The Treasury

Budget 2015 Information Release

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MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Budget 2015 Material Hardship Package: detailed decisions and further analysis

Date: 6 March 2015 **Report no.:** REP/15/3/196

Security level: IN CONFIDENCE **Priority:** High

Action Sought

Hon Anne Tolley Minister for Social Development	To read in preparation for Meeting on 11 March 2015	10 March 2015

Contact for telephone discussion

Name	Position	Telephone		1st Contact
Jason Raven	Principal Advisor	09 916 1788	[4]	☑
Anneliese Parkin	Chief Policy Advisor	04 978 4104		

Report prepared by: Jason Raven

Minister's office comments

- ☐ Noted
- ☐ Seen
- ☐ Approved
- ☐ Needs change
- ☐ Withdrawn
- ☐ Not seen by Minister
- ☐ Overtaken by events
- ☐ Referred to (specify)

Comments

Date received from MSD ***Date returned to MSD***

Inland Revenue
Te Tari Taake

THE TREASURY
Kaitohutohu Kaupapa Rawa

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Report

Date: 6 March 2015 **Security Level:** BUDGET: SENSITIVE

To: Hon Bill English, Minister of Finance

Hon Anne Tolley, Minister for Social Development

Hon Todd McClay, Minister of Revenue

Budget 2015 Material Hardship Package: detailed decisions and further analysis

Purpose of the report

1 This report provides further information about and analysis of the package of initiatives agreed by senior Ministers on 11 February 2015, and seeks detailed decisions to inform the Cabinet paper. The exact shape of the final package remains subject to Budget decisions.

2 This paper has two parts:

2.1 Part A: Provides further analysis of the impacts of the package, including:

- Costs
- Distributional impacts
- The impact of the package on financial incentives to work

2.2 Part B: Seeks detailed decisions to inform the Cabinet paper, regarding:

- The approach to dealing with unintended financial disadvantage resulting from the package
- Ministry of Social Development and Inland Revenue operational costs, including decisions about the administration of the 52 week reapplications for sole parents receiving benefits and the enhanced work search expectations
- The obligations that will apply for young parents if the expansion of the Youth Service is agreed as part of Budget 2015 decisions
- The future trajectory for Working for Families abatement threshold and rate changes

- The treatment of consequential savings in the social housing appropriation
- The impact on OSCAR programme costs
- The exact benefit rates that would and would not be increased.

Executive summary

3 Senior Ministers have agreed the high level shape for the Prime Minister's Budget 2015 Child Material Hardship Package. This paper provides both an overview of the costs, impacts and key implications of that package, and seeks further decisions on the detail.

4 If Ministers agree to the recommendations in this paper, the total cost of the package is estimated at $796.721 million over four years. This cost reflects refinements to existing administrative costings, and the addition of some consequential costs and savings arising from the package. A number of the decisions sought in this package may affect this estimate.

5 Overall, the increase in benefit rates stands to increase assistance to around 134,000 families with children by on average $20.16 per week. This includes 108,000 beneficiaries who have an average gain of $23.10, and 26,000 working families who have an average gain of $7.76 (due to consequential impacts on other assistance). Around 200,000 working families benefit from the changes to Working for Families by $8 per week on average, and an estimated 18,000 families at a point in time will benefit by an average of $22.96 from changes to Childcare Assistance.

6 The primary goal of the package is to alleviate more severe levels of child material hardship within a tight fiscal environment, and officials' view is that the package achieves this in a way that balances the impact on work incentives.

7 The paper presents options for you to consider with regard to how changes to benefit obligations are implemented, and how people who are unintentionally financially disadvantaged by the package are treated. Several options are presented for resourcing the Ministry of Social Development's staffing costs, and we suggest a conservative approach to redressing unintended financial disadvantage - designed to address only the more severe and potentially problematic cases.

8 Finally, the paper seeks confirmation of a number of technical elements of the package, relating to the benefit rates increase, and interfaces with the social housing appropriation, the future trajectory of Working for Families payments, and Out of School Care programme costs.

9 The decisions in this paper will be used to inform the Cabinet paper that the Department of Prime Minister and Cabinet is drafting for the Deputy Prime Minister to take to Cabinet on 30 March 2015.

Recommended actions

10 It is recommended that you:

1 **Note** that the analysis in this paper is based on the high level shape of the Budget 2015 child material hardship package as agreed by senior Ministers on 11 February 2015

YES / NO

2 **Note** that this paper updates the estimated fiscal cost of the package (see paragraph 11), and estimates the distributional impacts of the package (see paragraphs 12 to 33)

YES / NO

3 **Note** that a key focus in developing the Budget 2015 child material hardship package has been to strike an appropriate balance between providing additional support to families likely to be in more severe levels of material hardship, and maintaining financial incentives to work

YES / NO

4 **Note** that officials' view is that the package overall will have broadly neutral impacts on financial incentives and small positive impacts on employment outcomes

YES / NO

5 **Note** that officials have identified three specific situations in which individuals are financially disadvantaged by unintentional impacts of the package:

5.1 people receiving the Community Services Card

5.2 around 70 low income people with high disability costs

5.3 low-income working families who do not receive the in-work tax credit

YES / NO

6 **Agree** to increase the Community Services Card income limits from 1 April 2016 by $650 per annum for families with children, to ensure that families do not lose access to this entitlement as a result of an increase in the in-work tax credit rate

YES / NO

7 **Agree** to make provision, through the Social Security Act and a budget allocation of up to $0.250 million per annum, for a payment to people who are financially disadvantaged as an unintended consequence of the package, in particular the approximately 70 financially disadvantaged families who have high disability costs

YES / NO

8

[8]

YES / NO

9 **Note** that the package will have the following impacts on other assistance, which reflect the normal operation of the social welfare system:

9.1 Accommodation Supplement – payments will reduce for beneficiaries and 4,100 working families, partially offsetting the increase in benefit rates, and will increase for about 25,700 working families

9.2 Child Support - some parents will see a small change in their child support payments, an increase for some and a reduction for others

9.3 Rates of supplementary assistance – supplementary assistance payments that are linked to benefit rates (such as drought assistance to farmers and bridging finance for people entering work) will increase in line with the increases in benefit rates

9.4 Temporary Additional Support – for most recipients will reduce by approximately $7.50 per week, partially offsetting the increase in benefit rates, while for a smaller group at the Temporary Additional Support maximum rate, their entitlement could increase

9.5 Income Related Rent – for most beneficiaries in social housing will increase by around $6 per week, reducing the in-the-hand gains from the package

YES / NO

10 **Note** that the Ministry of Social Development's implementation costs (IT, communications and implementation preparation), excluding the new 52-week benefit reapplication, and work search obligations are $7.790 million over four years, and Inland Revenue's are $1.2 million

YES / NO

Approach to resourcing active case management for parents with a 3 or 4 year old child

EITHER [Ministry of Social Development preferred approach]:

11 **Agree** that the Ministry of Social Development provide active case management to 100% of the group with new work search obligations, at an annual cost of $2.081 million (an increase from working with 65% currently)

YES / NO

OR [Treasury preferred approach]:

12 **Agree** that the Ministry of Social Development provide active case management to 80% of the group with new work search obligations, at an annual cost of $0.734 million (an increase from working with 65% currently)

YES / NO

OR:

13 **Agree** that the Ministry of Social Development continue to provide active case management to 65% of the group with new work search obligations, at no additional cost

YES / NO

Operational approach to 52 week benefit reapplication for sole parents

EITHER:

14 **Agree** to require all sole parent beneficiaries to attend a face-to-face interview, with a work focus, at an annual cost of $5.2 million

YES / NO

OR:

15 **Agree** that in the first year all sole parents be required to attend a face-to-face interview to complete the new 52 week reapplication process, and in subsequent years around half of sole parents be required to attend an interview, with the remaining half required to reapply in writing, at an annual cost of $5.149 million in the first year, $3.581 million in subsequent years

YES / NO

OR [Ministry of Social Development and Treasury recommended approach]:

16 **Agree** that in the first year, half of all sole parents will be required to attend a face-to-face interview to complete the new 52-week re-application process, and half will be required to reapply in writing, and in subsequent years one quarter of sole parents attend an interview with the remainder required to reapply in writing, at an annual cost of $3.571 million in the first year, $2.817 million in subsequent years

YES / NO

OR:

17 **Agree** that all sole parents will only be required to reapply in writing, at an annual cost of $2.2 million

YES / NO

18 **Confirm,** in principle, that Young Parent Payment educational obligations (rather than work-search obligations) apply to nineteen year old Young Parent Payment recipients, regardless of the age of their youngest child, if they remain in education, subject to the agreement to the expansion of the Youth Service as part of Budget 2015 decisions

YES / NO

19 **Note** that the Working for Families abatement rate will be higher than what was agreed at Budget 2011 due to the abatement rate increase in this package, and that the abatement threshold will continue to reduce as agreed in Budget 2011 (from $36,350 to $35,900) when the Family Tax Credit is indexed to inflation (currently forecast be 1 April 2017)

YES / NO

20 **Agree** to increase the abatement rate (from 22.5% to 23.75%), for Working for Families payments when the Family Tax Credit is next indexed to inflation (currently forecast to be 1 April 2017)

YES / NO

21 **Agree** to an additional Working for Families abatement rate increase from 25% to 26.25% when the last threshold adjustment occurs (currently forecast to be in 2023)

YES / NO

22 **Note** that there will be an ongoing fiscal cost from 2023/24 of approximately $50 million per year if the abatement rate is not increased further

YES / NO

EITHER:

23 **Agree** that the capped social housing appropriation that provides funding for the Income Related Rent Subsidy be reduced by $22.968 million over four years as a consequence of savings created by the increases in benefit rates

YES / NO

OR:

24 **Agree,** that the Income Related Rent Subsidy appropriation remain at its current level, in light of the existing pressure on the appropriation and the Government's priority of growing the social housing market

YES / NO

25 **Agree** to include costs of $1.3 million over four years in the package to fund the consequential impact of the increases in OSCAR subsidy in this package on OSCAR programme funding, as we expect a small increase in take up of the OSCAR subsidy as a result of this package

YES / NO

26 **Note** that there is a separate, unrelated, Budget 2015 bid to address broader cost pressures on the OSCAR programme funding budget

YES / NO

27 **Note** that the increases in benefit rates for people with children will mean that a new couple with children rate of payment will be re-instated for each of the main benefits

YES / NO

28 **Note** that recipients of New Zealand Superannuation, and carers for children receiving the Orphans Benefit, Unsupported Child's Benefit, and Foster Care Allowance will not benefit from an increase in benefit rates, as these groups have access to other payments for caring for children (see paragraphs 113 to 117 for further information)

YES / NO

29 **Indicate** whether you would like further advice on options to make provision for an additional payment to a small number of recipients of New Zealand Superannuation who have full-time care of a dependent child (other than where Orphans or Unsupported Child Benefit is paid)

YES / NO

30 **Note** that the Department of Prime Minister and Cabinet, Ministry of Social Development and Treasury are preparing a paper for the Deputy Prime Minister to take to Cabinet on 30 March 2015 to confirm the package, based on the decisions you make in this paper

YES / NO

31 **Forward** a copy of this report to the Minister of Tertiary Education

YES / NO

Nick Carroll Manager Treasury	6/3/15 Date	Anneliese Parkin Chief Policy Advisor Ministry of Social Development	6/3/15 Date	Chris Gillion Manager Inland Revenue	6/3/15 Date
Hon Bill English Minister of Finance	Date	Hon Anne Tolley Minister for Social Development	Date	Hon Todd McClay Minister of Revenue	Date

PART A: ANALYSIS OF PACKAGE IMPACTS

Overall costs and distributional impacts

11 The table below shows updated fiscal costs based on the decisions taken by Ministers at the 11 February 2015 meeting.[1] The table also reflects further refinement of operational and implementation costs of the 52 week reapplication and new work search expectations. These costs will be further revised in line with revisions in the underlying forecasts in the Budget process, but are not expected to change significantly.

Package component	2015/16	2016/17	2017/18	2018/19 and outyears
Benefit rates increase	33.025	132.139	132.106	133.821
Student Allowance increase	2.100	6.500	6.700	6.700
In-work tax credit increase and abatement changes	20.000	70.000	70.000	70.000
Minimum Family Tax Credit increase	0.150	0.610	0.690	0.680
Childcare Assistance Increase	7.750	31.480	32.090	32.830
Consequential impact on OSCAR programme costs - NEW	0.100	0.400	0.400	0.400
Consequential impact on Income Related Rent subsidy appropriation - NEW	(0.601)	(7.383)	(7.459)	(7.525)
Payment to redress unintended financial disadvantage resulting from the package	0.065	0.250	0.250	0.250
MSD Implementation costs based on MSD preferred approach to 52 week reapplications and work search obligations - UPDATED[2]	8.854	8.219	4.965	4.965
Inland Revenue Implementation costs	0.990	0.210	-	-

[1] This table excludes any impact of removing the 9 hours non activity tested component of Childcare Assistance as Ministers have not yet made decisions on this.

[2] Note that these costs would reduce if Ministers select lower resourcing levels for the 52 week reapplication and new work search obligations.

12 It has not been possible to model the combined impact of the package at the aggregate level with the models currently available. Instead, we have separately modelled the impacts of the three financial assistance components in the package (the benefit rate increase, Working for Families changes and greater childcare assistance). We have modelled these separately at the population level; and then provided a series of case-study scenarios that illustrate how the package will benefit various family types.

13 The table below shows the high-level impacts of the package.

Intervention	Number who will benefit	Average amount they will benefit by per week
Benefit rate increase for families with children	133,842 families with children	$20.16
In-Work Tax Credit increase	203,000 families with children	$8.00
Automatic adjustment of MFTC	3,500 families with children	$12.00
Increase to childcare assistance	18,330 families with children	$22.96

Scenarios illustrating the overall impact of the package

14 The table below shows a range of scenarios that illustrate the impact of the package on several common family types. In all cases, the wage rate is assumed to be $15 per hour and the family is based in South Auckland, paying a close to median rent for suitably sized accommodation. The table illustrates the impact of the package on the family's net income, by component of the package.

Family type	Couple with 4 children (ages 16, 14, 4 & 2)		Couple with 2 children (ages 10 & 8)			Sole parent with 2 children (ages 8 & 4)		
Accommodation type	Private	Private	Private	Private	Private	Private	State	Private
Employment hours/benefit type	40	40+20	JS	20+20	40+20	SPS	SPS	30
Benefit			+$25.00			+$25.00	+$25.00	
IWTC	+$12.50	+$12.50		+$12.50	+$12.50			+$12.50
MFTC								+$12.00
FTC		-$2.52			-$2.52			
AS	+$5.00	+$9.00		+$5.00	+$9.00			
IRRS							-$7.56	
TAS			-$7.50			-$7.50		
CCA		+$30.60			No change			+$20.40
Net impact on household budget	**$17.50**	**$49.58**	**$17.50**	**$17.50**	**$18.98**	**$17.50**	**$17.44**	**$44.90**

Impact of the benefit rate increase

15 The tables below provide additional information about the impact of the increase in benefit rates for various groups within the population.

Amount of gain (loss) per week	Number of families
Total who lose	**4,171**
$0 - $10 gain	24,750
$10 - $20 gain	25,921
$20 - $30 gain	76,110
More than $30 gain	6,991
Total who gain	**133,772**

Benefit type	Number of families	Average gain per week for those gaining
Jobseeker Support and Emergency Benefit -EMA	1,663	$23.00
Jobseeker Support and Emergency Benefit -Main	5,718	$23.06
Jobseeker Support and Emergency Benefit -Sick	7,290	$23.36
Jobseeker Support and Emergency Benefit -Sole Parents	7,328	$23.49
Non-beneficiary	25,668	$7.76
Sole Parent Support	74,109	$23.00
Supported Living Payment – Caring for Sick	2,754	$23.75
Supported Living Payment - Invalids	7,726	$23.22
Supported Living Payment - Overseas	450	$25.00
Youth Payment and Young Parent payment	1,077	$22.78
Total	**133,772**	**$20.16**

Market income before tax	Number of families	Average gain per week for those gaining
Beneficiary	**108,104**	**$23.10**
Less than $10k	440	$6.68
$10k - $20k	795	$10.45
$20k - $30k	2,339	$7.88
$30k - $40k	10,023	$7.56
$40k - $50k	7,530	$7.78
$50k - $60k	3,483	$7.76
$60k - $70k	871	$7.56
$70k - $80k	187	$7.65
Total	**133,772**	**$20.16**

Impact of the changes to Working for Families

16 The changes to the IWTC benefit approximately 203,000 families with an average weekly gain of $8.[3] The increase to the abatement rate means that families on higher incomes gain less on average than those on lower incomes. For example, families earning under $50,000 per year gain an average of $10 per week, while those earning over $75,000 per year gain an average of $2 per week.

17 The increase to the abatement rate also means that some families are worse off. Approximately 30,000 families lose an average of $3 per week. All of these families who are financially disadvantaged earn over the abatement threshold of $36,350.

[3] These results were modelled in Treasury's microsimulation model, Taxwell, based on the Household Economic Survey. Access to the Household Economic Survey data was provided by Statistics New Zealand under conditions designed to give effect to the security and confidentiality provisions of the Statistics Act 1975. The results presented here are the work of Treasury, not Statistics New Zealand.

Those on the highest incomes lose the most on average, but even families earning over $100,000 per year only lose an average of $5 per week.

Family income	Number of families		Number of gaining families		Average weekly gain	Number of financially disadvantaged families		Average weekly loss
Under $36,350	185,000	51%	53,000	26%	$10	-	0%	$ -
$36,350 - $50,000	46,000	13%	45,000	22%	$10	23,000	76%	$(3)
$50,000 - $75,000	85,000	23%	84,000	41%	$6			
$75,000 - $100,000	40,000	11%	22,000	11%	$2			
$100,000+	8,000	2%				7,000	24%	$(5)
TOTAL	363,000	100%	203,000	100%	$8	30,000	100%	$(3)

18 The modelling is likely to over-state the numbers of disadvantaged families, particularly those on high incomes, as the model assumes 100% take-up of eligible payments. For example, the modelling above suggests there are approximately 7,000 families that earn over $100,000 per year will be worse off, while administrative data from IR shows that only 4,430 families earning over $100,000 per year received Working for Families payments in 2013 .

19 Given the way that Working for Families operates there should be no families that are financially disadvantaged that earn less than around $88,000 per year and are eligible for the IWTC for the whole year (absent factors like administrative error) – and note that only families with three or more children are still eligible for the IWTC with a family income over $88,000.

20 There are broadly three groups of potentially financially disadvantaged families:

- families with more than three children earning over around $88,000 per year will lose (as the abatement rate increase more than offsets the $12.50 per week increase in the in-work tax credit)

- families with partial-year entitlement to the in-work tax credit may gain or lose depending on their eligibility for benefit while they are not receiving the in-work tax credit, and their income level when they are receiving the in-work tax credit

- families who do not receive the in-work tax credit or benefit, but are eligible for the family tax credit and earn over the abatement threshold of $36,350 per year will lose, as the abatement rate increase will decrease their family tax credit, but they will not receive any increase from the in-work tax credit or benefit rate rises.

21 Treasury's model, Taxwell, is based on the Household Economic Survey sample of 3,000 households. For this reason, the model has a limited ability to predict the impact of this package on families with unusual, or 'less common' circumstances. Administrative data from Inland Revenue is more comprehensive and allows us to look more closely at the numbers of these families potentially losing.

22 The distributional analysis above also does not include the impact of the increase to the Minimum Family Tax Credit, as the recipient population is too small to model in Taxwell (Treasury's microsimulation model).

23 Inland Revenue administrative data for 2013 shows that there are 8,300 families receiving Working for Families who earn more than $90,000 per year and have three or more children.

24 The table below shows the number of families who have partial-year entitlement to the in-work tax credit (split into those who also received benefit and those who didn't), and those who received the family tax credit, but neither the in-work tax credit nor benefit. These groups are then split into income bands. All families with annual incomes under the abatement threshold of $36,350 will not lose as a result of the tax credit changes.

Family income	**Claimed benefits and IWTC**	**Part-year IWTC, no benefits**	**Claimed FTC, no benefits, no IWTC**
under $36,350	21,525	7,317	10,472
$36,350-$75,000	9,910	8,412	4,280
over $75,000	416	2,865	419
All	31,851	18,594	15,171

25 There are 10,326 families who earn over the abatement threshold and have a partial-year entitlement to the in-work tax credit and also receive benefit income. As they also receive benefit income for part of the year they are likely to be net gainers from the package.

26 There are 11,277 families who earn over the abatement threshold and have a partial-year entitlement to the in-work tax credit and no benefit income. They may gain or lose overall depending on whether the gain from the increase in the in-work tax credit (that they receive for part of the year) outweighs the loss from the higher abatement of their family tax credit payment.

27 There are 4,699 families earning over the abatement threshold who receive the family tax credit but not the in-work tax credit nor benefit. They will lose as a result of this package. 91% of these families earn under $75,000 per year.

28 Of the 15,171 families who receive the family tax credit but not the in-work tax credit nor benefit, approximately 40% receive no wage income, meaning that they are ineligible for the in-work tax credit because their income comes from sources such as investment income or child support. The other 60% receive wage income but

are not claiming the in-work tax credit. This may be because they do not meet the hours requirement (20 hours per week for a sole parent/30 hours per week for a couple), or they may be eligible but have not confirmed their hours of work with IR.

Minimum Family Tax Credit

29 The minimum family tax credit currently tops up after tax income to $443 per week ($23,036 per year), exclusive of non-taxable transfer payments such as the in-work tax credit. The new rate of the minimum family tax credit, calculated using the current formula and given the proposed increase to benefits of $25 per week and the increase in the in-work tax credit of $12.50 per week, works out to a $12 per week increase to $455 per week ($23,660 per year). The minimum family tax credit is paid weekly and must be a whole dollar amount due to system settings. All households receiving the minimum family tax credit will benefit from the full $12 per week increase, as it increases the guaranteed minimum income a family receives if they are eligible for this credit. Increasing the rate will also increase the number of families eligible for this payment.

Impact of the changes to Childcare Assistance

30 The average weekly gain across all eligible households receiving childcare subsidy or out of school care and recreation subsidy is $22.96 per week. The total number of households that benefit from the policy change at a point in time is 18,331.

31 The table below shows the number of households against average gain per week:

Gain per week	Household count	Average gain per week
$0 to $10	6,933	$9
$10 to $20	4,572	$17
$20 to $30	2,851	$27
$30 to $40	1,589	$37
over $40	2,386	$62

32 All of those who benefit from the Childcare Assistance changes have earnings of less than $800 per week, and the larger gains accrue to people with more than two children.

Impact of the package on financial incentives to work

33 A key focus in developing the Budget 2015 child material hardship package has been to strike an appropriate balance between providing additional support to families likely to be in more severe levels of material hardship, and maintaining financial incentives to work.

The role of financial incentives in work decisions

34 There are a range of factors that can affect an individual's employment decisions (to enter work, remain in work, or to work more or fewer hours). These include:

- the financial return from work
- in-work costs such as childcare and transport, which reduce the financial return from work
- the availability of jobs and the nature of those employment opportunities (e.g. temporary or zero hour contract jobs are unlikely to be suitable for a sole parent)
- the support that is available out of work
- individual preferences, particularly caring and family responsibilities
- the presence of barriers to work (e.g. childcare availability).

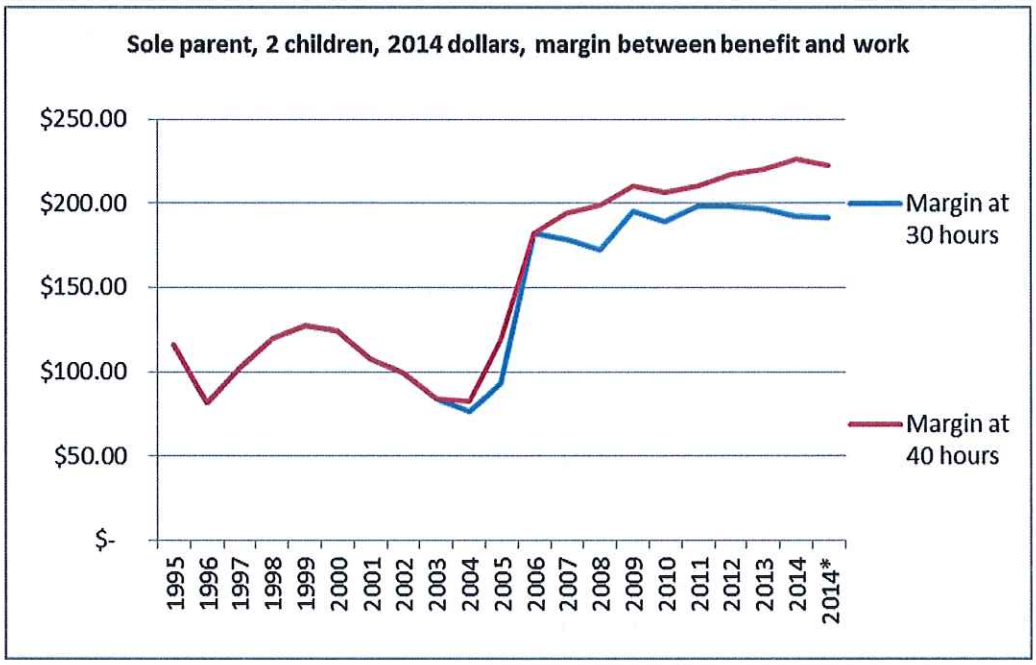
35 For people receiving a benefit, the presence or absence of work search obligations, and other requirements associated with benefit receipt, can also add a "push" factor toward employment.

36 While the financial return from work and the support available while on benefit can affect work decisions, often people have imperfect information, and signals can also have a strong (but often temporary) impact on behaviour.

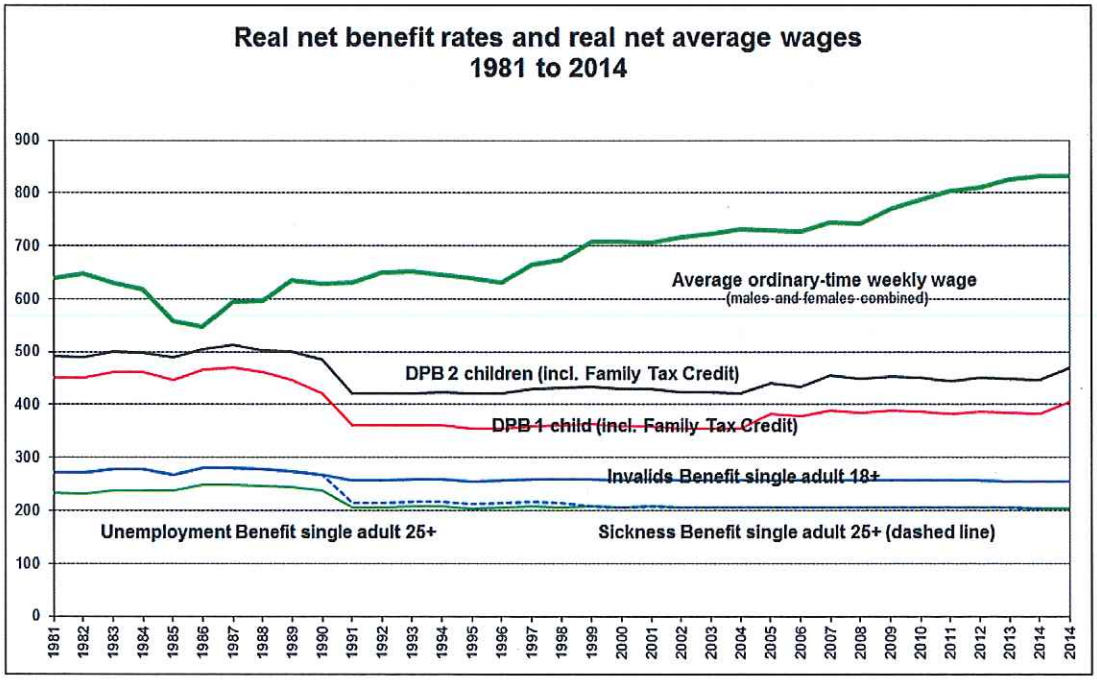
37 There is a robust international literature on the impact of financial incentives and other factors on work decisions. In a nutshell, the evidence suggests that financial incentives to work are correctly viewed as just one factor that affects work decisions, and while they can impact those decisions, the impacts are usually modest, with typically stronger impacts for single males and for second earners in a couple. For many groups, such as sole parents, the evidence suggests that other factors such as preferences to care for children, the availability of suitable jobs and critically childcare, are bigger factors.

The New Zealand context

38 The graph below gives a sense of the size of the margin between benefit and work (for someone working 30 or 40 hours at the minimum wage. The final data points in the graph (2014*) show the impact of the child hardship package, in this context, as if it had been introduced from 1 April 2014.



39 The chart below shows the margin between different benefit rates and average wages over a longer time horizon.



40 The increasing margin between benefits and wages over time has been due to a number of factors, with Working for Families changes having the biggest impact, and falling real values of assistance to beneficiaries (when main benefit, FTC and AS are factored in), and rising wages.

41 This analysis indicates that the size of the margin between benefits and work is relatively large in the historical context. While a $25 per week increase in incomes

for beneficiaries will be significant for recipients, the size of the margin after the package is introduced appears to remain relatively large in a historical context. Financial incentives to work remain significant.

Estimated impact of the Budget 2015 package on financial incentives to work

42 There are three key components of the package that are expected to impact on financial incentives to work and employment decisions:

- the increases in main benefits, balanced against the increase in the minimum family and in-work tax credits, and increases in Accommodation Supplement for some working families –are expected to have a small negative impact on financial incentives to work, and on labour force outcomes
- the increases in Childcare Assistance (which includes Out of School Care) – are expected to have a strong positive impact on financial incentives and labour market outcomes, for the group affected
- the increase in work expectations for beneficiaries and the annual reapplication for benefit – are expected to have a strong positive impact on labour market outcomes, for the group affected.

43 The increase in main benefit rates will send a clear signal – being on a benefit will pay $25 more per week after the change, and people relying on a benefit as their main source of income will be better off.

44 Balancing this increase, the in-work tax credit will increase by $12.50, and most low-income working families receive the in-work tax credit. The minimum family tax credit also increases by around $12 for people in receipt of this payment, effectively ensuring that for some of the very lowest paid workers there is no worsening of financial incentives. People receiving the minimum family tax credit also receive the increase in the in-work tax credit.

45 Further, around 26,000 non-beneficiary families receiving Accommodation Supplement will gain an increase of up to $9 per week in their AS due to a consequential increase in the Accommodation Supplement abatement threshold. A further 4,334 people with incomes below the abatement threshold, however, lose up to $5 per week in Accommodation Supplement reflecting the increase in benefit rates. Of this group, 232 gain a larger increase in Temporary Additional Support than what they lose in Accommodation Supplement, leaving 4,100 people.

46 These tax credit and benefit rate changes have been modelled in Treasury's partial equilibrium behavioural microsimulation model TaxmodB.[4]

47 The results suggest that the majority of families will not change their labour supply responses significantly in response to the package, but that there will be an overall small negative impact on the labour supply of both sole parents and couples with children.

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[4] Based on the Household Economic Survey (HES) 2012/13. Access to the Household Economic Survey data was provided by Statistics New Zealand under conditions designed to give effect to the security and confidentiality provisions of the Statistics Act 1975. The results presented here are the work of Treasury, not Statistics New Zealand.

48 Sole parents are estimated to have a relatively larger response, driven by the negative effects on the labour supply of the benefit increase outweighing the positive effects of the increase to the minimum family tax credit and in-work tax credit.

49 For couples, the benefit increase is also estimated to have a small negative impact, but their responses to the tax credit changes are more complex. Coupled men are estimated to have a small positive labour supply response to the tax credit changes, but coupled women are estimated to reduce their labour supply slightly. For couples and sole parents the estimated overall decreases in each group's participation rate were no larger than 1 percentage point, and for hours worked the estimated decreases in average hours worked were all less than half an hour per week, with the decreases relatively larger for sole parents.

50 Critically, however, this modelling does not include the childcare and benefit obligations elements of the package which are expected to have strong countervailing impacts. We therefore expect that overall the package may produce slightly higher exit rates from benefit.

51 The changes to Childcare Assistance rates in particular can easily result in a relatively large increase in the margin between benefit and work for people receiving it. And the increased benefit obligations (part-time work search requirements for people with a youngest child aged 3 or 4 years, the increase in hours requirement, and 52 week reapplication for benefit) are also expected to increase movement into work, especially where these are backed by active case management of beneficiaries in the affected group.

52 While this is a complex story, with different impacts on different groups, officials' overall judgement is that the package is well balanced in terms of its impact on financial incentives, with broadly neutral impacts on financial incentives to work and slightly positive impacts likely in terms of employment outcomes overall.

53 As these impacts are uncertain, the Ministry of Social Development, Treasury and Inland Revenue will monitor these impacts over time, including within the actuarial framework of the investment approach.

PART B: FURTHER DETAILED DECISIONS

Approach to individuals who are unintentionally financially disadvantaged by the package

54 The social welfare system is complex and the component parts are often interdependent. Changes in one type of assistance often cause a change in entitlement to other assistance. While these "flow-on" impacts are often appropriate, they can create unintended effects.

55 This section considers situations where families may be *unintentionally* financially disadvantaged as a result of the package.

56 Our focus has been on identifying situations where the proposed changes could result in a reduction in assistance, potentially leaving families financially disadvantaged overall. While we can anticipate the situations where this may occur, we are hampered in our ability to present concrete numbers by the fact that there is no single tool available that can model the entire package.

57 There are three specific situations that we have identified that can lead to financial disadvantage, and further information about these is provided below. However, not every individual circumstance can be anticipated so we have provided the option of creating a special payment to ensure individuals are not unexpectedly financially disadvantaged.

58 The three specific situations that we have identified are:

- Low income working families who do not receive the IWTC
- Community Services Card recipients
- Low income people with high disability costs.

Low income families who do not receive the in-work tax credit

59 In order to receive the in-work tax credit, a sole parent family must normally work 20 hours and couples must normally work 30 hours per week. As well as helping to maintain financial incentives to work, the $12.50 increase in the in-work tax credit helps to reduce the number of low-income working families that are financially disadvantaged by the package as a result of:

- reductions in the amount of Accommodation Supplement received (i.e. working sole parents who earn less than $508 per week)
- the increase in the abatement rate for Working for Families tax credits.

60 In the case of the Accommodation Supplement, most working families will receive an overall increase in their Accommodation Supplement payments; however around 4,334 families with incomes below the abatement threshold will have an average reduction of $4.24 per week. Note that a small number of these will receive an overall increase as a result of TAS.

61 Most of this group will receive an increase of $12.50 in the in-work tax credit, which more than offsets this reduction, however those who are not in receipt of this payment – in particular those not meeting the hours of work requirement – may be worse off overall.

62 A similar problem exists with Working for Families recipients. There is a group of people who are not in receipt of the in-work tax credit who nevertheless will have their Family Tax Credit reduced due to the increased abatement rate for Working for Families.

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Community Services Card

66 The Community Services Card is used to determine eligibility for subsidised health services, and is used by a range of other parties to determine eligibility for other services. The Community Services Card income thresholds that are used to determine eligibility include the in-work tax credit as income, so some families who receive a boost in income due to the increased rate of in-work tax credit, could lose eligibility for the Community Services Card.

67 As this is an unintentional impact of increasing the in-work tax credit, we recommend increasing the relevant thresholds by the same amount as the in-work tax credit increase. As these increases are designed to retain the current population eligible for the Card, it is not expected to have a fiscal cost. The current income limits, and the proposed increases to them are shown in the table below:

Family type	**Income limit from 1 April 2014**	**Increase required to avoid loss of Card**
Sole parent, 1 child	$48,549	$650
Family of three	$58,793	$650
Family of four	$66,940	$650
Family of five	$74,919	$650
Family of six	$83,837	$650
Family of seven or more, add $7,857 for each extra child	$7,857	$650

68 This change can be achieved by Order in Council amending the Health Entitlement Cards Regulation, 1993.

Low income people with high disability costs

69 There is a group of approximately 70 beneficiaries with high disability costs who may be financially disadvantaged as a result of the package due to the operation of Temporary Additional Support. Essentially this arises because the Temporary Additional Support formula has a special add-on for people who receive the maximum rate of Temporary Additional Support and have high disability costs. Because the Temporary Additional Support maximum rate is linked to the main benefit rate, the effect of increasing the benefit rate is to cause some people to lose eligibility to the special disability-related top up.

Weekly amount of income reduction	Number of people	Average loss
Up to $10	3	-$8.19
$10 to $20	31	-$15.00
$20 to $30	25	-$24.02
More than $30	11	-$45.70
Grand Total	**70**	**-$22.75**

70 This impact occurs for a smaller group of people every April when benefit rates are adjusted in line with the Consumers Price index, but no action has been taken in the past to address this.

71 The Ministry has not previously received complaints about this issue, and it is not readily amenable to grandparenting of the affected group, but the remedial payment outlined below could ensure this group is not financially disadvantaged.

Remedial payment

72 In previous major reforms such as the 2010 tax package and Working for Families, we have included a small fiscal provision for a payment which could be paid to people who are financially disadvantaged as an unintended consequence of the package. Such a payment provides some surety that the complexities in the social welfare system do not create perverse results for people with unusual circumstances, and could be used in particular to address the issue identified above for people with high disability costs.

73 If you want to consider a provision of this nature, we recommend seeking a small fiscal envelope of $0.250 million per annum in the Cabinet paper, and providing for this payment by way of amendment to the Social Security Act.

Impacts of the package on other assistance

74 Aside from impacts of the package that cause unintended financial disadvantage, the package has a number of consequential impacts on other government programmes. This section sets these out for your information only, no further action is proposed.

Changes in other assistance

75 For many families, the changes in this package will result in an increase or a decrease in another form of government assistance which does not result in overall financial disadvantage. The main impacts are:

- **Accommodation Supplement** – benefit rates feed into the AS formula in several ways, the main results of which are:
  - for beneficiaries, a reduction in Accommodation Supplement entitlement of up to $5 per week – partially offsetting the increase in benefit rate
  - for non-beneficiaries, a reduction in Accommodation Supplement of up to $5 per week, offset by an increase in Accommodation Supplement of up to $9 per week recipients earning above the abatement threshold.

- **Child support -** The new formula for calculating a parent's child support liability (applies from 1 April 2015), includes a living allowance for both the parents. This

living allowance is based on benefit rates, so increasing benefit rates results in an increase in the living allowance in the following year's formula and lowers the child support income of both parents. This could change the relative percentage of combined income a person has and alter their child support liability. The increase in benefit rate will also increase the annual income of beneficiaries and could change the relative income of the two parents and accordingly the child support liability. It will most likely result in a reduction in child support liability for non-beneficiary liable parents.

- **Rates and thresholds of supplementary assistance –** a range of supplementary payments paid at rates equivalent to main benefits, for instance drought assistance for farmers, civil defence payments, bridging finance and the work bonus for people entering employment are all based on a relevant net benefit rate.

- **Temporary Additional Support** – there are several different impacts on Temporary Additional Support, which arise from the increase in main benefits. For many people there will be a partially offsetting decrease in Temporary Additional Support of around $7.50 per week, while for a smaller group who are at the Temporary Additional Support maximum rate, their entitlement could increase.

Ministry of Social Development and Inland Revenue operational costs

76 The Ministry of Social Development will incur costs to implement this package, including:

- IT costs associated with implementing changes to benefit rates, childcare assistance rates and thresholds, and other associated changes

- Implementation costs associated with making the changes (including communications to beneficiaries, staff training, and programme management)

- Ongoing staffing costs associated with administering the 52 week reapplication for sole parents

- Ongoing staffing costs associated with administering the work search obligations for a wider group of beneficiaries.

IT and implementation costs

77 The IT and implementation costs for the Ministry of Social Development associated with the changes to benefit rates, childcare assistance, changes to obligations and benefit reapplication processes, are $27.003 million over four years. $7.70 million of this is relatively fixed costs of implementing the components of the package, while the remainder of the cost mostly relates to the staffing levels for the 52 week benefit reapplication and new work search obligations. $3.963 million of the costs in the 2015/16 year relate to IT costs.

78 The costs are shown for each component of the package in the table below:

	Fiscal cost, $m				
Component	2015/16	2016/17	2017/18	2018/19	Total
52 Week Reapplication – Option 3: 50% face-to-face in year one, 25% in later years[5]	2.264	3.571	2.817	2.817	11.469
Obligations (assuming activation for 100% of affected group)	1.499	2.081	2.081	2.081	7.742
Part-time work obligations	0.841	0.067	0.067	0.067	1.042
Childcare Assistance	0.727	-	-	-	0.727
Benefit rate change	0.809	1.327	-	-	2.136
9 hours non-activity tested childcare	0.498	0.099	-	-	0.597
Project Team 18 months	2.216	1.074	-	-	3.290
Total, $m	**8.854**	**8.219**	**4.965**	**4.965**	**27.003**

79 Inland Revenue's operational costs are $1.2 million. These costs are associated with the delivery of the changes to the in-work tax credit per family rate, and the abatement rate for Working for Families Tax Credits.

80 The operational costs associated with the proposal to further increase the IWTC abatement rate to 26.25%(see paragraphs 100 to 102) in 2023 are not included within the above estimate. The funding for this initiative is recommended to be sourced from outside Inland Revenue's baseline as Inland Revenue has already made funding commitments from baseline, such as the Tax Policy Work Programme. They do not include the cost of a further increase to the Working for Families abatement rate to 26.25%.

Options for administering and reinforcing the new work search obligations

81 As part of the package, the youngest child age threshold for part-time work obligations will be reduced from five to three years. This will mean a change in obligations for approximately 18,000 clients. In addition, the number of hours required to meet part-time work obligations will increase from 15 to 20 hours.

[5] Note that these costs would reduce if Ministers select lower resourcing levels for the 52 week reapplication and new work search obligations.

82 An increase in the number of clients obligated to look for part-time work will require more case management resources to actively reinforce these obligations. Beneficiary parents have high liability, and are amenable to and get results from work activation. To achieve the highest levels of employment entry and benefit exit will require further investment in case management resources to engage with the greatest number of clients.

83 Work and Income currently works with about 65% of this group to help them to prepare for work when their child turns 5. Option One below provides for approximately 30 additional Work and Income case managers to provide active case management to some portion of the group of sole parents with a 3 or 4 year old youngest child. Additional capacity would be required to assist a proportion of parents with children under three to undertake pre-employment activities, but we are not seeking further funding to work with this group.

84 This paper presents costs for three options:

- **Option One [Ministry of Social Development preferred]**- Provide active case management to 100 percent of the group with new work search obligations, at an annual cost of $2.081 million (an increase from working with 65% currently)

- **Option Two [Treasury preferred]** - Provide active case management to 80 percent of the group with new work search obligations, at an annual cost of $0.734 million (an increase from working with 65% currently)

- **Option Three** - Continue to provide active case management to 65% of the group with new work search obligations, at no additional cost.

85 The costs of implementing work obligations are likely to be offset by a reduction in income support spending from people moving off benefit. Although returns may be lower for sole parents with a 3 or 4 year old child, a recent evaluation of intensive case management services shows that beneficiaries in Work Focussed Case Management service, primarily sole parents and young people, the service has an average impact on time on benefit of 17 days (plus or minus four days). The costs and benefits of the service break-even at 30 weeks.

86 Given the tight fiscal constraints in Budget 2015, Treasury recommend a middle-ground, with some additional case managers, but less than required to work with 100% of the part-time obligated cohort. Work and Income have demonstrated the efficacy of active case management for sole parents, but there are likely to be clients in the cohort who either do not require active case management because they are very close to the labour market, or have a low amenability to active case management because of the presence of multiple barriers.

Options for administering the 52 week reapplication for benefits for sole parents

87 Ministers have agreed in principle to expand the annual expiry and re-grant of benefit process from Jobseeker Support to include Sole Parent Support recipients. As well as confirming on-going entitlement to benefit, the primary focus of face to face client interaction in the 52 week reapplication process is to engage with the client about work, including steps they are taking to find and prepare for work, and what can be done to overcome barriers to employment. Retaining a focus on work activation supports the intent of this package. The interview is also an opportunity

to discuss access to childcare assistance and make sure clients understand all of their obligations, including their social obligations.

88 The 52 week reapplication process currently in place for people receiving Jobseeker Support has resulted in a significant reduction in benefit expenditure, and generates a 'return' of $5.71 of reduced benefit expenditure for every dollar invested.

89 These reductions in benefit spend are significant, but there is limited information about the extent to which they are a result of new employment, employment income, or a change in circumstances that had previously been unreported, or other causes. Some Non-Government Organisations such as the Salvation Army and New Zealand Council of Christian Social Services have reported an increase in hardship and overcrowding, which they partly attribute to this policy.

90 Currently Sole Parent Support beneficiaries complete a review of circumstances each year. The type of review that they receive depends on their situation and takes into account things such as past integrity issues (for example, the establishment of a debt resulting from the client not advising of a change of circumstances). There is currently no work assessment component to this process.

91 We have identified four options for the implementation of the new reapplication requirement:

- **Option One** - Require all sole parent beneficiaries to attend a face-to-face interview, with a work focus, at an annual cost of $5.2 million

- **Option Two** - In the first year all sole parents be required to attend a face-to-face interview to complete the new 52 week reapplication process, and in subsequent years around half of sole parents attend an interview, with the remaining half required to reapply in writing, at an annual cost of $5.149 million in the first full year, $3.581 million in subsequent years

- **Option Three** - In the first year, half of all sole parents will be required to attend a face-to-face interview to complete the new 52-week re-application process, and half will be required to reapply in writing, and in subsequent years one quarter of sole parents will be required to attend an interview with the remainder required to reapply in writing, at an annual cost of $3.571 million in the first year, $2.817 million in subsequent years

- **Option Four** - Require all sole parent beneficiaries to only reapply in writing. Annual cost of $2.2 million.

92 The existing 52 week benefit reapplication process for Jobseeker Support has been cost effective. For each beneficiary affected by the reapplication, the Ministry of Social Development estimates a saving in main benefit costs of $1,328 plus or minus $287. The cost of administering the reapplication process over the 21 month follow up period is estimated to be $232, giving a return of $5.71 for each dollar spent on administrating the provision.

93 The Ministry of Social Development expects a lower reduction in benefit expenditure as a result of the extension of the reapplication requirement to sole parents, as this is a more complex group.

94 The Ministry of Social Development recommends option three, which provides a balance allowing a year to learn more about the impacts of the policy, and find the

cohorts for whom the more resource-intensive face-to-face approach will be most effective.

95 In all cases, a formal declaration would be required from the beneficiary to complete the process.

Interface with expansion of youth service to 19 year olds

96 Young Parent Payment obligations focus on educational achievement (NCEA Level 2 or above) for a group of vulnerable young parents who would otherwise be at high risk of long term benefit dependence. Young Parent Payment recipients are therefore subject to educational rather than part-time work-search obligations (unless and until they migrate to Sole Parent Support and their youngest child reaches the relevant age).

97 The extension of Young Parent Payment to under twenty year olds is being considered as part of Budget 2015 decisions. If this is agreed, and the reduction in the work-search trigger to a youngest child three years of age, around 100 Young Parent Payment recipients are likely to have a child over the operative age for the Sole Parent Support work-search trigger before they leave the Youth Service and the Young Parent Payment.

98 Application of education expectations, rather than work-search, to this group would be consistent with the policy intent of the Youth Service and Young Parent Payment obligations that seek to steer at risk young parents away from the welfare system through educational attainment.

99 In line with the proposed approach to the extension of the Young Parent Payment to nineteen-year olds, Ministers are asked to confirm, in principle, that Young Parent Payment educational obligations (rather than work-search obligations) will generally apply to nineteen year old Young Parent Payment recipients, regardless of the age of their youngest child as Sole Parent Support will no longer be available for 19 year olds, subject to the agreement to extend the Youth Service as part of Budget 2015 decisions.

Future trajectory for Working for Families abatement rate and threshold changes

100 The Family Tax Credit (FTC) component of Working for Families is currently forecast to be indexed to inflation on 1 April 2017[6]. In Budget 2011 the Government agreed to make gradual changes to Working for Families at each indexation round by gradually increasing the abatement rate and decreasing the abatement threshold. These changes were planned to be broadly fiscally neutral. The abatement rate increase (of 1.25 percentage points to 22.5%) that was scheduled for 1 April 2017 is proposed to be brought forward to 1 April 2016 as part of this package, to offset some of the cost of increasing the In-Work Tax Credit.

101 A decision needs to be made about what will happen in future indexation rounds to the abatement rate and threshold. For the indexation round currently forecast for 1 April 2017, officials recommend continuing with the abatement threshold decrease as

[6] The Family Tax Credit is indexed to inflation once cumulative changes in the CPI reach 5%.

planned (from $36,350 to $35,900) and also increasing the abatement rate a further 1.25 percentage points (to 23.75%). This will mean that the indexation round will continue to be broadly fiscally neutral. If the abatement rate is not increased on 1 April 2017, and only the abatement threshold is decreased, there will be a fiscal impact in the forecast period.

102 There will be a further fiscal impact in the longer term, as the abatement changes are now 'out-of-step'. This will impact on the indexation round currently projected for 1 April 2023, where the abatement threshold will decrease to the defined end-point of $35,000 (as decided in Budget 2011), but the abatement rate will have reached the defined end-point of 25% in the previous indexation round (projected for 1 April 2020). If the abatement rate is increased further (for example, to 26.25%) in 2023, there will be no ongoing fiscal impact. If, however, the abatement rate is not increased, the portion of the ongoing cost of the IWTC increase paid for by the abatement rate will cease at that point, with an approximate ongoing fiscal cost of $50m per year from 2023/24. Officials recommend further increasing the abatement rate, to continue to target Working for Families more to those on lower incomes.

Impact on the Social Housing appropriation

103 The Income Related Rent charged to social housing tenants is set at 25% of their income up to a threshold based on New Zealand Superannuation rates. An increase in benefit rate will therefore result in an increase in the Income Related Rent that social housing tenants who are in receipt of a main benefit are charged. For a person receiving only benefit income, the rent increase would be $6.25, which would be applied at the first available date –likely to be in June 2016 under the current operational policy for rent rises of this size.

104 The appropriation for payment of the income related rent subsidy is set at $775 million in the 2015/16 fiscal year, and this is a capped appropriation. The increase in rents charged will reduce the subsidy payable by the Ministry and will free up approximately $7.5 million in the appropriation from 2017/18 onward.

Package component	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Income Related Rent Subsidy, HYEFU 2014 forecast, $m	769.450	826.385	879.631	934.522
Income Related Rent Subsidy appropriation cap	775.000	825.000	880.000	
Consequential impact on social housing appropriation due to hardship package	(0.601)	(7.383)	(7.459)	(7.525)

105 As this is a capped appropriation, we are seeking a decision about whether the appropriation should be reduced by the amounts presented in the table above, with these savings counted against the material hardship package, or whether the appropriation should remain unchanged, with the funding used to purchase additional social housing places.

106 As the reduction in cost pressure within the appropriation is a direct consequence of the material hardship package, normally this should feed through into a reduction in the appropriation. However, as shown in the table, the appropriation is under some pressure already, and given that social housing is a priority government policy area and growth in the non-government social housing sector is expected and desired, there is a case in this instance for maintaining the appropriation at its current level.

Impact on OSCAR programme costs

107 The increases to Childcare Assistance proposed in this package will also require additional "programme funding" for the expected increase in children attending Out of School Care providers.

108 In addition to the per child Out of School Care subsidy that is being increased as part of this package, MSD also provides funding to support the delivery of services by Out of School Care providers. Funding for Out of School Care providers is held under the Out of School Care and Recreation Appropriation and amounts to around $17 million per year. This funding provides for a grant to help with the operational costs of delivering OSCAR services based on the average number of children enrolled in these services. Not all OSCAR services apply for or receive this grant.

109 As there is an estimated increase in the number of children accessing Out of School Care services as a result of this package, there will be a consequential impact on Out of School Care programme funding of around $0.400 million per annum.

Impact and implications of the benefit rates increase

Payments that are increased

110 Ministers have decided in principle to increase benefit and student allowance rates for families with children. These increases would apply across all of the main benefit types (Jobseeker Support, Sole Parent Support, Supported Living Payment, Emergency Benefit and Young Parents Payment).

111 The current rates structure does not include a separate "couple with children rate" of payment (the existing rate is the same with or without children, with financial support for the child provided through the Family Tax Credit), so a new couple with children rate of payment will be created for each of the main benefits and student allowances. The proposal is to increase the couple rate by $25 per week, rather than each partner in a couple receiving an additional $25 per week.

112 The current payment rates and the proposed increases (both after tax) are shown in the table below:

	Benefit rate	Net rate from 1 April 2014	Increase
Jobseeker support, Sole Parent Support	Sole parent	$299.45	+$25.00
	Couple with children	$348.42	+$25.00
	Couple (each)	$174.21	+$12.50
Young Parent Payment	Sole Parent	$299.45	+$25.00
	Couple with children	$348.42	+$25.00
	Couple with children (each)	$174.21	+$12.50
Supported Living Payment	Sole Parent	$343.27	+$25.00
	Couple with children	$435.50	+$25.00
	Couple with children (each)	$217.75	+$12.50
Student Allowance	Single student child children	$299.45	+$25.00
	Both students, one eligible, with children	$299.45	+$25.00
	Both students, both eligible, with children (each)	$174.21	+$12.50
	One student, one dependent spouse, with children	$348.42	+$25.00

Payments that do not change

113 Some rates of payment will not change. These include all New Zealand Superannuation and Veterans Pension rates (whether with a child or not), who instead can receive Working for Families tax credits, or in some circumstances Orphans or Unsupported Child's Benefit for children in their care.

114 Some low-income groups who care for children will not receive an increase in financial assistance through this package. This includes parents raising children who are not their own –e.g. foster carers, and orphans and unsupported child's beneficiaries. This would include some beneficiaries who do not have another child included in their benefit, such as grandparents raising a grandchild.

115 The financial support provided to these groups through Orphans Benefit, Unsupported Child's Benefit and Foster Care Allowance has been increased several times in recent years, including significant increases as part of the Working for Families package. The Establishment Grant and the School & Year Start Up Payment has recently put additional support in place for these carers.

116 Orphans Benefit, Unsupported Child's Benefit and Foster Care Allowance payments are generally seen as analogous to the Family Tax Credit, and there is a good rationale for retaining close links between the levels of these payments and Family Tax Credit (for instance to avoid worsening financial disincentives for foster carers to take permanent custody of a child). They are also paid on a per-child rather than a per-family basis, so increases in these payment rates would result in much larger increases in income for people caring for more than one child. While a work-around payment would be possible to design it would have high administrative complexity and IT cost.

117 The exclusion of New Zealand Superannuitants from the increase in assistance for caring for a child does raise an issue of possible discrimination on the basis of age under the Bill of Rights Act. If Ministers do want to provide an increase for this group, officials would suggest making provision through the Social Security Act for a separate payment of $25 per week to Superannuitants who have full-time care for a dependent child.

Next steps

118 We are working with the Department of Prime Minister and Cabinet to prepare a paper for the Deputy Prime Minister to take to Cabinet on 30 March 2015 to confirm the package, including the decisions you make in this paper.

119 We have begun working with Parliamentary Counsel Office to have the legislation drafted, and following Cabinet decisions, officials will prepare legislation to make provision for the package for consideration by the Cabinet Legislation Committee on 29 April, ready for introduction on Budget night.

120 Indicative timing for final decisions and legislation drafting is shown in the table below:

Step	Indicative Date
Preliminary drafting instructions to Parliamentary Counsel Office	20 March 2015
Draft Cabinet paper to Deputy Prime Minister for consideration	20 March 2015
Cabinet paper submitted to Cabinet office	26 March 2015
Policy Cabinet paper considered by Cabinet	30 March 2015
Final Cabinet Legislation Committee paper and CAB 100 to Ministers	10 April 2015 (to be confirmed in consultation with Minister's office)
Ministers to confirm policy paper, drafting instructions to be confirmed with Parliamentary Counsel Office	13 April 2015
Parliamentary Counsel Office submit final regulations to Cabinet Office	23 April 2015
Cabinet Legislation Committee meeting	29 April 2015
Cabinet	4 May 2015
Budget night	21 May 2015