

The Treasury

Budget 2013 Information Release

Release Document

July 2013

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MINISTRY OF
SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora



THE TREASURY
Kaitohutohu Kaupapa Rawa

report

REP/13/5/351 and T2013/1168

Date: 7 May 2013 **Security Level:**
To: Hon Bill English, Minister of Finance
Hon Paula Bennett, Minister for Social Development

JOINT MSD/TREASURY REPORT: 2013 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 2013 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 2012 Half Year Economic and Fiscal Update (HYEFU). These need to be updated using the forecasts prepared for the 2013 BEFU.
- 3 From 15 July 2013, the five current main benefits will be replaced by three new benefits as part of Welfare Reform changes. To meaningfully compare the 2012 HYEFU forecast with the 2013 BEFU, this report shows the forecast revisions for the current benefit categories. This report also shows how the 2013 BEFU forecast will look under the new benefit structure from July 2013.

Executive summary

- 4 Total forecast spending on Benefits and Other Unrequited Expenses (BOUE) is revised down by \$530 million (0.6%) over the five years to June 2017. In particular:
 - overall expenditure is revised down to reflect lower demand and lower inflation adjustments compared to the 2012 HYEFU
 - the total number of recipients of working-age benefits is revised down to reflect the lower number of recipients than was forecast in the 2012 HYEFU, and policy impacts.

5 Table 1 shows the change in forecasts for BOUEs, broken down by the major drivers of change.

Table 1: Change in forecasts for Benefits and Other Unrequited Expenses

Vote Social Development Benefit Expenditure	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	2016/17 (\$ million)	Five Year Total (\$ million)
2012 HYEFU Forecast	17,890	18,507	19,022	19,722	20,384	95,525
(i) Forecast Demand Driven Changes	(91)	(134)	(90)	(80)	(50)	(445)
(ii) Indexation Changes	(7)	(11)	27	(35)	(40)	(66)
Forecast Before Policy Changes	17,792	18,361	18,959	19,608	20,294	95,013
<i>Change from 2012 HYEFU Before Policy</i>	<i>(99)</i>	<i>(145)</i>	<i>(62)</i>	<i>(115)</i>	<i>(90)</i>	<i>(511)</i>
(iii) Policy Changes	24	17	(8)	(21)	(30)	(19)
Forecast After Policy Changes	17,816	18,378	18,951	19,586	20,264	94,994
<i>Change From 2012 HYEFU After Policy</i>	<i>(75)</i>	<i>(129)</i>	<i>(71)</i>	<i>(136)</i>	<i>(120)</i>	<i>(530)</i>
Supplementary Estimates Add-on	120					120
Buffer for appropriation change		223				223
2013 BEFU Forecast	17,936	18,601	18,951	19,586	20,264	95,337
<i>Total Change from 2012 HYEFU</i>	<i>45</i>	<i>94</i>	<i>(71)</i>	<i>(136)</i>	<i>(120)</i>	<i>(187)</i>
<i>Percentage Changes</i>	<i>0.25%</i>	<i>0.51%</i>	<i>(0.37%)</i>	<i>(0.69%)</i>	<i>(0.59%)</i>	<i>(0.20%)</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) Policy Changes – refer to Appendix 4

6 The total forecast number of recipients of working-age benefits is revised down from the 2012 HYEFU by approximately 4,300 people by June 2017.

7 The main overall expenditure changes are from downward revisions to:

- Domestic Purposes Benefit (DPB) revised down by \$381 million
- Accommodation Assistance revised down by \$181 million
- Unemployment and Emergency Benefit (UB) revised down \$166 million.

8 And from upward revisions to:

- New Zealand Superannuation (NZS) revised up by \$186 million
- Invalid's Benefit (IB) revised up by \$103 million
- Disability Assistance revised up by \$101 million.

9 **Policy changes reduce forecast benefit expenditure by \$19 million over the five years to June 2017.** New policy changes in the 2013 BEFU include an adjustment for the shortfall in savings from previously included policies for Disability Assistance, the student support package, and additional Welfare Reform impacts, including a \$48.6 million saving from new services for sole parents with a youngest child aged 6-13 years.

10 **In total, \$379.7 million in gross savings (\$339.0 million net savings) from Welfare Reform policies has been flowed through the forecasts since the 2012 BEFU.** After allowing for total costs of \$19.6 million for the Work Bonus, Abatement and 28 Day policies, the total gross savings reduce to \$360.1 million (\$320.0 million net savings).

11 **The largest downward revision to forecast benefit expenditure is \$381 million over five years for DPB.** This revision mainly reflects the faster decline in the number of recipients than was forecast at the 2012 HYEFU. It also reflects the expected impacts of enhanced work focused case management for sole parents as part of Welfare Reform.

12 **The largest upward revision to forecast benefit expenditure is \$186 million over five years for NZS.** This revision mainly reflects the impacts of a larger projected New

Zealand population aged above 65 years and faster growth in wages than previously forecast.

- 13 Key risks to the 2013 BEFU forecasts are unanticipated behavioural responses to Welfare Reform policy, and a higher than expected uptake of benefit from economic impacts associated with the drought. Weak global economic conditions also remain a key risk.

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 2012/13 and Estimates of Appropriations 2013/14
- 3 **note** that the 2012/13 amounts in Appendix 1 Column B are the mid-point forecasts that make up the 2012/13 'Estimated Actual' in the Estimates of Appropriations
- 4 **note** that the Supplementary Estimates of Appropriations 2012/13 includes an 'add-on' amount to reduce the likelihood of an overspend and the need for Parliamentary validation
- 5 **note** that the 2013 BEFU reduces forecast benefit expenditure by an additional \$48.6 million, reflecting a portion of the potential \$158.4 million updated estimate of savings under Welfare Reform from extending work focused case management to all sole parents with a youngest child aged 6 to 13 years
- 6 **note** that \$379.7 million in total gross savings (\$339.0 million net savings) from Welfare Reform policies has been flowed through the forecasts since the 2012 BEFU. After allowing for total costs of \$19.6 million for the Work Bonus, Abatement and 28 Day policies, the total gross savings reduce to \$360.1 million (\$320.0 million net savings)
- 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 the forecasts in this report use available benefit information as at 13 April 2013, policy decisions made prior to 11 April 2013, and Treasury's macroeconomic forecasts finalised on 11 April 2013. These forecasts have been incorporated in the 2013 BEFU

- 9 **approve** the revised baselines for 2012/13 to 2016/17 set out in Appendix 1 Column A and Columns C to F

Agree / Disagree

Agree / Disagree

- 10 **approve**, in accordance with CO (11) 6, the changes to appropriations for 2012/13 set out in Appendix 1 Column A being met from imprest supply until the Supplementary Estimates of Appropriations 2012/13 are enacted.

Agree / Disagree

Agree / Disagree

Fiona Carter-Giddings

Team Leader

Labour Market & Welfare

the Treasury

Date

Dorothy Adams

General Manager

Centre for Social Research and
Evaluation

Ministry of Social Development

Date

Hon Bill English

Minister of Finance

Date

Hon Paula Bennett

Minister for Social Development

Date

2013 Budget Economic and Fiscal Update

What has changed since the 2012 HYEUFU Forecasts

14 This report outlines the 2013 BEFU five-year forecasts for NZS, working-age benefits¹, supplementary payments, Student Allowances and Student Loans, and compares these to the forecasts made for the 2012 HYEUFU. Revisions to three components are discussed separately:

- BOUEs
- Capital Expenditure items
- Crown Capital Receipts.

Changes in Benefits and Other Unrequited Expenses

15 To meaningfully compare the 2013 BEFU forecast with the 2012 HYEUFU forecast, the first section of this report looks at what would have changed if main benefits were not replaced by the new categories in July 2013. The report then shows expenditure under the new appropriations from July 2013 onwards.

16 Overall, total forecast benefit expenditure is revised down by \$530 million (0.6%) over the five years to June 2017 compared with the 2012 HYEUFU (Table 2).

Table 2: Main Revisions to Benefits and Other Unrequited Expenses²

Benefits and Other Unrequited Expenses	Gross (\$ million)	Debt (\$ million)	OSP (\$ million)	Five Year Total (\$ million)
Domestic Purposes Benefit	(417.9)	37.2	0.0	(380.7)
Accommodation Assistance	(180.6)	N/A	N/A	(180.6)
Unemployment Benefit and Emergency Benefit	(191.0)	25.1	0.0	(165.8)
Widow's Benefit	(128.5)	5.3	(0.1)	(123.3)
Sickness Benefit	(72.8)	4.3	0.1	(68.4)
Study Scholarships and Awards	(32.8)	N/A	N/A	(32.8)
Hardship Assistance	(17.1)	N/A	N/A	(17.1)
Student Allowances	46.4	0.0	N/A	46.4
Disability Assistance	100.7	N/A	N/A	100.7
Invalid's Benefit	95.7	5.6	1.5	102.9
New Zealand Superannuation	165.8	(2.6)	23.2	186.4
All Other Benefits	3.3	(1.0)	0.0	2.3
Total BOUE Changes	(628.9)	74.0	24.9	(530.1)

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

17 The largest downward change to forecast benefit expenditure is \$380.7 million over five years for DPB. This revision mainly updates for the faster decline in the number of recipients than forecast at the 2012 HYEUFU, and also reflects the expected impacts of additional Welfare Reform policies.

18 The largest upward change to forecast benefit expenditure is \$186.4 million over five years for NZS. This revision mainly reflects the impacts of a larger projected New Zealand population aged above 65 years and faster growth in wages than was previously forecast.

¹ That is, recipients of the working-age benefits, regardless of actual age.

² "Debt" refers to new debt establishments and "OSP" refers to Overseas Pension Recoveries.

19 Table 3 splits the changes in forecast benefit expenditure since the 2012 HYEUFU forecasts into four components.

- **Demand-driven changes (including debt establishments and Overseas Pension Recoveries) reduce forecast expenditure by \$445 million** over five years compared to the 2012 HYEUFU (this is shown in Appendix 2 and detailed in the main body of the report). These are changes in forecast recipient numbers and average payment rates (before indexation).
- **Indexation changes reduce forecast expenditure by \$66 million** over five years compared to the 2012 HYEUFU (see Appendix 3). These changes are caused by changes in Treasury's Consumers Price Index (CPI) and Average Ordinary-Time Weekly Earnings (AOTWE) forecasts.
- **Policy changes reduce forecast expenditure by \$19 million** over five years (see Appendix 4). These are known policy changes since the 2012 HYEUFU. The main policy changes include:
 - an adjustment for the shortfall in Disability Allowance
 - the student support package
 - additional Welfare Reform policy initiatives.
- **The Supplementary Estimates Add-on and buffer contribute \$343 million** over five years towards the final 2013 BEFU forecast. The supplementary estimates add-on is applied in the current financial year (2012/13) to minimise the risk of overspending for this year.

The buffer amount is included in the forecasts for the 2013/14 year to minimise the risk of overspending on the existing benefit appropriations if:

- there are any delays to the 15 July roll-out of the new benefit categories, or
- the number of recipients in existing benefit categories is greater than forecast.

Table 3: Components of Change for Benefits and Other Unrequited Expenses

Vote Social Development Benefit Expenditure	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	2016/17 (\$ million)	Five Year Total (\$ million)
2012 HYEUFU Forecast	17,890	18,507	19,022	19,722	20,384	95,525
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<i>Percentage Changes</i>	<i>0.25%</i>	<i>0.51%</i>	<i>(0.37%)</i>	<i>(0.69%)</i>	<i>(0.59%)</i>	<i>(0.20%)</i>

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

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

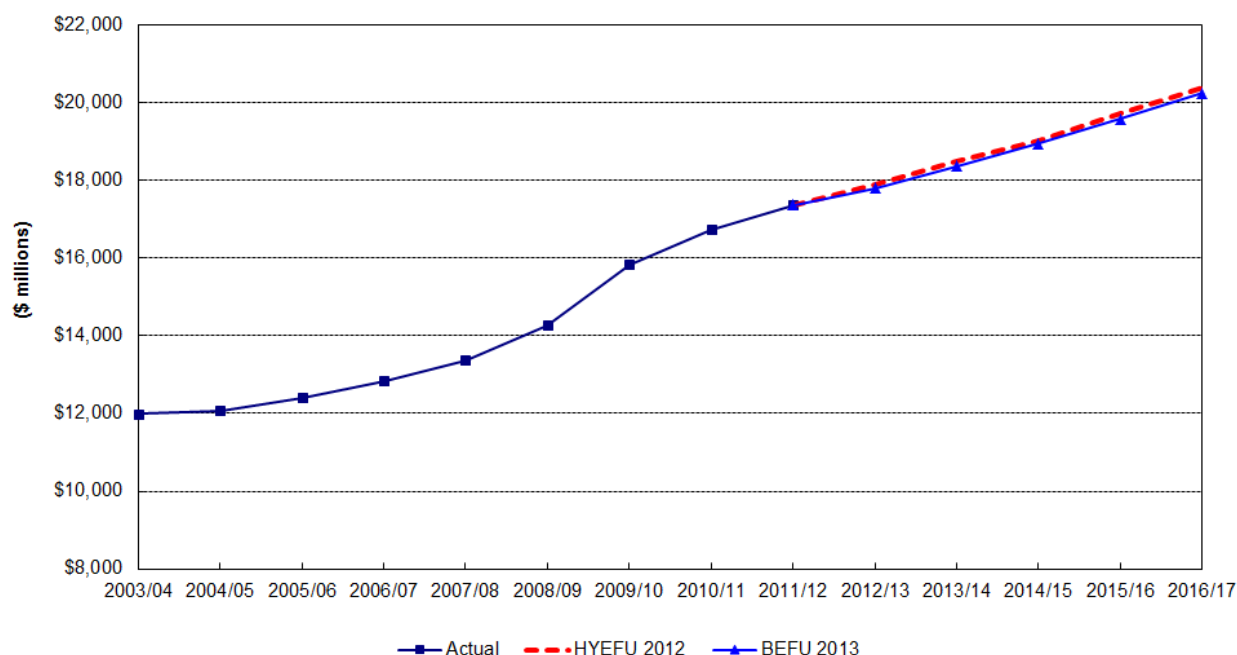
(ii) Indexation Changes – refer to Appendix 3

(iii) Policy Changes – refer to Appendix 4

20 Figure 1 compares total expenditure on BOUEs for the 2013 BEFU with the 2012 HYEUFU.

Figure 1

VOTE SOCIAL DEVELOPMENT
Expenditure on Benefits and Other Unrequited Expenses



Demand Driven Changes (excluding debt establishments and Overseas Pension Recoveries)

- 21 If we exclude the changes to debt establishments and Overseas Pension Recoveries, then demand driven changes reduce expenditure by \$575.5 million over five years compared to the 2012 HYEFU.
- 22 The demand driven changes reflect changes in the population, benefit take-up rates and average payment rates (before indexation). Major influences on demand driven changes include changes in:
 - the state of the economy
 - operational policy
 - demography
 - behaviour.
- 23 The average payment rate 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.
- 24 Demand driven changes do not include policies such as Welfare Reform, which is due to come into effect in July 2013. These changes are discussed in Appendix 5.
- 25 Table 4 shows the significant demand driven changes in individual benefit forecasts since the 2012 HYEFU.

Table 4: Impact of Demand Driven Changes excluding Debt and OSP on Benefits

Demand Driven Changes excluding Debt and OSP	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	2016/17 (\$ million)	Five Year Total (\$ million)
Unemployment Benefit and Emergency Benefit	(34.0)	(92.7)	(77.6)	(93.6)	(89.9)	(387.8)
Domestic Purposes Benefit	(19.8)	(42.5)	(46.2)	(41.9)	(36.0)	(186.4)
Accommodation Assistance	(19.0)	(37.7)	(36.8)	(43.3)	(45.5)	(182.3)
Disability Assistance	(4.1)	(8.3)	(9.6)	(10.9)	(11.9)	(44.9)
Sickness Benefit	(3.0)	(8.5)	(9.7)	(10.7)	(11.5)	(43.4)
New Zealand Superannuation	0.7	17.2	17.0	9.5	7.5	51.8
Student Allowances	(31.8)	6.5	25.6	51.2	66.1	117.6
Invalid's Benefit	3.6	17.8	28.8	39.7	52.4	142.4
All Other Benefits	(8.8)	(11.8)	(6.8)	(6.9)	(8.1)	(42.5)
Total Demand Driven Changes	(116.3)	(159.8)	(115.3)	(107.0)	(77.0)	(575.5)

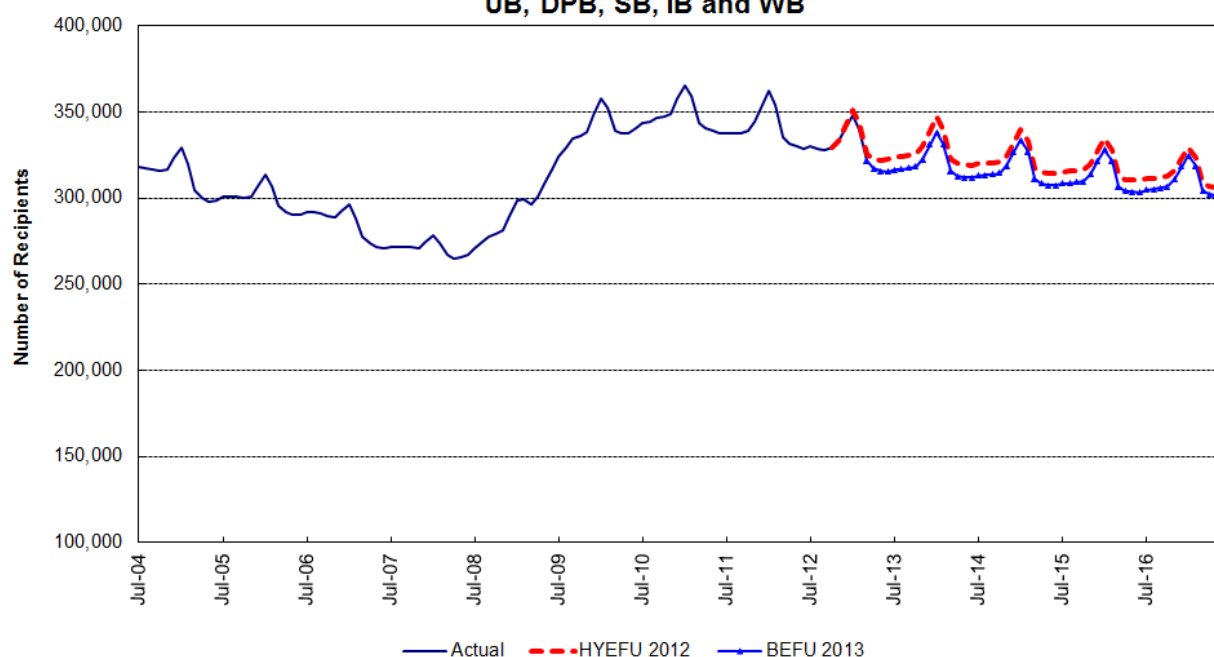
Notes: The numbers in the table may not add up due to rounding.

26 We expect that there will be fewer recipients of a working-age benefit between 2012/13 and 2016/17 compared to the 2012 HYEUFU (see Figure 2). By June 2017, the number of working-age benefit recipients is expected to be around 4,300 lower than was forecast in the 2012 HYEUFU.

27 The largest change in the number of working-age benefit recipients is a downward revision to the forecast number of DPB recipients. This decrease is partly offset by an upward revision to the forecast number of IB recipients.

Figure 2

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



28 The largest downward **demand driven** changes are:

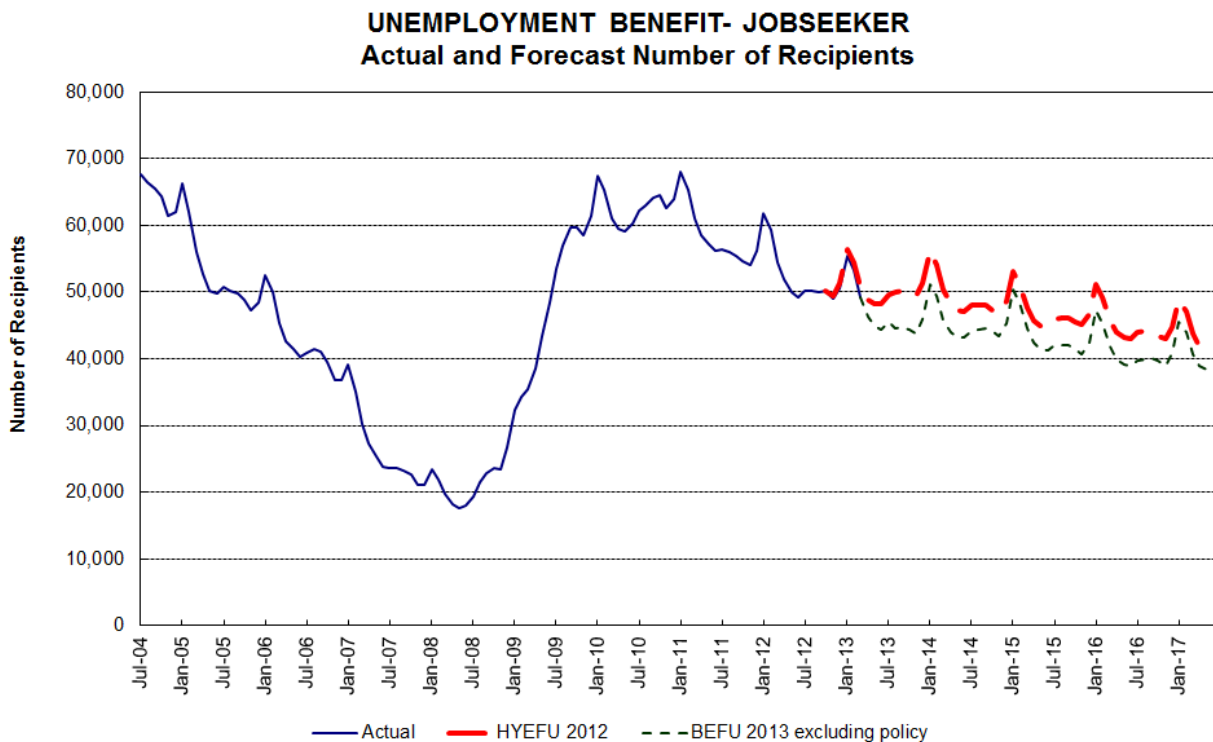
- **UB is revised down by \$387.8 million (9.0%) over five years.** Forecast expenditure is lower across all five years compared to the 2012 HYEUFU because the number of Unemployment Benefit-Jobseeker (UB-JS) recipients has fallen faster than expected.

The UB forecast is a combination of economic factors and updating for recent trends in the number of recipients as well as policy. The baseline forecast includes updates for recent trends and economic factors, but excludes new policy impacts.

Figure 3 shows the revised forecast number of recipients for UB-JS, excluding policy impacts. Since the 2012 HYEUFU, Auckland has driven most of the fall in the number of UB-JS recipients. Canterbury also contributed significantly to the decline in UB-JS recipients. However, the trend in the number of recipients across other regions has recently begun to rise slowly. The decline in the number of UB-JS recipients in Auckland and Canterbury is consistent with the stronger economic activity seen for these two regions compared with the rest of the country.

As previously forecast in 2012 HYEUFU, the outlook for UB-JS is for the rate of decline to slow over the next five years. Although not explicitly forecast, the recent regional trends in the number of UB recipients imply that Auckland will continue driving overall UB numbers lower over the next five years. The number of recipients in Canterbury is still expected to decline, but to a lesser extent.

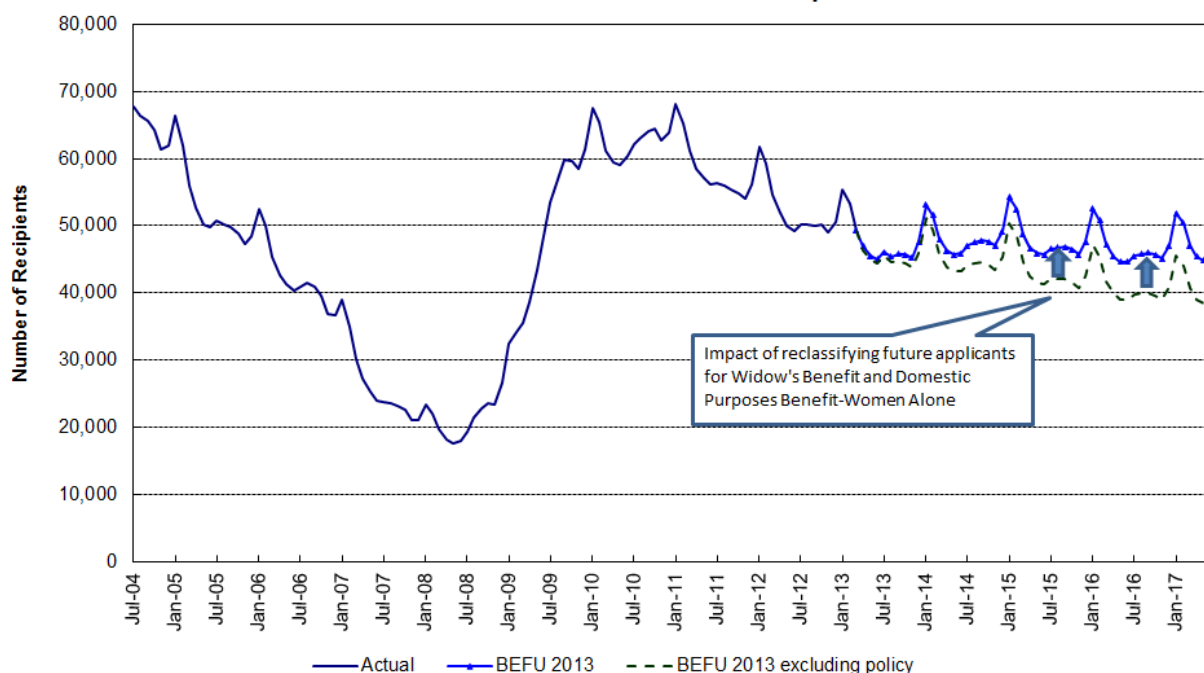
Figure 3



As part of Welfare Reform changes, from 15 July 2013, new recipients who would normally receive Widow's Benefit (WB) or Domestic Purposes Benefit-Women Alone (DPB-WA) will instead receive UB-JS (which will become part of the new Jobseeker Support). The final forecast includes this policy, which is expected to raise the number of UB-JS recipients by around 6,000 people by June 2017, as shown in Figure 4. The overall impact of this policy is a small saving as the payment rate for a single UB client is lower than for a WB recipient with no children and for DPB-WA clients.

Figure 4

**UNEMPLOYMENT BENEFIT- JOBSEEKER
Actual and Forecast Number of Recipients**



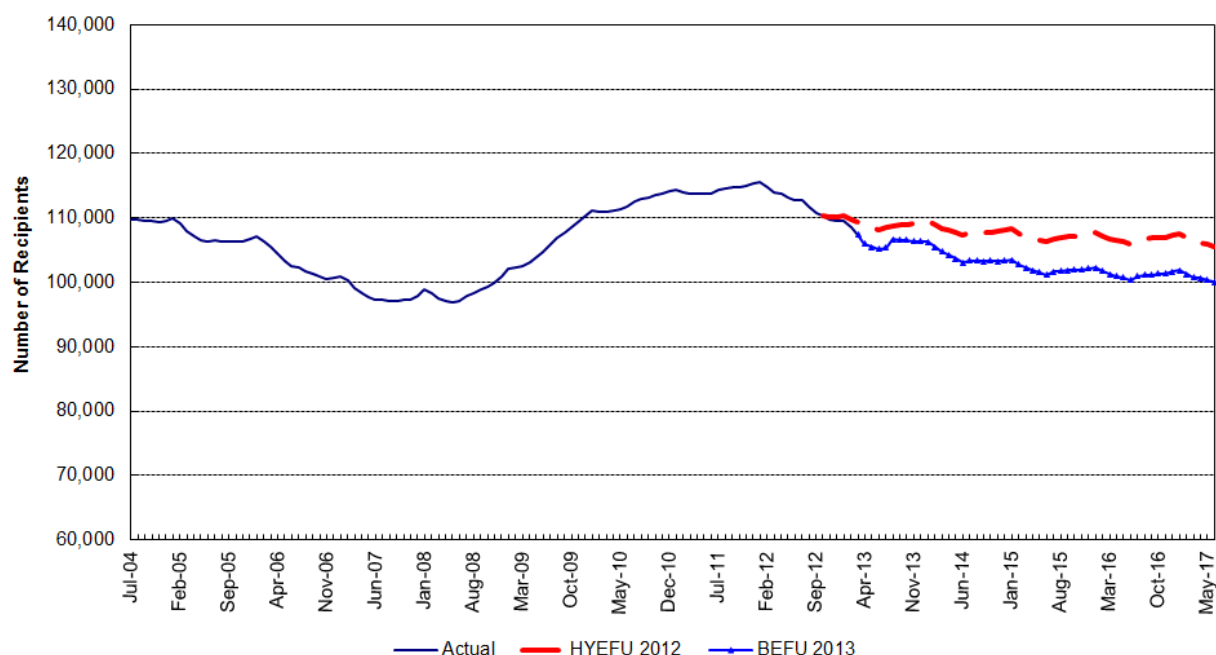
- DPB is revised down by \$186.4 million (2.0%) over five years.** This change is driven by a downward revision to the forecast number of recipients. Since the 2012 HYEPU, the number of recipients has fallen at a faster pace than forecast, partly owing to the introduction of work obligations for sole parents in October 2012.

In the past year we have seen more people leaving DPB to work, and fewer people coming onto DPB because they no longer work. Fewer people have also moved onto DPB because they have separated from their partner. This is in line with the generally declining number of sole parent families in New Zealand since December 2010.

The number of DPB recipients is expected to continue falling across the next five years, partly driven by an expected decline in the number of sole parent families in New Zealand. While the proportion of sole parents employed in New Zealand is lower compared to the 2012 HYEPU, we still expect this proportion to rise over the next five years.

Figure 5

**DOMESTIC PURPOSES BENEFIT
Actual and Forecast Number of Recipients**



- **Accommodation Assistance is revised down by \$182.3 million (2.9%) over five years.** This change is mainly driven by a downward revision to the forecast number of Accommodation Supplement recipients, which is a flow-on effect from downward revisions to the forecast numbers of main benefit recipients.

29 The largest upward demand driven changes are:

- **IB is revised up by \$142.4 million (2.1%) over five years but is expected to decline over the forecast horizon.** This forecast decline is driven in large part by the Welfare Reform changes to Health and Disability assessments from July 2013. This policy will improve our ability to ensure that people receive the correct benefit for their circumstances, and enable us to better work with them. It is expected to have a more than offsetting impact on the rising number of Sickness Benefit (SB) recipients (see Figure 7).

The upward revision to IB compared to the 2012 HYEFU results from an upward revision to the forecast number of New Zealand-based recipients. Fewer people have left IB to move onto NZS than was previously expected. More people have also been moving onto IB from (SB) in the past 12 months.

Figure 6

INVALID'S BENEFIT
Actual and Forecast Number of Recipients

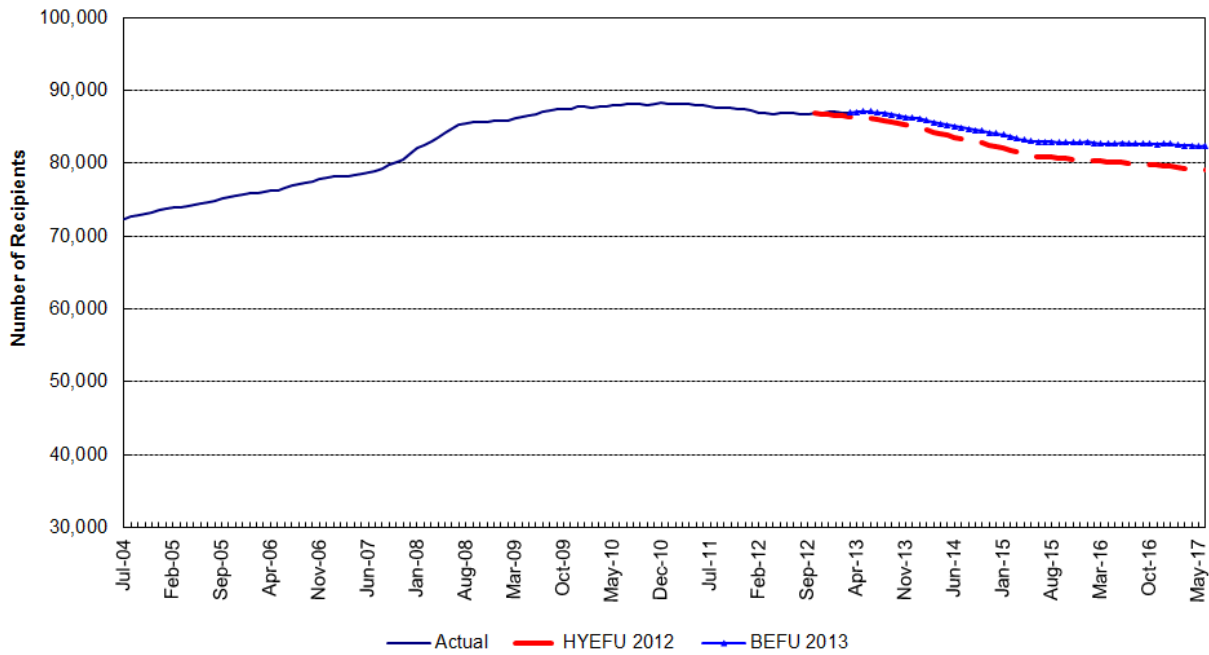
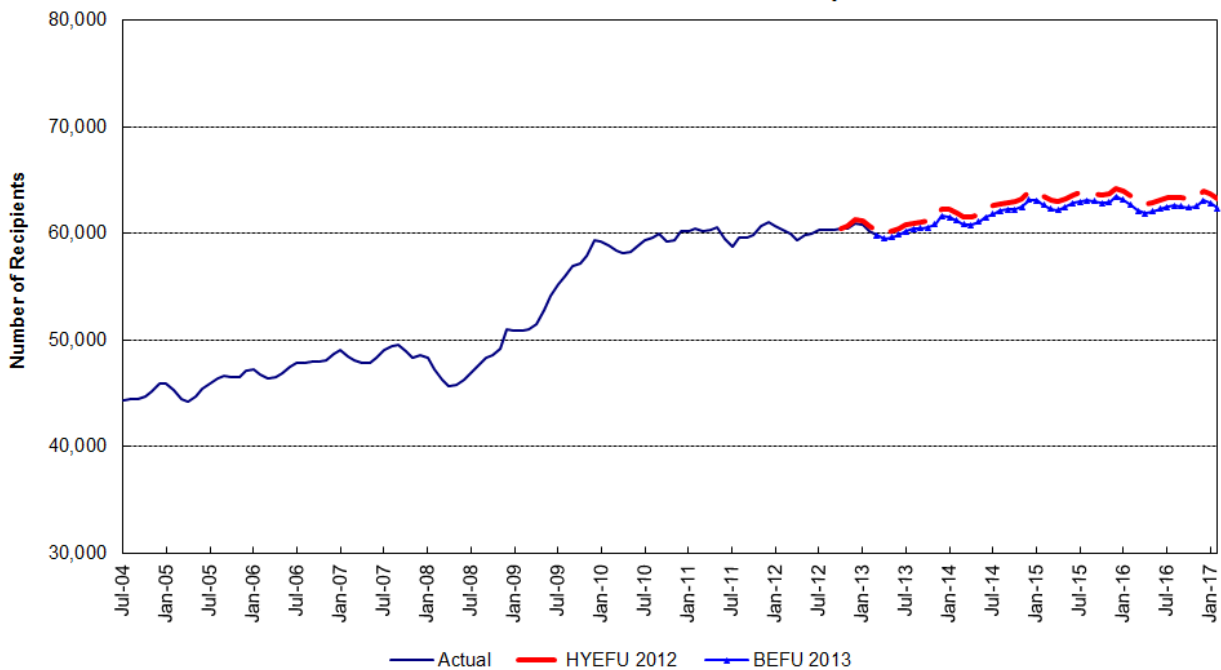


Figure 7

SICKNESS BENEFIT
Actual and Forecast Number of Recipients



- **Student Allowances is revised up by \$117.6 million (4.3%) over five years compared to the 2012 HYEFU.** This forecast is prepared by the Ministry of Education (MoE). The revision is mainly driven by an upward revision to the forecast number of students accessing Student Allowance. The weaker job market outlook compared to

the 2012 HYEUFU means more students are likely to meet the parental income test for Allowances.

Changes in Capital Expenditure

- 30 Changes in the Capital Expenditure forecast reduce expenditure by \$51.3 million (0.56%) compared to the 2012 HYEUFU, as shown in Table 5. Most of the change in Capital Expenditure is to Student Loans.
- 31 Student Loans is revised down by \$154.4 million (1.8%) compared to the 2012 HYEUFU, before accounting for policy changes. This forecast is prepared by MoE. The downward revision is because MoE expects fewer students to access loans compared to the 2012 HYEUFU, reflecting a substantial decrease in applications for loans in the 2013 enrolment period.

Table 5: Components of Change in Capital Expenditure

Vote Social Development Capital Expenditure	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	2016/17 (\$ million)	Five Year Total (\$ million)
2012 HYEUFU Forecast	1,756	1,815	1,833	1,880	1,926	9,209
(i)a Student Loans changes	(60.7)	(51.1)	(27.5)	(19.5)	4	(154.4)
(i)b Recoverable Assistance changes	(2)	3	1	(0)	1	2
(ii) <i>Supplementary Estimates Add-on</i>	30.5					31
Forecast Before Policy Changes	1,723	1,767	1,806	1,860	1,931	9,088
<i>Change from 2012 HYEUFU Before Policy</i>	<i>(32.6)</i>	<i>(47.9)</i>	<i>(26.8)</i>	<i>(19.6)</i>	5.2	<i>(121.7)</i>
(ii) Policy Changes	6.4	15.6	20.4	16.3	11.7	70.4
Forecast After Policy Changes	1,730	1,782	1,827	1,876	1,943	9,158
<i>Change From 2012 HYEUFU After Policy</i>	<i>(26.2)</i>	<i>(32.3)</i>	<i>(6.4)</i>	<i>(3.3)</i>	16.9	<i>(51.3)</i>
<i>Percentage changes</i>	<i>(1.49%)</i>	<i>(1.78%)</i>	<i>(0.35%)</i>	<i>(0.18%)</i>	0.88%	<i>(0.56%)</i>

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

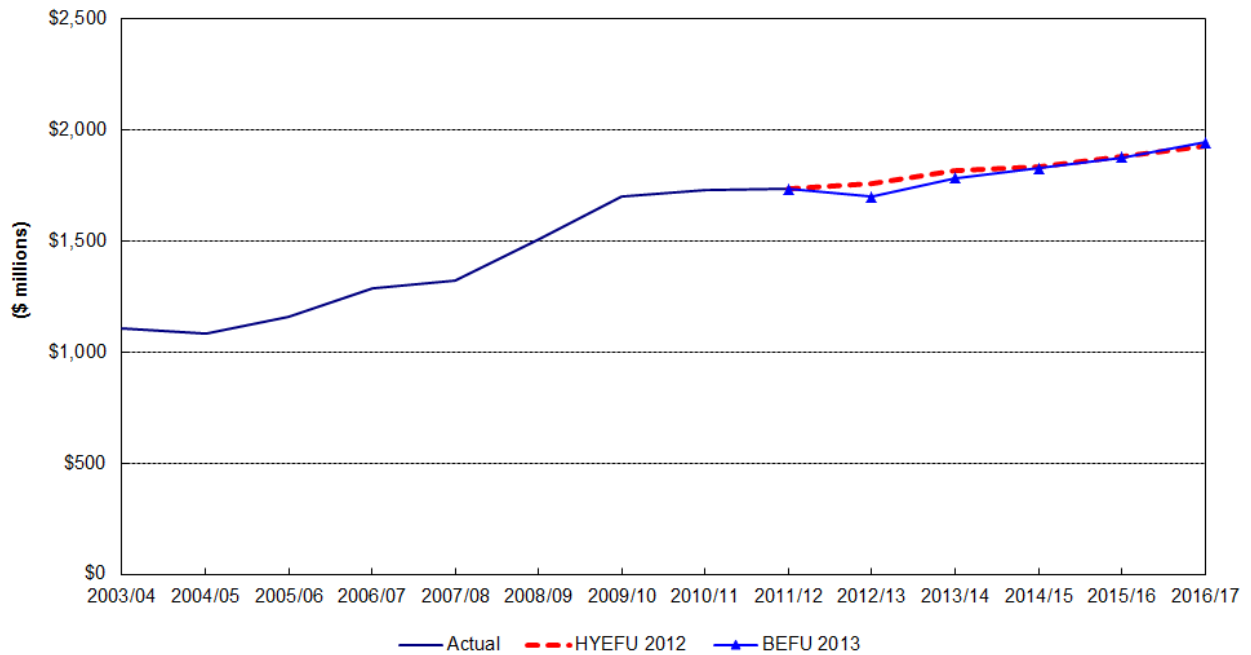
(i) a) and (i) b) Forecast Demand Driven Changes – refer to Appendix 2

(ii) Policy Changes – refer to Appendix 4

- 32 Figure 8 shows the 2013 BEFU and the 2012 HYEUFU forecasts for total Capital Expenditure.

Figure 8

VOTE SOCIAL DEVELOPMENT
Capital Expenditure



Changes in Crown Capital Receipts

- 33 All amounts for Capital Crown Receipts are expressed as income, so a positive change represents an increase in income. Changes in the Capital Receipts forecast reduce income by \$105.6 million (3.04%) compared to the 2012 HYEFU. Table 6 shows this change broken down into the changes made to each subcomponent.
- 34 The forecast amount of debt recovered from current and former beneficiaries is revised down by \$65.7 million over five years. Forecast expenditure on debt write-downs is revised down by \$23 million, owing to a change in the level of debt established, a change in interest rates and a change in the level of repayments.
- 35 The forecast amount received in Overseas Pension Recoveries is revised down by \$24.9 million. This revision is detailed in Appendix 2.
- 36 The forecast amount of Student Loan repayments made before the loan balance is transferred to Inland Revenue is revised down by \$15.0 million over the next five years. Repayments are often made via scholarships or by people withdrawing from courses early.

Table 6: Components of Change in Capital Receipts

Vote Social Development Capital Receipts	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	2016/17 (\$ million)	Five Year Total (\$ million)
2012 HYEPU Forecast	627.4	652.0	695.0	736.4	763.6	3,474.3
Changes in Recoveries from						
Current and Non-Current Debtors	(12.1)	(9.4)	(13.5)	(15.2)	(15.6)	(65.7)
Overseas Pensions Recoveries	(7.5)	(10.4)	(5.6)	(3.2)	1.7	(24.9)
Student Loans	(11.5)	(3.1)	(1.2)	(0.2)	1.0	(15.0)
Total Changes	(31.0)	(22.8)	(20.3)	(18.6)	(12.9)	(105.6)
Percentage changes	(4.94%)	(3.50%)	(2.92%)	(2.53%)	(1.69%)	(3.04%)
Forecast After Policy Changes	596.4	629.1	674.7	717.8	750.7	3,368.7

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

Amounts in Table 6 differ slightly to Table 10 as the Capital Receipts data also includes overseas pensions received on behalf of recipients of Veteran's Pension.

Summary of Changes in the 2013 BEFU – Vote Social Development

37 Table 7 summarises the annual forecast amounts for BOUEs, Capital Expenditure and Capital Receipts, and the changes in the forecasts since the 2012 HYEPU forecasts reported to joint Ministers on 11 December 2012 [REP/12/11/1172 or T2012/3095 refers].

Table 7: 2013 BEFU Forecast Summary

Vote Social Development 2013 BEFU forecast	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	2016/17 (\$ million)	Five Year Total (\$ million)
Benefits and Other Unrequited Expenses	17,936	18,601	18,951	19,586	20,264	95,337
change from 2012 HYEPU	45	94	(71)	(136)	(120)	(187)
% change from 2012 HYEPU	0.25%	0.51%	(0.37%)	(0.69%)	(0.59%)	(0.20%)
Capital Expenditure	1,730	1,782	1,827	1,876	1,943	9,158
change from 2012 HYEPU	(26)	(32)	(6)	(3)	17	(51)
% change from 2012 HYEPU	(1.49%)	(1.78%)	(0.35%)	(0.18%)	0.88%	(0.56%)
Capital Receipts	596	629	675	718	751	3,369
change from 2012 HYEPU	(31)	(23)	(20)	(19)	(13)	(106)
% change from 2012 HYEPU	(4.94%)	(3.50%)	(2.92%)	(2.53%)	(1.69%)	(3.04%)

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

38 Appendix 1 outlines the overall 2013 BEFU forecasts, incorporating all the changes discussed in this report for your approval.

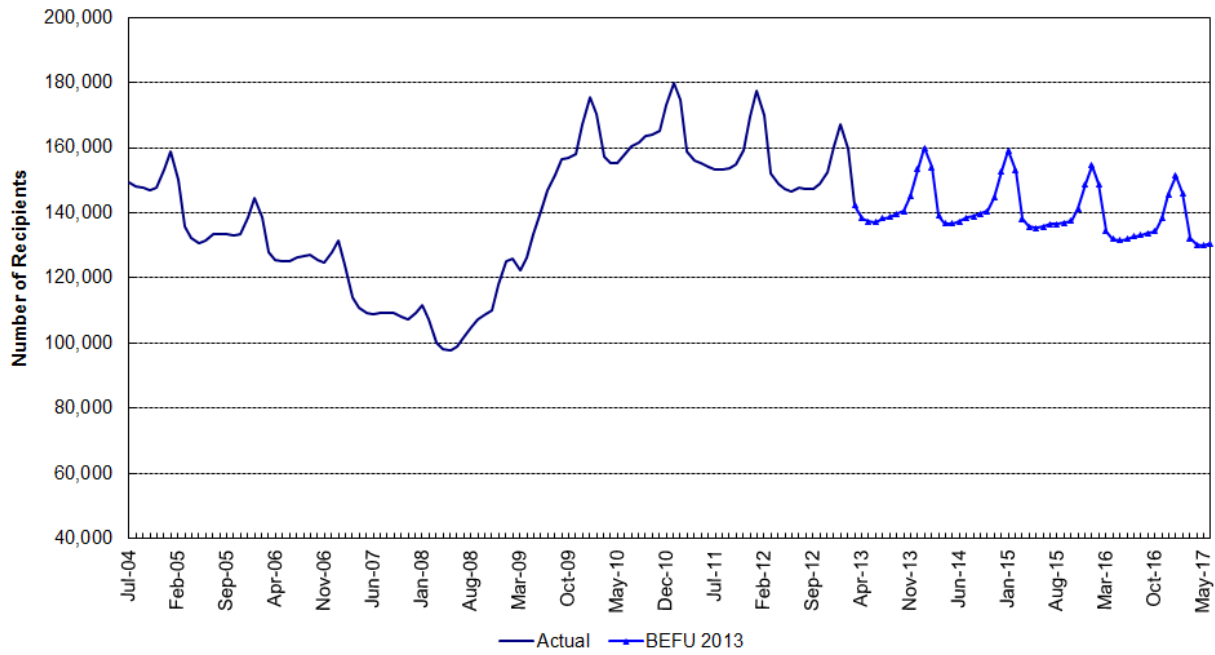
New Appropriations

39 From 15 July 2013, some of the current benefit appropriations will be replaced by three new appropriations: Jobseeker Support and Emergency Benefit, Supported Living Payment, and Sole Parent Support. These new appropriations are discussed in the report 'Appropriation changes for new benefit categories introduced through welfare reforms' submitted to joint Ministers on 1 March 2013 [REP/13/3/160 refers].

40 The Jobseeker Support and Emergency Benefit appropriation will include the Unemployment Benefit, Training Benefit, Sickness Benefit, Emergency Benefit, Unemployment Benefit-Student Hardship, and Emergency Maintenance Allowance. It will also include Domestic Purposes Benefit - Sole Parent recipients whose youngest child is at least 14 years old, and Widow's Benefit and DPB - Women Alone recipients. Figure 9 shows the forecasts for Jobseeker Support and Emergency Benefit appropriation.

Figure 9

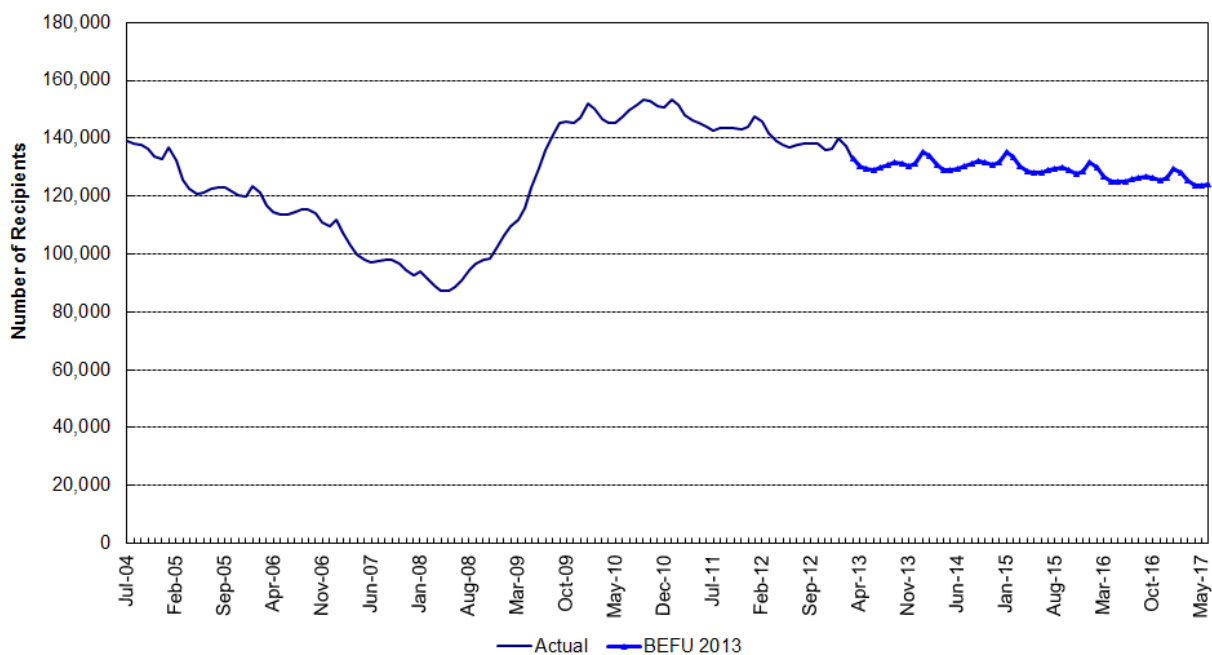
**Jobseeker Support and Emergency Benefit
Actual and Forecast Number of Recipients**



41 Under the Welfare Reform changes, the Jobseeker Support benefit category does not include Emergency Benefit, Emergency Maintenance Allowance, and Unemployment Benefit - Student Hardship. These benefits are included in the Jobseeker Support and Emergency Benefit appropriation. Figure 10 shows the forecast number of recipients on the Jobseeker Support benefit.

Figure 10

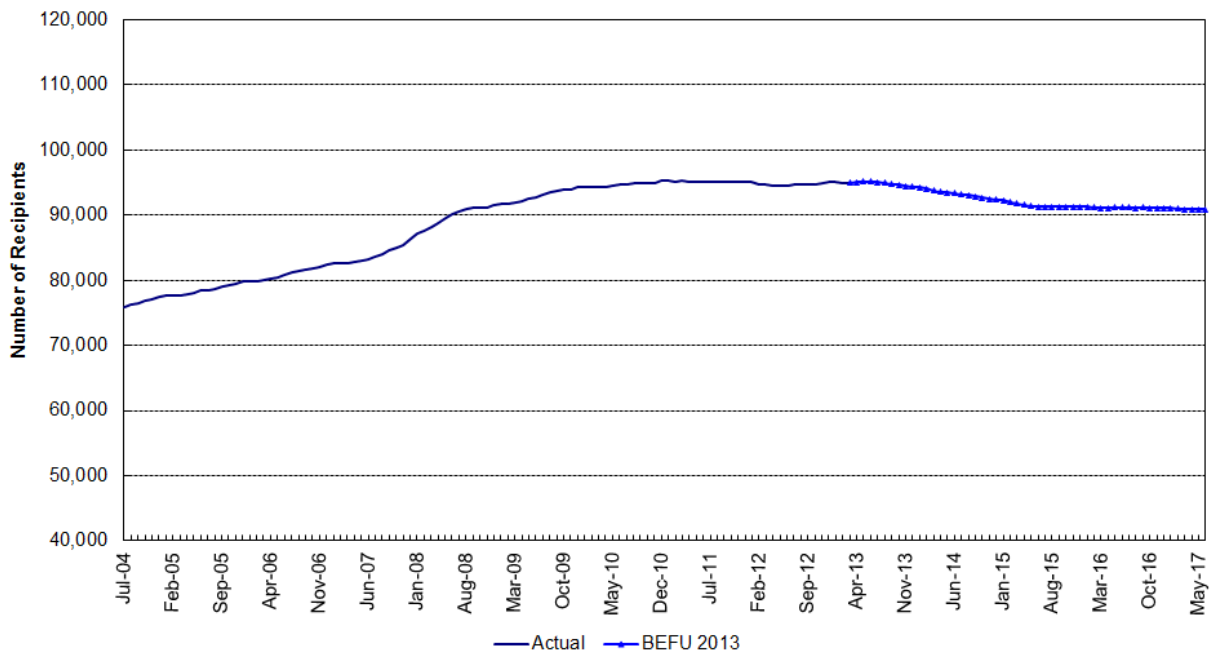
**Jobseeker Support
Actual and Forecast Number of Recipients**



42 The Supported Living Payment will replace Invalid's Benefit and Domestic Purposes Benefit - Care of Sick or Infirm. Figure 11 shows the forecast number of recipients on the Supported Living Payment.

Figure 11

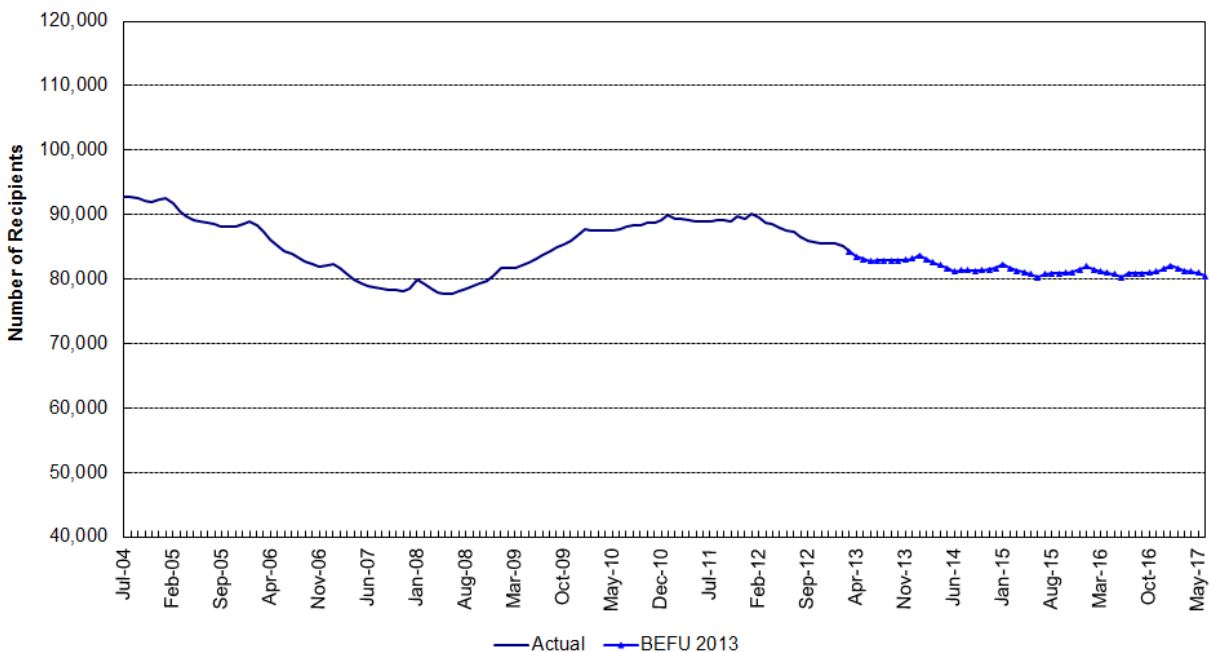
**Supported Living Payment
Actual and Forecast Number of Recipients**



43 The Sole Parent Support payment will be paid to current Domestic Purposes Benefit - Sole Parent recipients whose youngest child is below 14 years of age. Figure 12 shows the forecast number of recipients on Sole Parent Support.

Figure 12

**Sole Parent Support
Actual and Forecast Number of Recipients**



44 Table 8 shows what spending will look like under the new appropriations.

Table 8: New Appropriations

BEFU 13 Forecast for New Appropriations	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	2016/17 (\$ million)	Five Year Total (\$ million)
Jobseeker Support and Emergency Benefit	0.0	1,773.3	1,867.1	1,858.4	1,850.3	7,349.0
Sole Parent Support	0.0	1,287.8	1,341.2	1,366.1	1,391.2	5,386.3
Supported Living Payment	0.0	1,391.9	1,435.5	1,442.5	1,456.2	5,726.0
Total	0.0	4,453.0	4,643.8	4,666.9	4,697.6	18,461.4

Risks to Forecasts

Risks to Forecasts Associated with New Policies Introduced in the 2013 BEFU

45 Welfare Reform policy changes incorporated into both the 2012 HYEUFU and the 2013 BEFU that will be implemented in July 2013 pose some risk to the forecasts. Although we are confident that these changes will have an impact on benefit expenditure, the actual size of this impact may differ from what has been estimated.

Risks to Forecasts from the Drought

46 The recent drought across New Zealand's North Island presents a risk to the forecast if it has a greater than expected impact on the economy. Although the drought mainly affects the agriculture industry, it could have flow-on effects across the economy. The Treasury's latest macroeconomic forecast does take into account some impact of the drought, however the size of the actual impact remains uncertain. Any direct impacts from the drought are likely to come through the Unemployment Benefit and Emergency Benefit.

Appendix 1 - 2013 Budget Economic and Fiscal Update Forecasts

47 Appendix 1 outlines the 2013 BEFU forecasts incorporating all the changes discussed in this report.

Vote Social Development - Benefits and Other Unrequited Expenses	Supplementary Estimates 2012/13 (\$000)	Estimated Actual 2012/13 (\$000)	2013/14 (\$000)	2014/15 (\$000)	2015/16 (\$000)	2016/17 (\$000)
	(A)	(B)	(C)	(D)	(E)	(F)
Accommodation Assistance ¹	1,191,278	1,178,202	1,191,296	1,211,151	1,228,344	1,243,691
Benefits Paid in Australia	21,707	21,707	18,669	15,343	12,033	34,051
Childcare Assistance	200,418	185,724	183,660	182,815	183,508	183,623
Disability Assistance ²	388,069	384,647	380,111	376,747	376,435	376,121
Domestic Purposes Benefit	1,751,117	1,737,981	149,349	0	0	0
Employment Related Training Assistance	14,268	14,268	15,262	15,262	15,262	15,262
Family Start/NGO Awards	705	705	705	705	705	705
Hardship Assistance ³	279,980	273,376	272,503	260,006	254,595	252,063
Independent Youth Benefit	1,636	1,636	0	0	0	0
Invalid's Benefit	1,337,448	1,328,821	116,468	0	0	0
Jobseeker Support and Emergency Benefit	0	0	1,773,301	1,867,073	1,858,363	1,850,277
New Zealand Superannuation	10,252,628	10,234,628	10,894,365	11,495,042	12,102,462	12,711,879
Orphan's/Unsupported Child's Benefit	115,859	114,536	117,743	120,970	124,752	128,155
Sickness Benefit	789,928	782,435	69,833	0	0	0
Sole Parent Support	0	0	1,287,824	1,341,247	1,366,061	1,391,160
Special Circumstance Assistance	13,041	12,441	12,861	12,893	12,845	12,833
Student Allowances	604,027	592,027	574,360	536,375	529,476	528,096
Study Scholarships and Awards ⁴	24,518	24,218	21,467	20,145	18,910	19,167
Supported Living Payment	0	0	1,391,858	1,435,481	1,442,507	1,456,200
Transition to Work	22,362	20,362	23,100	24,154	24,212	24,406
Transitional Assistance	0	0	0	0	0	0
Unemployment Benefit and Emergency Benefit	822,370	805,759	64,589	0	0	0
Widow's Benefit	71,911	71,188	5,996	0	0	0
Youth Payment and Young Parent Payment	32,276	30,916	35,573	35,597	35,594	35,937
TOTAL BENEFITS	17,935,546	17,815,577	18,600,893	18,951,006	19,586,064	20,263,626

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 2012/13 (\$000)	Estimated Actual 2012/13 (\$000)	2013/14 (\$000)	2014/15 (\$000)	2015/16 (\$000)	2016/17 (\$000)
	(A)	(B)	(C)	(D)	(E)	(F)
Recoverable Assistance	150,805	146,301	150,669	145,411	143,357	141,245
Student Loans	1,579,100	1,553,100	1,631,661	1,681,344	1,733,048	1,801,523
TOTAL CAPITAL EXPENDITURE	1,729,905	1,699,401	1,782,330	1,826,755	1,876,405	1,942,768

Vote Social Development - Capital Receipts	Supplementary Estimates 2012/13 (\$000)	Estimated Actual 2012/13 (\$000)	2013/14 (\$000)	2014/15 (\$000)	2015/16 (\$000)	2016/17 (\$000)
	(A)	(B)	(C)	(D)	(E)	(F)
Benefit Recoveries - Current Debt	226,393	226,393	232,180	237,785	241,797	244,504
Benefit Recoveries - Liable Parent Contributions	1,082	1,082	960	855	752	668
Benefit Recoveries - Non-Current Debt	77,332	77,332	82,861	87,112	88,689	86,229
Overseas Pension Recoveries	183,658	183,658	197,943	229,207	263,074	292,248
Student Loans - Repayment of Principal	107,902	107,902	115,203	119,763	123,455	127,098
TOTAL CAPITAL RECEIPTS	596,367	596,367	629,147	674,722	717,767	750,747

Appendix 2 - Forecast Demand Driven Changes

48 Table 9 shows the components that make up the changes to the forecast since the 2012 HYEUFU. The forecast demand driven changes are divided into debt establishments, Overseas Pension Recoveries and other demand driven changes. Overall, forecast demand driven changes decrease expenditure by \$445.0 million (0.5% of the 2012 HYEUFU) over the next five years (this figure is equal to row (i) of Table 3).

Table 9 Components of Forecast Demand Driven Changes

Components of Forecasting Changes	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	2016/17 (\$ million)	Five Year Total (\$ million)
Debt Establishments	17.7	12.7	14.1	14.5	15.0	74.0
Overseas Pension Recoveries	7.5	12.7	11.7	12.9	11.7	56.5
Demand Driven changes excluding debt and OSP	(116.3)	(159.8)	(115.3)	(107.0)	(77.0)	(575.5)
Total Forecasting Changes	(91.2)	(134.3)	(89.6)	(79.6)	(50.3)	(445.0)

Note: 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 decrease 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

- 49 A beneficiary has a debt established when more benefit payment has been received than the beneficiary is entitled to and repayment is sought. Overpayments may be accidental (e.g. if a benefit recipient does not tell us their weekly earnings in time for abatement to be recalculated) or deliberate (i.e. fraudulent). They may be detected when a case manager becomes aware of a change in the client's circumstances, by Benefit Control investigations and/or by data matching.
- 50 Over the five years to June 2017, the downward revision to forecast debt establishments increases Vote Social Development expenditure by \$74.0 million. This change reflects an update for recent trends. This revision does not take into account possible savings from the Government's recent initiatives to clamp down on welfare fraud, and increasingly identify fraudulent behaviour using information sharing with other agencies including IRD.

Overseas Pension Recoveries Changes

- 51 Overseas Pension Recoveries (OSP) are payments made to people living in New Zealand who receive a benefit or pension from countries with which we have an agreement³, and who are using the Special Banking Option⁴ (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.
- 52 The decrease in revenue under the SBO of \$56.5 million over the next five years compared to the 2012 HYEUFU largely reflects a stronger exchange rate and an expected decrease in the average payment in UK pounds to recipients of a UK pension. The lower revenue under the SBO increases expenditure for Vote Social Development.

³ The United Kingdom, Guernsey, Jersey, Ireland, the Netherlands and Australia.

⁴ 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.

Demand Driven Changes excluding Debt and OSP

- 53 Demand driven changes excluding debt establishments and OSP reflect changes in benefit recipient numbers and average payment rates (before accounting for benefit indexation or policy). These changes are discussed in the main body of this report.
- 54 The decrease in forecast expenditure due to other demand driven changes, excluding debt establishments and OSP, is \$575.5 million (this is also the grand total figure in Table 4).

Appendix 3 - Indexation Changes

- 55 Benefit rates are adjusted each April for changes to the CPI (excluding the cigarettes and tobacco subgroup) each December year. For NZS, the inflation adjusted net married couple rate is also tested against the net AOTWE (or average wage) to ensure it does not go below the 66% wage floor level.
- 56 Indexation changes are caused by changes to both the CPI and average wage forecasts. Table 10 compares the 2013 BEFU inflation and wage forecasts with the 2012 HYEUFU, used in preparing the benefit expenditure forecasts.
- The 2013 BEFU CPI forecast has been revised down for all years except the December 2013 year, for which it is unchanged. The overall impact is a downward revision to expenditure.
 - The 2013 BEFU average wage forecast has been revised up for December 2013 onwards, and drives an upward revision to NZS expenditure.

Table 10: Comparison of 2013 BEFU and 2012 HYEUFU Forecasts of Inflation and Gross Wages

	CPI (annual % change)		Weekly Wages (\$) ^	
	2013 BEFU	2012 HYEUFU	2013 BEFU	2012 HYEUFU
December 2012	0.61%	1.1%	\$1,022.88	\$1,023.11
December 2013	1.6%	1.6%	\$1,050.69	\$1,043.29
December 2014	1.7%	2.1%	\$1,068.75	\$1,068.18
December 2015	1.7%	1.9%	\$1,094.93	\$1,094.45
December 2016	2.0%	2.1%	\$1,130.23	\$1,122.47

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

- 57 Table 11 shows the impact of indexation changes on benefit expenditure. The updated inflation and average wage forecasts mean that, over the five years, the CPI and average wage revision is expected to decrease benefit expenditure by \$66.4 million (0.1%) from the 2012 HYEUFU. The wage floor increases NZS by approximately \$135 million over five years, but this impact is offset by lower CPI adjustments to the benefits.

Table 11: Impact of Indexation Changes on Benefits

Indexation Changes	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	2016/17 (\$ million)	Five Year Total (\$ million)
NZ Superannuation	0.3	19.7	64.1	22.1	28.5	134.7
Domestic Purposes Benefit	(2.3)	(9.4)	(11.2)	(18.0)	(21.5)	(62.5)
Invalid's Benefit	(1.8)	(7.1)	(8.4)	(13.4)	(16.0)	(46.6)
Sickness Benefit	(1.0)	(4.2)	(5.3)	(8.6)	(10.3)	(29.4)
Unemployment Benefit and Emergency Benefit	(0.9)	(4.1)	(4.9)	(7.9)	(9.3)	(27.2)
Student Allowances	(1.0)	(3.5)	(4.1)	(5.1)	(5.8)	(19.5)
Other Benefits	(0.6)	(2.5)	(2.9)	(4.5)	(5.3)	(15.8)
Total Indexation Changes	(7.5)	(11.1)	27.2	(35.3)	(39.8)	(66.4)

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

- 58 The date at which the wage floor for NZS will be reached is sensitive to even small changes in the macroeconomic inflation and average wage forecasts shown in Table 10. The combination of inflation and average wage forecasts means that the NZS payment rates are expected to be adjusted by the wage floor in all years through to April 2017, except in April 2015.
- 59 Average wages are generally forecast to grow at a 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 2017, the weekly married couple net rate of NZS is forecast to be \$598.14 (66% of the net AOTWE). If the NZS rates were to be only CPI adjusted as from

April 2013, then the married couple rate would be \$578.88 (63.9% of the net AOTWE) by 1 April 2017.

Appendix 4 - Policy Changes

60 Confirmed policy changes decrease forecast benefit expenditure by \$18.7 million and increase Capital Expenditure by \$70.4 million over the five years to June 2017.

61 Table 12 summarises the policy changes affecting BOUEs and Capital Expenditure.

Table 12: Impact of Policy Changes on Benefits and Capital Expenditure

Policy Changes Benefits and Other Unrequited Expenses	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	2016/17 (\$ million)	Five Year Total (\$ million)
Disability Allowance Budget 2011 and 2012	25.5	30.4	30.4	30.4	30.4	147.3
Transition to Work Bonus - Welfare Reform	0.0	3.8	4.1	4.2	4.3	16.4
Portability - Cook Islands, Niue and Tokelau	0.0	0.0	0.0	4.5	4.9	9.4
1000 new EFTS: more flexibility for higher performing PTEs	0.0	1.2	2.5	2.4	2.3	8.5
Continuation of 99-105% tolerance bands	0.0	0.8	1.7	1.6	1.6	5.7
Pasifika Trades Training and Priority Trades (ITPs+PTEs)	1.4	1.6	0.0	0.0	0.0	3.0
Abatement and Associated Provisions - Welfare Reform	0.0	0.5	0.6	0.6	0.6	2.2
Rural Assistance Payments for Farmers Affected by Drought in 2013	1.1	0.9	0.0	0.0	0.0	1.9
DA impact of Annual General Adjustment on Income Thresholds for Disability Allowance and Community Services Card Thresholds	0.1	0.4	0.4	0.4	0.4	1.5
28 Day Rule - Welfare Reform	0.0	0.2	0.2	0.2	0.2	0.9
20 Additional Medical Places	0.0	0.0	0.1	0.1	0.2	0.4
No Student Allowance for people aged 65 and over	0.0	(0.4)	(1.6)	(2.5)	(2.8)	(7.3)
Widows and Women Alone Benefit Migration - Welfare Reform	0.0	(0.6)	(1.6)	(2.3)	(2.9)	(7.5)
3 Year loans and allowances stand-down for Permanent Residents	0.0	0.0	(2.2)	(5.3)	(6.5)	(13.9)
TeachNZ scholarships reprioritised	(4.1)	(6.2)	(7.1)	(7.9)	(7.7)	(33.0)
[6]						
Work Focussed Case Management for all DPB-SP with Youngest Child 6-13 years - Welfare Reform	0.0	(7.7)	(12.8)	(13.9)	(14.2)	(48.6)
Welfare Reform phase two saving initiatives - overseas pensions collection	(0.1)	(4.5)	(11.8)	(19.1)	(26.3)	(61.7)
Total Policy Changes	23.9	16.9	(8.2)	(21.4)	(29.9)	(18.7)

[6]

Policy Changes Capital Expenditure	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)	2016/17 (\$ million)	Five Year Total (\$ million)
1000 new EFTS: more flexibility for higher performing PTEs	0.0	6.8	11.9	12.3	12.7	43.6
Continuation of 99-105% tolerance bands	0.0	3.8	5.3	5.4	5.5	20.0
[6]						
Pasifika Trades Training and Priority Trades (ITPs+PTEs)	6.4	3.2	0.0	0.0	0.0	9.7
20 Additional Medical Places	0.0	0.2	0.5	0.8	1.3	2.9
Costs for Drug Testing under Social Obligations	0.0	0.4	0.4	0.4	0.4	1.6
No Student Allowance for people aged 65 and over	0.0	(0.1)	(0.4)	(0.5)	(0.6)	(1.7)
3 Year loans and allowances stand-down for Permanent Residents	0.0	0.0	(1.6)	(7.8)	(13.2)	(22.6)
Total Policy Changes	6.4	15.6	20.4	16.3	11.7	70.4

[6]

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

Appendix 5 - Additional Savings from Welfare Reform

- 62 The 2013 BEFU forecasts include additional estimated savings of \$48.6 million (gross of taxation) over the five years to June 2017, related to new services for sole parents with a youngest child aged 6 to 13 years. These are an update from previously estimated savings, explained in 'Welfare Reform Impacts Being Incorporated into the 2013 Budget Forecasts – Update' [REP/13/4/296 and T2013/936 refers].
- 63 The previous estimates were not included in earlier forecasts because there was not enough evidence to do so at the time. Additional funding for case management of sole parents has been agreed in the 2013 BEFU. This means that the entire group of sole parents subject to part-time work obligations can be worked with from July 2013.
- 64 With greater certainty about implementation and a better evidence base we are confident about including part of the estimated savings in the fiscal forecasts. The policy is expected to reduce the number of DPB-Sole Parent (DPB-SP) recipients by about 790 by June 2017.
- 65 In addition to the \$48.6 million in savings that will be included at the 2013 BEFU, an estimated \$19.2 million (gross of taxation) forming part of the Future Focus policy has already been captured as part of the baseline benefit forecasts. This reflects savings from around 4,500 DPB-Sole Parent recipients who are already being worked with.
- 66 A further \$90.6 million (gross of taxation) in estimated savings has not been included, as there is not yet enough evidence to support this estimate.
- 67 In total, \$379.7 million in gross savings (\$339.0 million net savings) from Welfare Reform policies has been flowed through the forecasts since the 2012 BEFU. After allowing for total costs of \$19.6 million for the Work Bonus, Abatement and 28 Day policies, the total gross savings reduce to \$360.1 million (\$320.0 million net savings). Table 13 shows the expected savings and costs from Welfare Reform that have been included in the forecasts so far.

Table 13: Welfare Reform Costs and Savings in forecast

Welfare reform BOUE savings (Millions)		
	Gross	Net
BEFU12	\$182.159	\$162.478
HYEFU12	\$141.454	\$126.996
<i>Sub-Total (already Included)</i>	\$323.613	\$289.474
BEFU13 - 6-13 year olds	\$48.602	\$42.800
BEFU13 - Grandparenting WB and WA	\$7.496	\$6.700
Total Welfare Reform Savings	\$379.711	\$338.974
BOUE Costs to Welfare Reform		
Abatement and 28 Rule	\$3.123	\$2.641
<i>Total welfare reform savings flowed through forecasts as previously reported [REP 13/4/296]</i>	\$376.588	\$336.333
BEFU 13 - Work Bonus	\$16.448	\$16.448
Total Welfare Reform Impact	\$360.140	\$319.885

File ref: A6740823