emergency Benefit	(\$1.3)	(\$1.3)	(\$1.1)	(\$1.0)	(\$4.7)
Youth Payment and Young Parent Payment	\$38.3	\$44.8	\$45.2	\$46.1	\$174.3
Childcare Assistance	\$6.5	\$10.1	\$9.9	\$9.6	\$36.1
Hardship Assistance	\$0.1	\$0.1	\$0.1	\$0.1	\$0.4
Total Youth Package	\$8.4	\$14.3	\$14.0	\$13.7	\$50.3

Changes in Capital Expenditure

- 36 Table 9 summarises the changes in the Capital Expenditure forecast since the 2011 PREFU. The majority of the change in Capital Expenditure is in Student Loans.
- 37 **Student Loans** – This forecast is prepared by the Ministry of Education (MoE), and has been revised up by \$217.0 million (2.7%) compared to the 2011 PREFU, before accounting for policy changes and indexation⁵. This reflects upward revisions to the expected average loan amount per person and the expected number of loan recipients accessing the Student Loan system, contributing \$135.2 million and \$93.7 million, respectively.
- 38 **Recoverable Assistance** – Revised down by \$23.8 million (3.0%) over five years. This is mainly caused by a downward revision to the number of grants contributing \$19.0 million to the revision. The revision is caused by the flow-on effects of the downward revisions coming from the main benefit forecasts, as well as lower grants of recoverable SNGs to non-beneficiaries.

⁵ Indexation changes for Student Loans apply to living costs only, which are subject to offsets for any Student Allowances received. Study fees also usually increase each year but are subject to growth rate caps and are not dependent on general inflation. For this reason the indexation change estimate of \$11.9 million is included with demand changes in Table 9.

Table 9: Components of Change in Capital Expenditure

Vote Social Development Capital Expenditure	2011/12 (\$ million)	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	Five Year Total (\$ million)
2011 PREFU Forecast	1,736	1,770	1,811	1,818	1,839	8,974
(i)a) Student Loans changes	20	41	52	48	57	217
(i)b) Recoverable Assistance changes	0	(5)	(6)	(8)	(5)	(24)
(ii) Supplementary Estimates Add-on	27.3					27
Forecast Before Policy Changes	1,783	1,806	1,856	1,858	1,891	9,194
Change from 2011 PREFU	47.4	36.1	45.5	39.9	51.6	221
(iii) Policy Changes	(0.7)	(14.3)	(10.1)	(1.4)	14.5	(12.0)
2012 BEFU Forecast	1,783	1,792	1,846	1,857	1,905	9,182
Total Change From 2011 PREFU	46.7	21.8	35.4	38.5	66.1	208.5
Percentage changes	2.69%	1.23%	1.96%	2.12%	3.59%	2.32%

Note: The numbers in the table may not add up due to rounding.

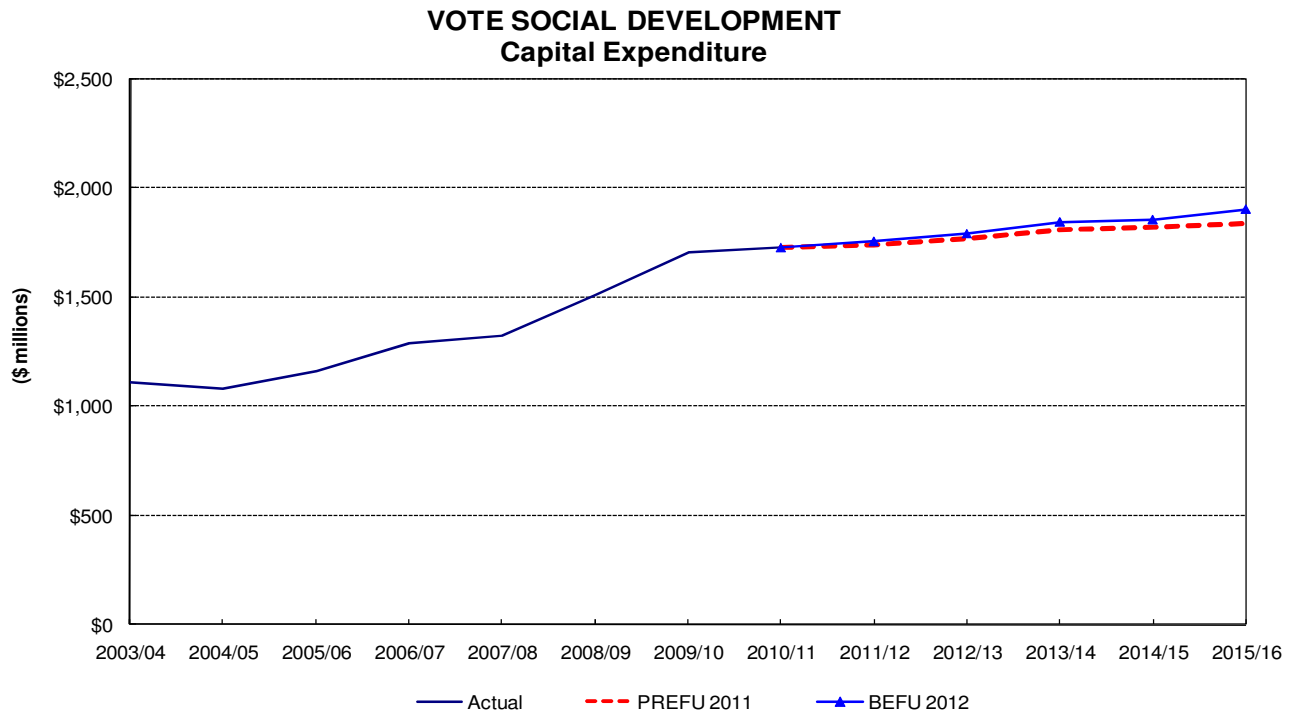
(i) a) and (i) b) Forecast Demand Driven Changes – refer to Appendix 2

(ii) Supplementary Estimates Add-on – refer to Appendix 4

(iii) Policy Changes – refer to Appendix 5

- 39 **Error! Reference source not found.** **Error! Reference source not found.** **Error! Reference source not found.** **Error! Reference source not found.** Figure 9 shows the 2012 BEFU and the 2011 PREFU forecast tracks for total Capital Expenditure.

Figure 9



Changes in Crown Capital Receipts

- 40 Table 10 summarises the changes in the Capital Receipts forecast since the 2011 PREFU. Note that all amounts are expressed as income, so a positive change represents an increase in income.
- 41 The Overseas Pension Recoveries change is explained in Appendix 2. Amounts in Table 10 differ slightly to Table 11 as the Capital Receipts data also includes overseas pensions received on behalf of recipients of Veteran’s Pension.

- 42 There is a reduction of \$76.8 million (4.4%) over five years in the amount expected to be recovered from current (debt owed by current beneficiaries) and non-current (debt owed by former beneficiaries) debtors.
- 43 The amount of Student Loan repayments made before the loan balance is transferred to Inland Revenue was revised up by \$11.3 million over the next five years. Repayments are often made via scholarships or by people withdrawing from courses early.

Table 10: Components of Change in Capital Receipts

Vote Social Development Capital Receipts	2011/12 (\$ million)	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	Five Year Total (\$ million)
2011 PREFU Forecast	622.0	646.3	683.0	717.3	741.4	3,410.0
Changes in Recoveries from						
Current and Non-Current Debtors	(22.1)	(13.4)	(11.9)	(14.2)	(15.1)	(76.8)
Overseas Pensions Recoveries	(2.4)	(8.7)	(19.1)	(15.1)	(4.0)	(49.3)
Student Loans	(0.2)	2.3	2.7	3.1	3.5	11.3
Total Changes	(24.7)	(19.8)	(28.4)	(26.2)	(15.6)	(114.8)
Percentage changes	(3.97%)	(3.07%)	(4.15%)	(3.66%)	(2.11%)	(3.37%)
2012 BEFU Forecast	597.2	626.5	654.7	691.1	725.8	3,295.2

Note: The numbers in the table may not add up due to rounding.

Risks to Forecasts

Risks to Forecasts Associated with New Policies Introduced in the 2012 BEFU

- 44 There is a degree of uncertainty around the actual impacts of the Youth Package, particularly around take-up of the \$10 Incentive Payments, level of demand for Childcare Assistance and the seasonal pattern in the number of recipients.
- 45 There are uncertainties to the benefit forecasts of Welfare Reform – Bill One changes. Only the changes to welfare spending made as part of Welfare Reform – Bill One have been included in the forecasts. Future Welfare Reform policy and operational decisions may result in higher/lower costs and savings which will result in actual expenditure being higher/lower than forecast.
- 46 [6]

Other Risks

- 47 There are risks surrounding the outlook for the world economy, particularly around sovereign debt issues in Europe. A crisis emanating out of Europe could see a re-run of 2008 to at least some extent.
- 48 There are risks to the benefit forecasts in that the underlying factors driving the forecasts may diverge from what is expected. The underlying factors that pose the largest risks include:
- changes to the rate of economic growth in New Zealand or in our major trading partners, unexpected inflationary and wage pressures, prolonged changes in consumer or business confidence

- changes in the demand for labour, especially unskilled labour, resulting from both the economic factors referred to above and other influences on the labour market
- operational changes which may have unintended or unforeseen impacts
- unexpected behavioural changes from benefit recipients
- shifts in demographic characteristics (including effects from mortality rates and migration patterns).

49 If the economic recovery is better than expected, then this is likely to mean a better than forecast outlook for the number of UB recipients. Conversely, if the economic recovery is weaker than Treasury's forecast, then there will be further upside risks to benefit numbers, particularly the number of UB recipients. We are closely watching UB trends as developments take place.

Appendix 1 - 2012 Budget Economic and Fiscal Update Forecasts

Appendix 1 outlines the overall 2012 BEFU forecasts incorporating all the changes discussed in this report.

Vote Social Development - Benefits and Other Unrequited Expenses	Supplementary Estimates 2011/12 (\$000)	Estimated Actual 2011/12 (\$000)	2012/13 (\$000)	2013/14 (\$000)	2014/15 (\$000)	2015/16 (\$000)
	(A)	(B)	(C)	(D)	(E)	(F)
Accommodation Assistance ¹	1,210,752	1,202,759	1,242,983	1,271,160	1,287,876	1,309,996
Benefits Paid in Australia	37,373	37,372	21,986	18,669	15,343	12,354
Childcare Assistance	197,680	189,114	191,081	189,706	192,669	196,137
Disability Assistance ²	403,727	402,592	365,589	360,173	361,553	365,010
Domestic Purposes Benefit	1,826,355	1,818,271	1,819,655	1,841,081	1,879,548	1,918,841
Employment Related Training Assistance	16,136	16,136	14,268	15,262	15,262	15,262
Family Start/NGO Awards	705	705	705	705	705	705
Hardship Assistance ³	274,623	266,432	282,877	267,968	264,560	262,404
Independent Youth Benefit	12,714	12,547	1,632	0	0	0
Invalid's Benefit	1,330,793	1,325,765	1,320,559	1,326,726	1,340,636	1,352,663
New Zealand Superannuation	9,614,854	9,587,267	10,242,827	10,867,365	11,582,760	12,369,446
Orphan's/Unsupported Child's Benefit	112,250	111,499	114,879	117,897	121,542	125,621
Sickness Benefit	778,214	773,846	781,488	803,427	830,208	857,545
Special Circumstance Assistance	14,127	13,233	13,339	13,336	13,334	13,441
Student Allowances	659,216	649,278	601,582	531,501	504,610	494,002
Study Scholarships and Awards ⁴	30,762	30,762	28,137	27,699	27,261	26,823
Transition to Work	22,835	22,233	21,921	20,811	18,742	16,897
Transitional Assistance	0	0	0	0	0	0
Unemployment Benefit and Emergency Benefit	897,544	887,653	880,592	849,179	788,078	737,387
Widow's Benefit	76,333	75,923	74,736	74,731	75,754	77,082
Youth Payment and Young Parent Payment	0	0	38,272	44,812	45,159	46,057
TOTAL BENEFITS	17,516,993	17,423,387	18,059,108	18,642,208	19,365,600	20,197,673

1 This consists of Accommodation Supplement and Special Transfer Allowance

2 This consists of Child Disability Allowance and Disability Allowance

3 This consists of Special Benefit, Special Needs Grants, Temporary Additional Support and Temporary Accommodation Assistance

4 This consists of Merit Scholarships, Scholarship and NQF/NCEA Awards, Step Up Scholarships and TeachNZ Scholarships

Vote Social Development - Capital Expenditure	Supplementary Estimates 2011/12 (\$000)	Estimated Actual 2011/12 (\$000)	2012/13 (\$000)	2013/14 (\$000)	2014/15 (\$000)	2015/16 (\$000)
	(A)	(B)	(C)	(D)	(E)	(F)
Recoverable Assistance	150,344	148,043	147,985	153,775	157,546	161,209
Student Loans	1,632,443	1,607,443	1,643,644	1,692,252	1,699,298	1,743,789
TOTAL CAPITAL EXPENDITURE	1,782,787	1,755,486	1,791,629	1,846,027	1,856,844	1,904,998

Vote Social Development - Capital Receipts	Supplementary Estimates 2011/12 (\$000)	Estimated Actual 2011/12 (\$000)	2012/13 (\$000)	2013/14 (\$000)	2014/15 (\$000)	2015/16 (\$000)
	(A)	(B)	(C)	(D)	(E)	(F)
Benefit Recoveries - Current Debt	234,786	234,786	249,863	253,590	255,027	256,456
Benefit Recoveries - Liable Parent Contributions	1,246	1,246	1,092	958	840	737
Benefit Recoveries - Non-Current Debt	76,818	76,818	78,863	81,260	85,497	89,995
Overseas Pension Recoveries	172,731	172,731	184,106	204,049	233,354	260,710
Student Loans - Repayment of Principal	111,660	111,660	112,551	114,797	116,363	117,877
TOTAL CAPITAL RECEIPTS	597,241	597,241	626,475	654,654	691,081	725,775

Appendix 2 - Forecast Demand Driven Changes

- 50 Table 11 shows the components that make up the changes to the forecast since the 2011 PREFU. The forecasting changes are divided into debt establishments, overseas pension recoveries and other demand driven changes. Overall, forecasting changes increased expenditure by \$593.9 million over the five years (this figure is equal to row (i) of Table 2).

Table 11: Components of Forecasting Changes

Components of Forecasting Changes	2011/12 (\$ million)	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	Five Year Total (\$ million)
Debt Establishments	4.9	10.5	11.6	12.1	14.6	53.7
Overseas Pension Recoveries	2.4	8.7	19.0	15.1	4.0	49.2
Other Demand Driven	46.3	122.3	147.1	117.6	57.8	491.1
Total Forecasting Changes	53.6	141.5	177.7	144.7	76.4	593.9

Notes: The numbers in the table may not add up due to rounding.

Figures are on the basis of the impact on the overall appropriation. For debt establishments and overseas pension recoveries, which are deductions from benefit, a reduction in the forecast debt establishment or overseas pension recovery results in a positive figure in the table above as the change causes an increase (positive) in the total appropriation. Other demand driven changes reflect changes in the population, benefit take-up and average payment rates.

Debt Establishments Changes

- 51 A beneficiary has a debt established when more benefit payment has been received than the beneficiary is entitled to and repayment of the overpayment is sought. Overpayments may be accidental or deliberate (i.e. fraudulent). They may be detected when a case manager becomes aware of a change in the client's circumstances, or by Benefit Control investigations and/or by data matching.
- 52 The downward revision to the debt establishments forecast reflects an update for recent trends. Over the five years to 2015/16 the debt establishments revision increases Vote Social Development expenditure by \$53.7 million.

Overseas Pension Recoveries Changes

- 53 Overseas pension recoveries relate to payments made to people residing in New Zealand and receiving a benefit or pension from countries with which we have an agreement⁶ and who are using the Special Banking Option⁷ (SBO). People using the SBO arrange for their overseas pension to be paid into a Work and Income bank account and receive a full and regular payment of the relevant New Zealand benefit or pension.
- 54 The reduction in revenue under the SBO of \$49.2 million over the next five years largely reflects the strong \$NZ against the £UK. The higher exchange rate outlook implies lower \$NZ receipts. The decrease in revenue under the SBO translates into an increase in expenditure under Vote Social Development.

⁶ The United Kingdom, Guernsey, Jersey, Ireland, the Netherlands and Australia.

⁷ People who do not make use of the Special Banking Option receive the overseas payment directly from the overseas country and receive a 'top-up' from Work and Income. The top-up is intended to ensure that their New Zealand dollar income is never less than their entitlement to the New Zealand benefit or pension on average over time.

Other Demand Driven Changes

- 55 The net increase due to demand driven changes, excluding debt establishments and overseas pension recoveries, is \$491.1 million (0.5% of the 2011 PREFU; this is also the grand total figure in Table 6) and is discussed within the main body of this report. Other demand driven changes reflect changes in benefit recipient numbers and average payment rates (before accounting for benefit indexation); refer to pages 9 to 17.

Appendix 3 - Indexation Changes

- 56 Benefit rates are adjusted for changes to the CPI each year. For NZS, the inflation adjusted net married couple rate is also tested against the average ordinary time weekly earnings (net AOTWE, or average wage) to ensure it does not go below the 66% wage floor level.
- 57 Cabinet agreed to continue to exclude tobacco products from cost of living adjustments [CAB (12) 13/3(38) refers] and therefore the forecasts exclude the Cigarettes and Tobacco subgroup from the Consumers Price Index for the April 2014, 2015 and 2016 annual general adjustments to benefits⁸. Details of the cost of the tobacco tax and subsequent savings from excluding it from the CPI are shown in Appendix 5.
- 58 Indexation changes are caused by changes to both the CPI and wage forecasts. Table 12 compares the 2012 BEFU inflation and wage forecasts, and the 2011 PREFU, used in preparing the benefit expenditure forecasts:
- The 2012 BEFU CPI forecast has been revised down from the 2011 PREFU by Treasury for December 2011⁹, is unchanged for December 2012 and lower for December 2013, 2014 and 2015. The cumulative impact is an overall downward revision to expenditure.
 - The 2012 BEFU wage forecast is lower in the forecast period than previously forecast in the 2011 PREFU also causing a downward revision to expenditure.

Table 12: Comparison of 2012 BEFU and 2011 PREFU Forecasts of Inflation and Gross Wages

	CPI (annual % change)		Weekly Wages (\$)	
	2012 BEFU	2011 PREFU	2012 BEFU	2011 PREFU
December 2011	1.77%	3.0%	\$994.19	\$992.44
December 2012	1.8%	1.8%	\$1,020.73	\$1,024.91
December 2013	2.5%	2.6%	\$1,058.27	\$1,066.66
December 2014	2.1%	2.5%	\$1,096.79	\$1,110.67
December 2015	2.2%	2.7%	\$1,135.67	\$1,155.49

Note: Weekly Wages refers to the gross average ordinary-time weekly earnings (AOTWE) series.

- 59 Table 13 shows the impact of indexation changes on benefit expenditure. The updated inflation and wage forecasts mean that, over the five years, the CPI and wage revision is expected to decrease benefit expenditure by \$773.7 million (0.8%) from the 2011 PREFU.

⁸ The forecast annual adjustment for April 2013 had already excluded the cigarettes and tobacco subgroup.

⁹ December 2011 is the actual published result, and excludes the cigarettes and tobacco subgroup. The December year inflation rate is used to adjust weekly benefit rates the following April.

Table 13: Impact of Indexation Changes on Benefits

Indexation Changes	2011/12 (\$ million)	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	Five Year Total (\$ million)
NZ Superannuation	(20.2)	(72.1)	(52.2)	(98.6)	(156.9)	(400.0)
Domestic Purposes Benefit	(6.2)	(24.7)	(25.3)	(29.3)	(38.8)	(124.4)
Invalid's Benefit	(4.4)	(17.6)	(18.0)	(20.8)	(27.2)	(88.0)
Sickness Benefit	(2.5)	(10.2)	(10.7)	(12.5)	(16.8)	(52.7)
Unemployment Benefit and Emergency Benefit	(2.6)	(11.5)	(11.2)	(11.8)	(14.3)	(51.4)
Student Allowances	(1.5)	(5.0)	(5.5)	(6.2)	(8.0)	(26.2)
Other Benefits	(1.6)	(6.1)	(6.3)	(7.4)	(9.7)	(31.0)
Total Indexation Changes	(38.9)	(147.1)	(129.4)	(186.6)	(271.7)	(773.7)

Note: The numbers in the table may not add up due to rounding.

- 60 The date at which the wage floor for NZS will be reached is sensitive to even small changes in the macroeconomic inflation and wage forecasts shown in Table 12. The combination of inflation and wage forecasts means that NZS payment rates are expected to be adjusted by the wage floor through to April 2016.
- 61 Wages are forecast to grow at a slightly faster rate than inflation over the forecast period, ensuring that the payment rates of NZS will also increase at a faster rate than inflation. By 1 April 2016, the weekly married couple net rate of NZS is forecast to be \$600.68 (66% of the net AOTWE). If the NZS rates were to be only CPI adjusted as from April 2012, instead of also being adjusted by wage growth, then the married couple rate would be \$579.48 (63.7% of the net AOTWE) by 1 April 2016.

Appendix 4 - Supplementary Estimates Add-on

- 62 The 2006 amendments to the Public Finance Act 1989 set the limit for unappropriated expenditure that the Minister of Finance can approve to an appropriation by appropriation basis, not the whole-of-Vote basis that was previously applied. This also requires approval of unappropriated expenditure to be obtained in advance - before the unappropriated expenditure is incurred.
- 63 As an appropriation is a legal upper limit on expenditure, then using a mid-point forecast to determine the amount of the appropriation could result in unappropriated expenditure for some forecast items. Unappropriated expenditure requires separate Ministerial approval and Parliamentary validation.
- 64 To reduce the likelihood of unappropriated expenditure, the appropriation for each uncapped forecast item for the 2011/12 financial year is set at a small margin (based on a reasonable upper bound of the forecast range) above the mid-point forecast¹⁰. Joint Ministers approved this method to reduce the likelihood of unappropriated expenditure on forecast items in Vote Social Development in 2007 [REP/07/04/263 refers].
- 65 The total amount added to the last three months of the 2011/12 fiscal year mid-point forecast was \$94 million for Benefits and Other Unrequited Expenses and \$27 million for Capital Expenditure. The add-ons for BOUE and Capital Expenditure combined increased the mid-point forecast by 2.5% of \$4,795 million over the same three months.
- 66 It is noted here that the Supplementary Estimates Add-on only relates to the final three months of the financial year – in line with Section 26B of the Public Finance Act 1989. It is still possible for spending to exceed the value of the add-on or to be incurred without appropriation before the final three months of the fiscal year.

¹⁰ In the majority of cases, the upper bounds are determined by statistical analysis of the historic patterns in the data. This means volatile items will generally have wider upper bounds than less volatile items. However, there are a few exceptions. The criteria in the Public Finance Act 1989 limits the Minister of Finance's ability to approve an overspend to the greater of 2% or \$10,000. Hence, for some very small or very stable appropriations the add-on may be only up to \$10,000.

Appendix 5 - Policy Changes

67 Known policy changes decrease forecast benefit expenditure by \$53.5 million and decrease Capital Expenditure by \$12.0 million over the five years to June 2016.

68 Table 14 summarises the policy changes affecting BOUEs and Capital Expenditure.

Table 14: Impact of Policy Changes on Benefits and Capital Expenditure

Policy Changes Benefits and Other Unrequited Expenses	2011/12 (\$ million)	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	Five Year Total (\$ million)
Youth Package	0.0	8.4	14.3	14.0	13.7	50.3
Welfare Reform Bill 1	0.0	(14.3)	(33.2)	(41.4)	(46.6)	(135.5)
2012/13 ACC Levies [6]	11.2	46.2	49.7	54.7	56.2	218.0
Tobacco Tax Increase	0.0	0.0	4.8	21.6	34.3	60.7
Removal of Tobacco Tax Increase	0.0	0.0	(4.8)	(21.6)	(34.3)	(60.7)
No CPI adjustment to student allowances parental thresholds for four years	(0.6)	(3.6)	(6.7)	(6.7)	(10.8)	(28.4)
Removing student allowance eligibility for postgraduate study & Long Programmes	0.0	(10.5)	(22.4)	(23.0)	(22.2)	(78.1)
Confidential Listening and Assistance Service [6]	0.0	(0.1)	0.0	0.0	0.0	(0.1)
Total Policy Changes	10.6	9.7	(19.4)	(23.5)	(30.8)	(53.5)

Policy Changes Capital Expenditure	2011/12 (\$ million)	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	Five Year Total (\$ million)
Setting a 2 EFTS annual student loan borrowing limit	0.0	(0.0)	(0.1)	(0.1)	(0.1)	(0.2)
Repealing the student loan voluntary repayment bonus	0.0	(16.8)	(17.1)	(16.9)	(17.0)	(67.8)
No CPI adjustment to student allowances parental thresholds for four years	0.0	2.3	3.8	5.2	6.0	17.3
Removing student allowance eligibility for postgraduate study and Long Programmes	0.0	11.9	22.6	20.7	19.9	75.1
Setting a per-EFTS student loan borrowing limit for pilot training	(0.7)	(5.2)	(4.0)	(4.7)	(5.9)	(20.4)
Expanding fee-free Youth Guarantee (YG) tertiary places	0.0	(6.6)	(15.3)	(20.2)	(21.1)	(63.2)
Fixing a 4% Annual Maximum Fee Movement in 2015 and 2016	0.0	0.0	0.0	14.6	32.7	47.3
Total Policy Changes	(0.7)	(14.3)	(10.1)	(1.4)	14.5	(12.0)

Note: The numbers in the tables may not add up due to rounding.

69 The main policy changes affecting benefit expenditure in the 2012 BEFU are:

- Welfare Reform – Bill One
- Youth Package

- ACC Levies
 - Various policies affecting Student Allowances and Student Loans
- 70 The most significant policy impacts are from the Welfare Reform – Bill One and the Youth Package policies. Welfare Reform – Bill One will reduce benefit expenditure by \$135.5 million over the five years to June 2016, while the Youth Package will increase benefit expenditure by \$50.3 million.
- 71 Welfare Reform – Bill One introduces more work obligations for Sole Parents, Widows, Women Alone and partners within the benefit system to increase the focus on getting these recipients back into the labour market and off benefit. Specifically, parents on benefit whose youngest child is aged five or older must look for part-time work and parents whose youngest child is aged 14 or older must look for full-time work. As well as this, parents who have subsequent children while receiving a benefit will be subject to work obligations based on the age of their previous youngest child when their subsequent child turns one.
- 72 The benefits most affected by Welfare Reform – Bill One are DPB – SP, DPB – WA and WB. It is expected that the larger focus on getting recipients back into work will reduce the number of recipients on these benefits.
- 73 Table 15 shows that the reduced number of recipients will reduce gross expenditure on DPB – SP, WA and WB by \$83.8 million, \$13.5 million and \$16.0 million over five years, respectively.
- 74 The lower number of recipients on these benefits will have flow-on impacts for some supplementary assistance payments such as Accommodation Assistance, Hardship Assistance and Childcare Assistance. With fewer recipients of the main benefits there will be less need for supplementary assistance. This will have the impact of reducing expenditure on Accommodation Assistance and Hardship Assistance by \$2.3 million and \$5.9 million over five years, respectively. However, given that these recipients have dependant children it is expected that they will require increased Childcare Assistance payments (\$2.2 million over five years).

Table 15: Summary of Welfare Reform – Bill One Policy

Appropriations Welfare Reform Bill 1 Policy	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	Five-Year Total (\$ million)
Domestic Purposes Benefit	(\$10.2)	(\$24.1)	(\$29.7)	(\$33.1)	(\$97.1)
Widow's Benefit	(\$1.7)	(\$3.6)	(\$4.8)	(\$5.8)	(\$16.0)
Unemployment Benefit and Emergency Benefit	(\$0.5)	(\$1.2)	(\$1.3)	(\$1.3)	(\$4.3)
Sickness Benefit	(\$0.6)	(\$1.3)	(\$1.7)	(\$1.9)	(\$5.5)
Invalid's Benefit	(\$0.7)	(\$1.6)	(\$2.0)	(\$2.3)	(\$6.6)
Childcare Assistance	\$0.2	\$0.6	\$0.7	\$0.7	\$2.2
Accommodation Assistance	(\$0.3)	(\$0.5)	(\$0.7)	(\$0.8)	(\$2.3)
Hardship Assistance	(\$0.6)	(\$1.4)	(\$1.8)	(\$2.1)	(\$5.9)
Total Welfare Reform Bill 1	(\$14.3)	(\$33.2)	(\$41.4)	(\$46.6)	(\$135.5)

- 75 The Youth Payment and Young Parent Payment will replace Independent Youth Benefit (IYB) from 30 July 2012. This payment will be accessed by 16-17 year olds without children and by 16-18 year old parents. There will be incentive payments of \$10 per week, per obligation for recipients who meet their obligations for education, budgeting and parenting. However, the Youth Package modelled in these forecasts does not include behavioural impacts and therefore does not include any savings from changes in the behaviour of young people.
- 76 This new payment will impact on IYB, DPB – SP and EMA, and, to a lesser extent, UB and SB. All 16-18 year olds will transfer from their current main benefit to either the Youth Payment or Young Parent Payment on 30 July 2012. This will have the

effect of reducing the number of recipients on the main benefits (most notably on EMA), and the number of recipients on IYB will fall to zero

- 77 Table 16 shows that over five years, expenditure on DPB and IYB will fall by \$100.7 million and \$49.7 million, respectively. However, these savings will be more than offset by the corresponding increase in the number of Youth Payment and Young Parent Payment recipients, which will increase expenditure by \$174.3 million over the same period. Most of this impact is to Childcare Assistance (\$36.1 million) through the introduction of the Guaranteed Childcare Assistance Payment.
- 78 The Guaranteed Childcare Assistance Payment pays a higher average hourly rate than the existing Childcare Subsidy payment. It also offers up to 30 hours of childcare a week. Increased access to childcare provides beneficiaries with better support into employment.
- 79 Incentive Payment impacts have also been included in the 2012 BEFU, and are currently estimated to raise expenditure by \$13.7 million across the forecast horizon. This is included as part of Youth Payment and Young Parent Payment in Table 16.

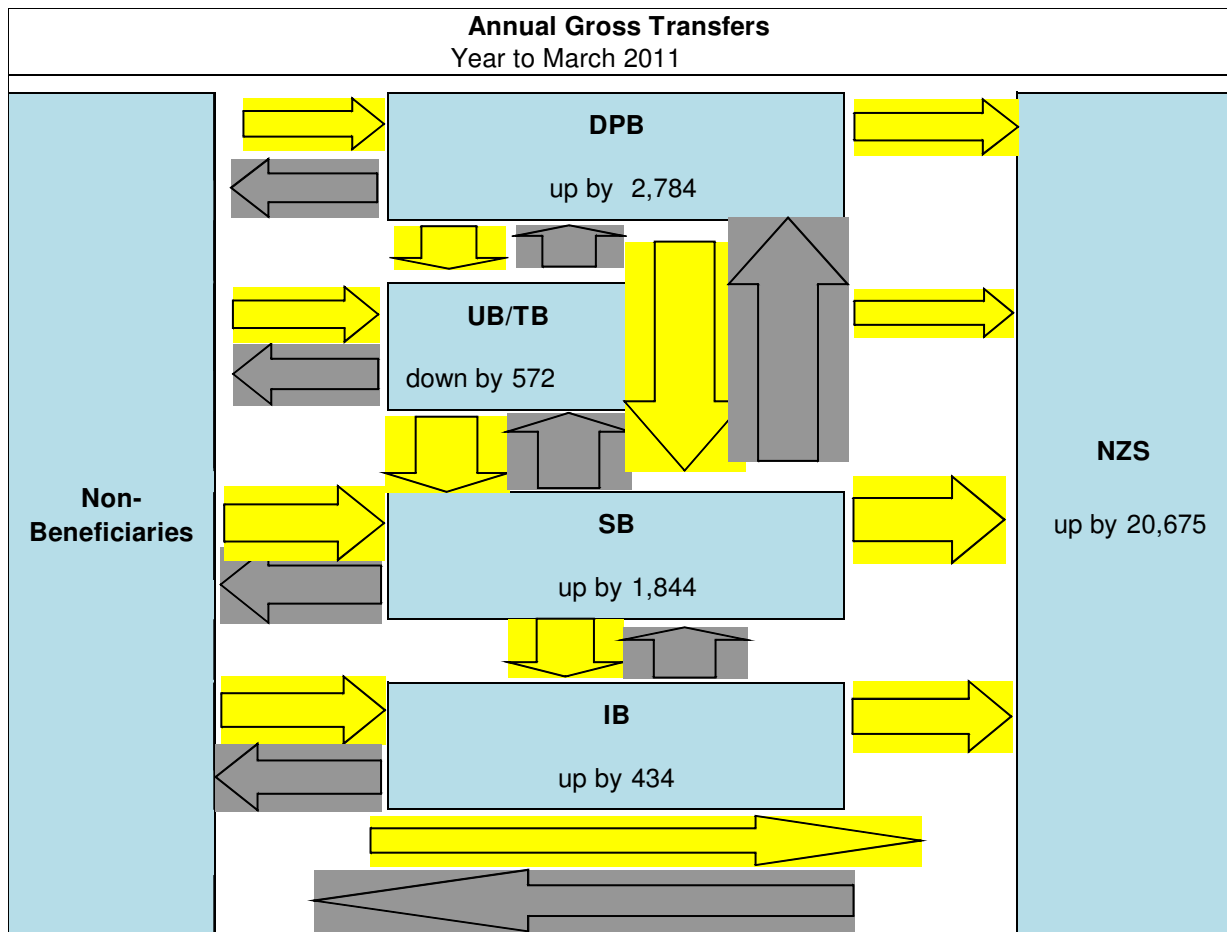
Table 16: Summary of Youth Package Policy

	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	Five- Year Total (\$ million)
Appropriations Youth Package					
Independent Youth Benefit	(\$11.1)	(\$12.7)	(\$12.8)	(\$13.1)	(\$49.7)
Domestic Purposes Benefit	(\$22.9)	(\$25.5)	(\$25.8)	(\$26.5)	(\$100.7)
Sickness Benefit	(\$1.2)	(\$1.4)	(\$1.4)	(\$1.4)	(\$5.4)
Unemployment and Emergency Benefit	(\$1.3)	(\$1.3)	(\$1.1)	(\$1.0)	(\$4.7)
Youth Payment and Young Parent Payment	\$38.3	\$44.8	\$45.2	\$46.1	\$174.3
Childcare Assistance	\$6.5	\$10.1	\$9.9	\$9.6	\$36.1
Hardship Assistance	\$0.1	\$0.1	\$0.1	\$0.1	\$0.4
Total Youth Package	\$8.4	\$14.3	\$14.0	\$13.7	\$50.3

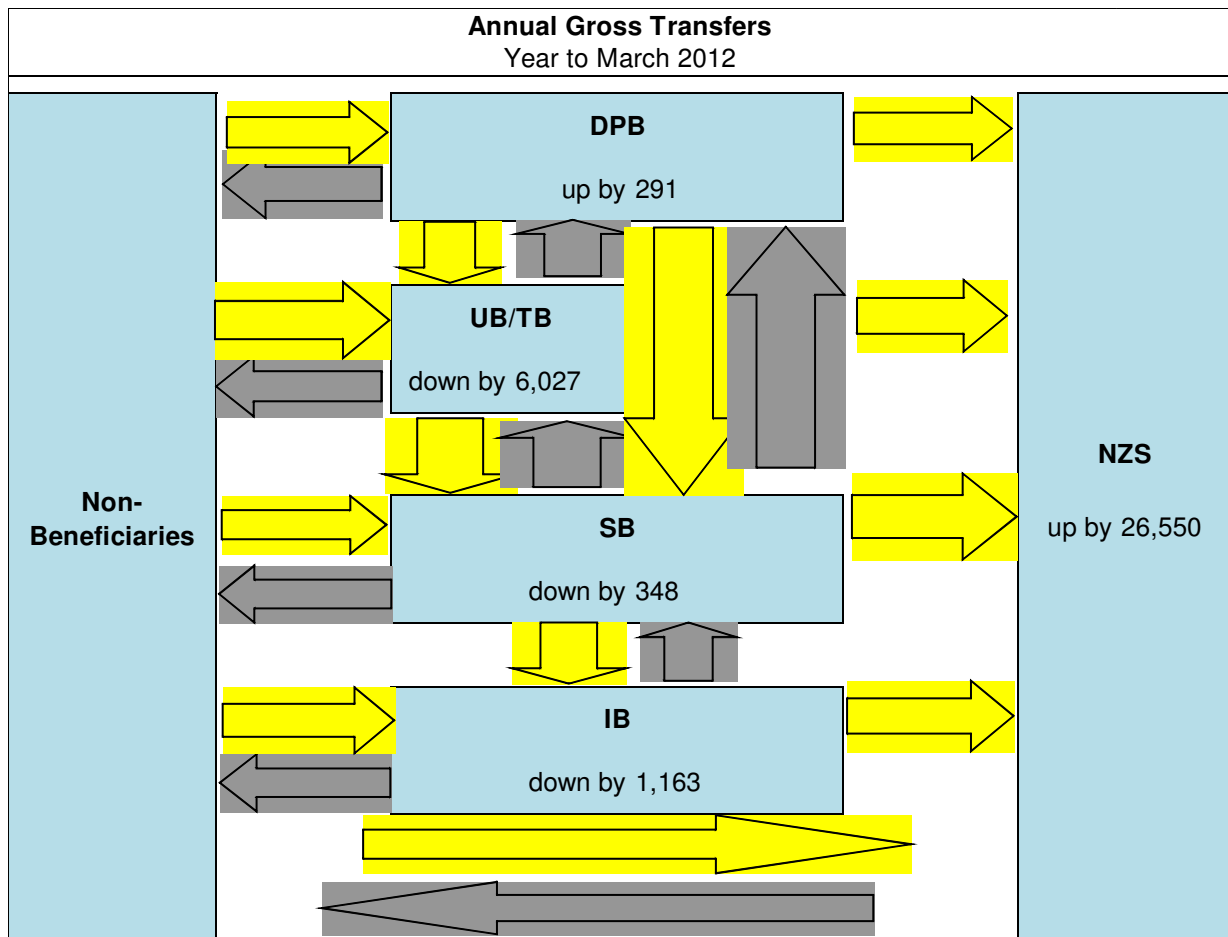
- 80 Tobacco Excise Tax will be increased by 10% each January from 2013 until 2016 (above its inflation-based increase) and will raise the CPI. If this had been included in the forecasts, expenditure would have been increased by \$60.7 million.
- 81 The decrease in the ACC earner's levy from \$2.04 per \$100 to \$1.70, effective 1 April 2012, increases the NZS forecast by \$218.0 million. This is effectively a tax decrease which raises the net average wage, and thus the rates of NZS once the wage floor is reached.
- 82 [6]

Appendix 6 - Main Benefit Flows

- 83 The two flow diagrams in the following pages provide a simplified picture of the key gross flows between the main benefit types in the year to March 2011 and in the year to March 2012. The difference between the inflows and the outflows is the net flow between the two benefits. Some people may change benefit types multiple times during the year, resulting in multiple counts in this data, particularly with UB flows. In understanding changes in benefit numbers over time, we compare which net flow has changed the most in the two diagrams.
- 84 In the year to March 2012 the number of recipients on Unemployment and Training Benefits (UB/TB), SB and IB have fallen. For SB and IB, this is in contrast to the increase in these net flows for the year to March 2011.
- 85 The decline in the number of UB/TB recipients in the year to March 2012 is because the number of people exiting UB/TB to non-benefit (90,255) now exceeds the numbers entering from non-benefit (84,832) by 5,423. After taking account of other flows, UB/TB numbers have fallen by 6,000 over the last year. UB/TB numbers are forecast to fall throughout the forecast horizon as the labour market slowly improves. This will lead to greater outflows from UB/TB to non-benefit and potentially fewer inflows from non-benefit to UB/TB.
- 86 The forecast number of SB recipients has been revised down slightly from the 2011 PREFU, reflecting recent trends. While the number of SB recipients is marginally lower in March 2012 compared to March 2011, relatively low growth is still expected to be the dominant trend over the next five years. Over the next five years, there is expected to be a rise in flows from SB to IB, which is likely to offset any impact that the weaker labour market may have on lowering outflows from non-benefit population in the near term.
- 87 The downward revision to DPB indicates that the net outflow to non-benefit have been higher than expected, contributing to downward pressure in the number of recipients. The number of DPB recipients is now expected to fall throughout the forecast horizon, compared to an expected flat trend at the 2011 PREFU. The falling trend in total numbers is due to an expected declining trend in DPB-SP numbers. In addition, policy impacts are expected to result in further decreases in the number of DPB-SP, DPB-WA and EMA recipients.
- 88 The number of IB recipients has reduced since March 2011. This reflects the reduced flow from SB and non-benefit, as well as higher outflows to NZS compared to 2011. In future we expect the inflow from SB to increase, however this is more than offset by higher outflows to NZS and non-benefit, resulting in IB recipient numbers reducing over time. The number of IB recipients in New Zealand is falling across all regions, while growth is expected to continue for those IB recipients living in Australia, as part of the Australian Social Security Agreement.



Note: The net flows in the diagram may not sum to the overall change in benefit numbers because not all flows are shown and the change in benefit numbers exclude those over 65 years. Changes in benefit status can also affect the total numbers. Flows to 'non-beneficiaries' also includes death as a reason for exit, particularly for NZS and IB recipients.



Note: The net flows in the diagram may not sum to the overall change in benefit numbers because not all flows are shown and the change in benefit numbers exclude those over 65 years. Changes in benefit status can also affect the total numbers. Flows to 'non-beneficiaries' also includes death as a reason for exit, particularly for NZS and IB recipients.