

The Treasury

Budget 2015 Information Release

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Chair Cabinet

PACKAGE FOR CHILDREN LIVING IN MATERIAL HARDSHIP

Proposal

1. This paper seeks your agreement to a package of initiatives in Budget 2015 which builds on the Government's programme to break the cycle of material hardship among low-income families with children. It includes putting extra work obligations on beneficiary parents; providing extra Childcare Assistance for low-income families so parents can work or enter education and training; and providing extra financial support for beneficiary families and low-income working families with children.

Executive summary

2. The Government believes all New Zealand families and children should have the opportunity to live fulfilling lives. Over a number of years, we have actively supported families and children in material hardship by investing heavily in areas that achieve better results for both the families concerned and for taxpayers.
3. Our approach includes:
 - Creating a strong and competitive economy that supports more jobs, better opportunities, and higher incomes for New Zealand families.
 - Maintaining the Government's substantial financial support for low-income families, despite the recession, the Global Financial Crisis, and significant pressures on the Government's budget.
 - Addressing the long-term drivers of material hardship, including poor educational achievement, poor child health, dysfunctional families, high housing costs, and intergenerational welfare dependency.
4. The Government has set a number of challenging targets in several of these areas and we are measuring success by the results we achieve. Initiatives such as Whānau Ora and Children's Teams have been set up to develop new and better ways of working with families facing multiple challenges.
5. Furthermore, the Government's investment approach to welfare reforms is helping to improve the lives of these families and reducing the significant future fiscal costs to taxpayers. We are prepared to invest more in programmes where they deliver positive results.
6. In reforming the welfare system, we have had an unrelenting focus on work, because we know that for most families the best way to raise children and families out of poverty and hardship is for parents to find sustainable, full-time work.
7. We have put more work obligations on beneficiaries, requiring sole parents, for example, to look for work when their youngest child turns five. We have invested more in helping

people come off a benefit and into work. And we have brought in measures like 90-day trial periods, which encourage businesses to take a chance on new employees.

8. The Prime Minister has confirmed that helping New Zealand's most deprived children will be a key focus for the Government this term. We are already making good progress and we have laid strong foundations. Budget 2015 will build on this progress by further supporting low-income families who are bringing up children – including beneficiary families
9. There has been a growing gap between the take-home incomes of beneficiary households and those of low to average wage workers. On one hand, this gap creates a strong incentive to move from welfare into work. However, I am concerned about the children who are affected when their family resources fall further and further behind other households. There is a balance to be achieved.
10. We are particularly concerned about a group of children living in families experiencing deeper levels of material hardship - 60,000 to 100,000 children, or 30,000 to 50,000 families - who are at higher risk of poor outcomes. Around two thirds of these children are from beneficiary families or from families moving between benefit and work. The remaining one third of these children are from working families.
11. As the next steps in the Government's programme, I propose a package of measures focused on beneficiary and low-income working families with children in material hardship. The key components of the package are:
 - strengthening work availability obligations for beneficiary parents, by:
 - lowering the age of the youngest child at which part-time work search obligations for beneficiaries begin from five years to three years
 - changing the hours of the part-time work sought from 15 to 20 hours a week (while retaining flexibility around suitable employment and the exact hours required)
 - increasing Childcare Assistance (including both the Childcare Subsidy for pre-schoolers and the OSCAR subsidy for after-school and school holiday programmes) for low-income working families from \$4.00 an hour to \$5.00 an hour
 - increasing benefit rates for families with dependent children by \$25 a week, giving beneficiary households an on average gain of around \$23.00 in the hand each week
 - introducing a requirement for Sole Parent Support recipients to reapply for the benefit and reconfirm eligibility on an annual basis
 - increasing incomes for low-income working households through Working for Families, including a \$12.50 per week increase in the \$60 rate of the In Work Tax Credit (IWTC), and a \$12.00 increase in the Minimum Family Tax Credit (MFTC)
 - increasing the abatement rate for Working for Families tax credits from 21.25c to 22.5c in the dollar, to better target these payments towards low-income families.
12. The total cost of the package is \$70.6 million in 2015/16, \$245 million in 2016/17 (the first full year) and around \$800 million over the four-year forecast period in the Budget.

Background

13. Since 2008, the Government has provided significant support to families and children in material hardship. This support helps to lift the aspirations of these families, while at the same time requiring them to meet certain obligations in return for this taxpayer assistance. There are three main elements to our approach:

- *Creating a strong and competitive economy* – the Government has focused on supporting a growing economy that delivers better job prospects, higher wages and, ultimately, higher incomes for New Zealand families.
- *Maintaining the Government's substantial financial support for low-income families* - despite the recession, the Global Financial Crisis, and other significant fiscal pressures, the Government has continued to provide substantial financial assistance, including: benefits; Working for Families; Income-Related Rents; accommodation subsidies; childcare support; and other assistance at a cost of \$10.5 billion a year.
- *Addressing the long-term drivers of material hardship in New Zealand* - these include poor educational achievement, poor health in childhood, high housing costs, dysfunctional families, and intergenerational welfare dependency. The Government has set a number of challenging targets in several of these areas and we're measuring success by the results we achieve.

14. In reforming the welfare system, this Government has adopted an unrelenting focus on work. For most people, the best way to lift children and families out of poverty and hardship is for parents to find sustainable employment. For this reason, the Government has invested in better case management to help people off a benefit and into work, as well as strengthening the work availability obligations for beneficiaries. These measures sit alongside others, like the introduction of 90-day trial periods, which encourage business to take a chance on new employees, intensive support for young sole parents, and additional investment in Early Childhood Education.

15. The Government's programme is working:

- The economy is growing, more employment opportunities are being created, and incomes are rising faster than inflation. There are 80,000 more people employed than a year ago. The average weekly wage rose 2.5 per cent last year, and the Government recently increased the minimum wage by 3.5 per cent – well above annual inflation of 0.8 per cent.
- More effective and active case management has contributed to around 1,600 people leaving benefit each week to enter work. The number of sole parents on a benefit is now the lowest since 1988, and the number of children living in benefit-dependent households has reduced by 30,000 over the past two years.
- We are seeing positive results in other areas. For example, the proportion of young people with at least NCEA level 2 has gone from 67 per cent in 2008 to almost 80 per cent. Total crime has reduced by 18 per cent over the last three years, and youth crime has fallen by 38 per cent.

16. We now have the opportunity to build on these strong foundations by providing further targeted support to families and children in material hardship – in return for strengthening their own obligations to look for work.

17. There is a group of children living in families experiencing deeper levels of material hardship - 60,000 to 100,000 children, or 30,000 to 50,000 families - who are at higher risk of poor outcomes. Around two thirds of these children are from beneficiary families

or from families moving between benefit and work. The remaining one third of these children are from working families.

18. It is these children we are most concerned about. I propose a package of measures as the next step in the Government's programme to support families and children in material hardship and make sure they have the opportunities they need to succeed.

Part One: Overview of the package

19. I propose a package of initiatives for Budget 2015 that is focused on assisting families with dependent children experiencing deeper levels of material hardship. The package aims to get more resources to families who are struggling, while continuing the Government's emphasis on paid work as the best route out of poverty.

Strengthening work expectations

20. First, I propose that this Government continues its strong focus on paid employment, by strengthening work availability expectations for parents on a benefit. Specifically, I recommend we require:

- sole parents and partners of beneficiaries to be available for part-time work, and to take reasonable steps to find that work, from when their youngest dependent child turns three. At the moment, these obligations start when their youngest dependent child turns five
- all beneficiaries with part-time work obligations to look for work of 20 hours a week, rather than the current 15 hours. At 20 hours, sole parents can go off benefit altogether and instead get supported through employment income and Working for Families tax credits.

21. These changes would reduce benefit receipt, and increase both the number of beneficiaries who are working, and the number of hours that they work. Under the changes I propose, Work and Income case managers would continue to exercise some flexibility around suitable employment and the exact hours of work that are required, to fit with what is available, and what is suitable for a client's circumstances.

22. Extending part-time work availability obligations to age three would be the next step in a series of incremental changes taken to increase parental employment since 2010. It would apply to a group of beneficiaries that have responded well to work obligations, and bring another 18,000 sole parents into the work search group where investment in the successful Work Focused Case Management model is greatest.

23. From age three, parents are eligible for 20 hours ECE, and parents are required (through their social obligations) to have children participating in Early Childhood Education. The age is also consistent with recommendations of the Welfare Working Group, and with contemporary societal norms for the age at which mothers return to work.

Increasing childcare support for working families

24. I also propose the Government increases the Childcare Assistance (CCA) available to low-income families that need this support to be in work, education or training. Access to regular and affordable childcare is a key enabler of employment for low and middle income families. I propose to increase the rate from \$4.00 to \$5.00 per hour for families:

- earning less than \$800 per week with one dependent child

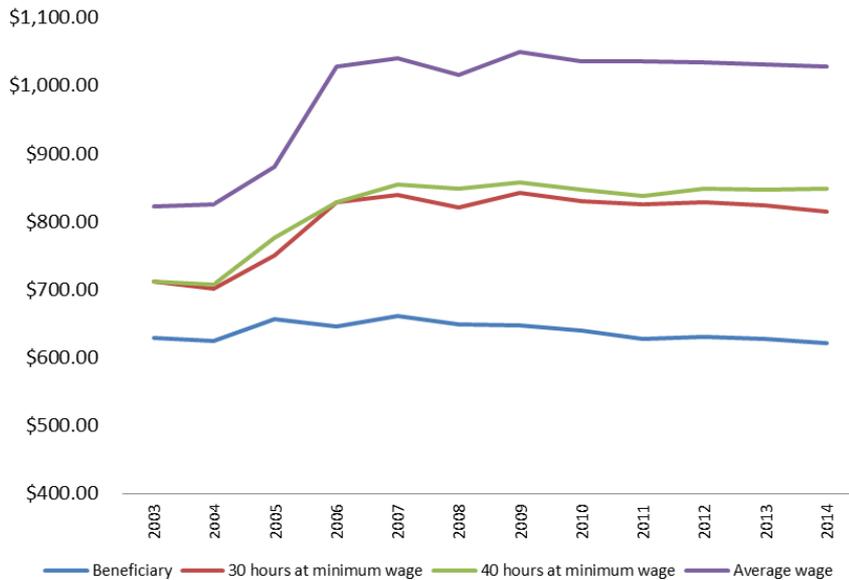
- earning less than \$920 per week with two dependent children
 - earning less than \$1,030 per week with three or more dependent children.
25. The new rates will apply to both the Childcare Subsidy for pre-schoolers and the OSCAR subsidy for after-school and school holiday programmes. This will help to significantly reduce the cost of childcare for around 41,000 households and 49,000 children on average per year. These changes will mean that some of the lowest earning households will be better off by around \$23 on average per week.
26. This change is expected to result in an increase in uptake of childcare and of out of school care services. As a result of this, additional funding is also set aside in this paper for programme-level funding of OSCAR services.
27. [8]

28. [8]

Increasing benefits for families with dependent children

29. While the Government's primary emphasis will continue to be on paid employment, we know that many children do experience times when their parent or parents are relying on a benefit, and that that will continue to be the case. There is a balance to be achieved between creating a strong incentive for families to move into work, and ensuring households have enough resources to meet their children's basic needs.
30. We know that nearly two-thirds of children in deeper hardship are in families supported by a benefit, and that these families' incomes have fallen significantly behind those of most working people, even those on the lowest incomes. Over the past two decades, the gap between the take-home incomes of beneficiary households and those of low to average wage workers has steadily increased, and is currently at a sustained high level. The margin between benefit and work became larger in the mid-2000s, and has widened further since. This is illustrated in the graph below, which shows the margin for someone working 30 or 40 hours at the minimum wage.

Figure 1: Margin between benefit and work - take home incomes for a sole parent with two children (\$2014)



31. On one hand, the growing gap between the take-home incomes of beneficiary households and those of low to average wage workers, creates a strong incentive to move from welfare into work. However, I am concerned about the children who are affected when their family resources fall further and further behind other households. There is a balance to be achieved.
32. In terms of that balance, we now think there is scope for a modest increase in the amount that beneficiary families receive, to help ensure that they can pay for family necessities and provide for their children.
33. By relieving some of the pressure on these families, we are confident there will be a payoff, albeit modest, in terms of children's wellbeing and development. Furthermore, the advice of officials is that a moderate increase in benefit rates, together with the other initiatives we are introducing in this Budget, will have a broadly neutral impact on financial incentives to work, and a slightly positive impact in terms of overall employment outcomes.
34. An increase in benefit rates sits alongside all the measures this Government has introduced over the past few years to address issues of welfare dependency. The benefit system has changed considerably since 2008, and this means that we now have the right benefit settings in place or in train. This includes:
 - ensuring that those who are able to work will be expected to be available and looking for work, either immediately (for those without children) or when their youngest child turns three
 - requiring beneficiaries to enrol their children with a GP and attend Early Childhood Education
 - introducing intensive support for young sole parents including a requirement to be in education or training
 - introducing new measures to address benefit fraud and requiring most beneficiaries to reapply for their benefit each year.

35. With those conditions firmly in place, we can be confident that an increase in financial support will have a positive impact on the lives of beneficiary families and their children, rather than contribute to further dependence.
36. I propose that we increase benefit rates for families with dependent children by \$25 per week, on top of the annual inflation adjustment. This would translate into an average in-the-hand income gain of just over \$23 a week for 108,000 beneficiaries with 194,000 dependent children. This increase will have flow-on impacts to other types of financial support provided by the Government, most notably the Accommodation Supplement (AS). Because of the way the formula for AS works, a further 26,000 working families with children will also benefit by, on average, just under \$8.
37. If fiscal circumstances necessitate it, there are also options to increase benefit rates by the lower amounts of \$22 per week (which gives an average in-the-hand increase of just over \$20 per week for beneficiaries), or by \$20 per week (\$18.40 in-the-hand). While these are slightly smaller increases, they would nevertheless provide a meaningful increase in assistance to some of our poorest citizens.
38. This change would increase rates for working-age beneficiary families with dependent children regardless of family type (ie both couples and sole parents), and for all working-age main benefit types (Sole Parent Support, Jobseeker Support, Supported Living Payment, Young Parent Payment).
39. To ensure that this increase is going to the right people, I propose that we also introduce an annual benefit expiry and reapplication process for people getting Sole Parent Support. This will require sole parents to reapply for their benefit every year, mirroring current requirements for those receiving Jobseeker Support. This provides a prompt to ensure everything possible is being done to achieve a move to independence, check circumstances are updated, and confirm the person is receiving the correct entitlement.

Extra support for low income working families

40. It is not just children in beneficiary families who experience material hardship, but also some children in the lowest income working families. To provide additional support to low income families on top of the Childcare Assistance increase, I propose that we lift the base rate of the In Work Tax Credit (IWTC) from \$60 to \$72.50 a week, while also raising the abatement rate for Working for Families payments from 21.25 cents to 22.5 cents in the dollar.
41. This change will benefit approximately 203,000 families.¹ Families earning \$36,350 or less a year would receive the full \$12.50 extra per week, and those earning more than this will get a progressively smaller increase. This provides additional support to low income working families, and also helps to balance the impact of the package on financial incentives to work.
42. As a consequence of the package, there will also be an increase to the Minimum Family Tax Credit (MFTC) by \$12 for the 4,000 people in receipt of this payment. The MFTC is a guaranteed minimum income tax credit for working people with dependent children on the lowest incomes, which automatically adjusts to retain the margin between benefit and work.

¹ 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.

An \$800 million dollar package over four years

43. The total cost of the package is \$70.6 million in 2015/16, \$245 million in 2016/17 (the first full year), and around \$800 million over the four-year forecast period in the Budget.
44. The proposed increases to incomes for beneficiaries and low income families with children will sit closely alongside other work across government that will better identify multiple-problem families, and target assistance towards them. The Government is working to ensure that families receive the right services at the right time, including wrap-around services for those families with the most significant problems. Such improvements will help to address the underlying issues those families face, and help to ensure that the additional resources provided through this package benefit their children.

Implementation

45. Given the complexity of the interface between the benefit and tax systems, and the need to build the work-focused services required to support the new work availability and reapplication obligations, I propose that these changes be implemented as a complete and balanced package from 1 April 2016. This will deliver gains as quickly as possible while allowing time to complete operational detail, service and IT preparations, and the passage of legislation required to enact the changes.

Part Two: Financial Impacts and Incentives from the Package

46. In summary, the individual components of the package will benefit low income households in the following ways:
- As a result of the benefit rate increase, 108,000 beneficiary families with children will receive an average gain of \$23.10. In addition, 26,000 working families with children will receive an average gain of just under \$8, due to flow-on effects on other payments like the Accommodation Supplement.
 - The IWTC change will benefit 203,000 working families with children, with families earning \$36,350 or less a year receiving the full \$12.50 extra per week, and those earning more than this will get a progressively smaller increase. In addition, the automatic adjustment of the Minimum Family Tax Credit will mean 4,000 working families with children will receive an additional \$12.00 per week.
 - The increase to Childcare Assistance will benefit 18,330 working families with children, with households gaining \$22.96 on average, on top of any increases they also receive through Working for Families.
47. The combined impact of the changes on different families is diverse, with the package influencing household budgets in various ways, depending on their circumstances. To illustrate this, the table below shows a range of hypothetical scenarios that show 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 shows the impact of the package on the family's income, both by component of the package, and overall.

Table 1: Impact of the package on household budgets

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)		
	40 hrs	40 hrs + 20 hrs	Job Seeker Support	20 hrs + 20 hrs	40 hrs + 20 hrs	Sole Parent Support	Sole Parent Support	30 hrs
Employment hours/benefit type	Private rental	Private rental	Private rental	Private rental	Private rental	Private rental	Social (IRRS)	Private rental
Benefit			+\$25.00			+\$25.00	+\$25.00	
Working for Families changes	+\$12.50	+\$9.98		+\$12.50	+\$9.98			+\$24.50
Accommodation Supplement	+\$5.00	+\$9.00		+\$5.00	+\$9.00			
Income Related Rent Subsidy							-\$7.56	
Temporary Additional Support			-\$7.50			-\$7.50		
Childcare Assistance		+\$30.60			No change			+\$20.40
Net increase in household budget	\$17.50	\$49.58	\$17.50	\$17.50	\$18.98	\$17.50	\$17.44	\$44.90

Families who will receive less

48. Officials have also used administrative data to estimate the number of households who will receive less than they otherwise would have due to the increase to the abatement rate for Working for Families tax credits. Officials estimate that there is a group of around 18,000 medium and high income families who will receive slightly less each week. This includes:

- around 13,700 families who receive Working for Families tax credits and earn over around \$88,000 per year
- around 4,500 families who are eligible for the Family Tax Credit and earn over the abatement threshold of \$36,350 per year, and who do not receive the In-Work Tax Credit or benefit

49. Officials estimate that, across the benefit and Working for Families changes, families who will receive less will see an average reduction in assistance of around \$4 per week.

50. There are further groups who could potentially have a small increase or decrease in weekly incomes as a result of the package, depending on their specific circumstances, including:

- around 10,000 families who earn over the abatement threshold of \$36,350 and have partial year entitlement to the In-Work Tax Credit (they will gain or lose depending on whether the In-Work Tax Credit increase outweighs the loss from the higher abatement)

- approximately 4,200 non-beneficiary households who will receive less through AS as a flow-on impact of the benefit increase (many will also be eligible for the increases to In-Work Tax Credit or Childcare Assistance, and receive more overall).

Addressing unintended financial impacts for those in exceptional circumstances

51. 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 unintentional financial disadvantage among small groups of the population. These effects are separate to those impacts noted in paras 48 – 50 above.
52. In previous major reforms such as the 2010 tax package and Working for Families, the government included a small fiscal provision for a payment which could be paid to beneficiaries who are negatively impacted 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.
53. I propose setting aside a small fiscal envelope of \$0.250 million per annum (\$0.815 million over four years), and providing for this payment by way of amendment to the Social Security Act. This fund will not be used to compensate all those who will receive less income as a result of the changes, but rather will be available for a smaller number of people whose exceptional circumstances result in unintentional financial disadvantage, that is not otherwise identified in this paper.

Maintaining Community Service Card entitlement

54. 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 through this package could lose eligibility for the Community Services Card. To avoid this, I propose to increase the relevant thresholds by the same amount as the In Work Tax Credit increase, to retain the current population eligible for the Card.

Income Related Rent Subsidy

55. As main benefit rates affect the Income Related Rent payable by people receiving a benefit, the amount of Income Related Rent Subsidy paid to social housing providers for beneficiary families with children will reduce by around \$6.25 per week as a result of the proposed increase in benefit rates.
56. A technical amendment is therefore required to reflect this consequential change by reducing the funding cap for the Part Payment of Rent to Social Housing Providers appropriation by around \$23 million over four years.

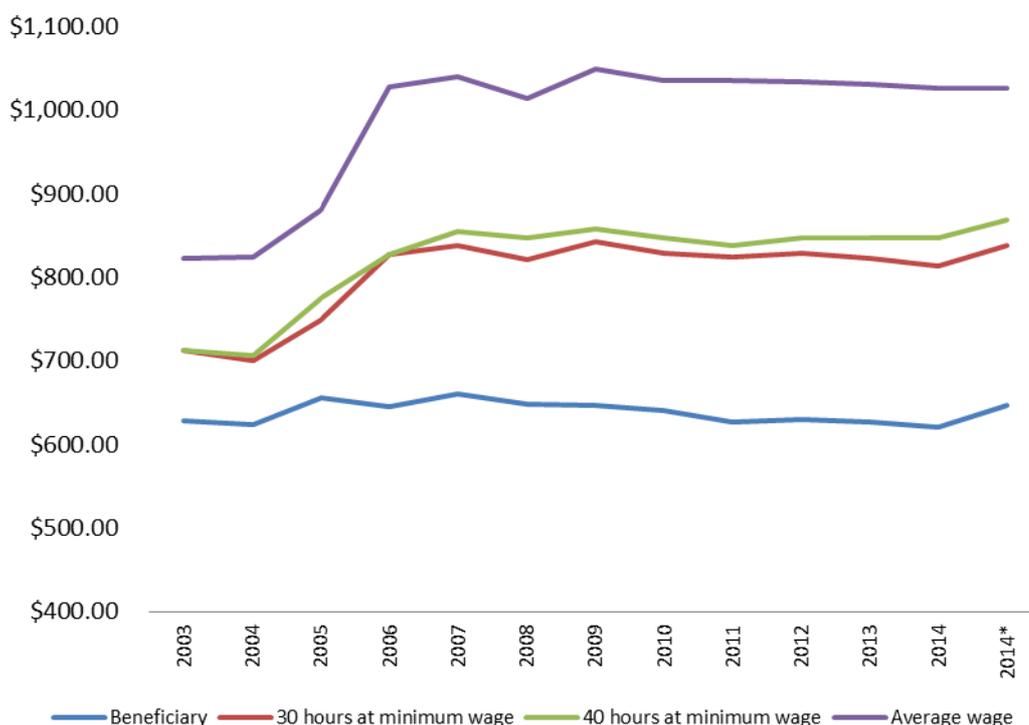
Impact on financial incentives to work

57. Because the various components of the package impact differently on different family types, the impact on financial incentives to work is complex.
58. 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 Tax Credit and In-Work Tax Credit, 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 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.

59. The final data points in the graph (2014*) show the impact of the child hardship package on the size of the margin between benefit and work for a sole parent with two children, as if it had been introduced from 1 April 2014. Note that this is take-home incomes, and does not cover outgoings – as a result, it does not take into account the impact of the package on childcare costs.

Figure 2: Impact of the package on margin between benefit and work: take home incomes for a sole parent with two children (\$2014)



60. 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. The Ministry of Social Development, Treasury and Inland Revenue will monitor these impacts over time, including within the actuarial framework of the investment approach.

Additional work to improve financial incentives

61. [8]

62. Some measures to improve access to the Accommodation Supplement and Childcare Assistance will be implemented as a result of the implementation of the Simplification business case, which was approved late last year. [8]

Impact on incentives to study

63. To reduce the financial incentive to go onto a benefit rather than study, Student Allowances are set at the same rates as benefit payments. I recommend that the Government increase Student Allowances for people with one or more supported children by the same amount. This will assist around 9,500 students with dependent children per year.

Consultation

64. This paper has been prepared by the Department of Prime Minister and Cabinet, the Ministry of Social Development, and the Treasury. Inland Revenue has been consulted on the package as a whole, and the Ministry of Education has been consulted on the childcare proposals. Other agencies have not been consulted. There has not been any formal consultation with external groups.

Financial implications

65. The table below shows the net operating balance impact of the Budget 2015 Child Material Hardship package that I am proposing in this paper. The total cost of the package over four years is \$790.313 million.

Package component	2015/16	2016/17	2017/18	2018/19 and outyears	Four year total
Benefit rates increase	33.025	132.139	132.105	133.820	431.089
Student Allowance increase	1.883	5.946	6.093	6.120	20.042
In-Work Tax Credit increase and abatement changes	19.000	73.000	69.000	66.000	227.000
Minimum Family Tax Credit increase	0.400	1.600	1.800	1.800	5.600
Childcare Assistance increase	7.753	31.484	32.088	32.822	104.147
Consequential impact on OSCAR programme costs	0.100	0.400	0.400	0.400	1.300
Consequential impact on Income Related Rent subsidy appropriation	(0.601)	(7.383)	(7.459)	(7.525)	(22.968)
Payment to redress unintended financial disadvantage resulting from the package	0.065	0.250	0.250	0.250	0.815
MSD Implementation costs	8.350	6.872	3.618	3.618	22.458
Inland Revenue Implementation costs	0.600	0.230	-	-	0.830
TOTAL (\$m)	70.575	244.538	237.895	237.305	790.313

66. The first five items in the table above are the costs of the core policy changes to main benefit and Student Allowance rates for families with dependent children, In-work and Minimum Family Tax Credit rates, and Childcare Assistance. Combined, these increases in payments cost \$787.878 million over four years.²
67. The table above includes an increase in benefit rates of \$25 per week. If fiscal circumstances necessitate, we could increase benefit rates by lower amounts of either \$22 per week or \$20 per week. These options provide a meaningful increase in assistance of an average of respectively \$20.30 per week, or \$18.40 per week for the 108,000 beneficiary families affected.
68. The table below shows an estimate of the reduction in cost for these two options compared to the proposal in this paper to increase benefit rates by \$25 per week.

	2015/16	2016/17	2017/18	2018/19 and outyears	Four year total
Cost reduction from increasing benefit rates by \$22 per week	3.907	15.597	15.489	15.909	50.902
Cost reduction from increasing benefit rates by \$20 per week	6.649	26.542	26.143	26.101	85.435

69. Inland Revenue and Ministry of Social Development require a combined \$23.288 million over four years for the administration of the package. The main part (\$14.666 million over four years) of this cost is for ongoing staffing within Work and Income to administer the new work search obligations and 52 week benefit reapplication process. The remainder of the cost relates to IT and systems changes, and other implementation costs.
70. Finally there are consequential impacts of the changes to entitlements for other assistance. These include additional costs for MSD's funding stream for OSCAR providers (\$1.300 million over four years), and an increase in the income related rent payable by beneficiaries in social housing (resulting in offsetting savings of \$22.968 million over four years to the appropriation for providing "Part Payment of Rent to Social Housing Providers.")

Human rights implications

71. The package as a whole appears to be consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993; however there is a risk that specific proposals may raise Bill of Rights issues in relation to discrimination on the grounds of family and employment status, and age.
72. It should be noted that both the Income Tax Act 2007 and the Social Security Act 1964 currently contain provisions that discriminate on the grounds of family and employment status, and the latter on age.

² Due to the constraints of the Budget process, the uptake assumptions behind these costs have not been as thoroughly tested as would usually be the case. Consequently there is a risk of higher or lower cost than estimated in the table above.

73. Before enacting legislation is introduced the Ministry of Justice will vet the Bill for compliance. Ministry of Social Development and Inland Revenue officials will work closely with the Ministry of Justice to provide justifications for any continuing or new discriminatory provisions that may be contained in the Bill.
74. The package is consistent with New Zealand's obligations under the United Nations Convention on the Rights of the Child as it directly benefits children and contains in-built protections including age-appropriate work search obligations for parents and increased assistance for childcare and out-of-school care.

Legislative implications

75. Implementing this package of measures to provide relief from material hardship for the most vulnerable children from 1 April 2016 will require changes to income tax and social security legislation. I will be seeking Category 2 status, must be passed in 2015, for the necessary legislation.
76. I propose to introduce a Bill on 21 May this year to allow time for parliamentary processes including five months select committee.
77. The changes proposed in this package will also require a range of amendments to existing regulations made under various statutes.

Regulatory impact and business compliance cost statement

78. The Regulatory Impact Analysis (RIA) requirements apply to the proposal in this paper and a Regulatory Impact Statement (RIS) has been prepared and is attached.
79. The Regulatory Impact Analysis Team (RIAT) has reviewed the RIS prepared by the Department of the Prime Minister and Cabinet and considers that the information and analysis summarised in the RIS **meets** the quality assurance criteria.
80. As the analysis makes clear, it is impossible to be certain in advance about the exact impact that the changed combination of benefits, incentives and obligations will have on the motives and behaviours of different individuals and groups of people. It will therefore be important carefully to monitor developments in hardship outcomes and, as far as possible, how far these are driven by the changes proposed here.

Gender implications

81. The proposed changes to welfare assistance and obligations will affect a disproportionate number of women due to the current makeup of the beneficiary population.

Disability perspective

82. Recipients of the Supported Living Payment with children will receive an increase in income as a result of these changes. In some cases, the additional income through the increases to benefits and the In Work Tax Credit may push people over the income limits for eligibility for the Disability Allowance or Temporary Additional Support, offsetting the increase.

Publicity

83. This package will be announced as part of Budget 2015. No prior public announcement is planned. A proactive release of advice related to the development of this package is planned following the Budget, in line with current standard processes.

Recommendations

I recommend that Cabinet:

1. **note** that the Government already actively supports families and children in material hardship, by strengthening the economy, maintaining the substantial financial support available to families, and addressing the long term drivers of material hardship;
2. **note** that this paper establishes a package of initiatives to further assist dependent children who may be experiencing material hardship, and permanently improve child and family circumstances by supporting parental employment and increased income;
3. **note** this package is intended to be implemented from 1 April 2016, allowing time for legislation, service and information technology development, and other implementation requirements (the Childcare increase will come into force on Monday 4th April 2016);

Strengthening work expectations

4. **note** that Government actions to build a strong economy that increases employment opportunities and wages, alongside the successful work-focused welfare reforms, have helped to lift more families with children from welfare into employment;
5. **agree** to extend part-time work availability obligations to Sole Parent Support recipients and work-tested spouses or partners of main beneficiaries with a youngest dependent child aged 3 to 13 years (currently 5 to 13 years);
6. **agree** to amend the Social Security Act 1964 definition of part-time work to work averaging not less than 20 hours per week (currently 15 hours);
7. **note** that Work and Income case managers will continue to exercise some flexibility around suitable employment and the exact hours of work that are required, to fit with what is available and is suitable for a client's circumstances;

Increased assistance with childcare costs

8. **note** childcare costs for the lowest income families can reduce income gains made through employment, particularly when the hours required are above those available through subsidised Early Childhood Education, schooling, or school holiday care;
9. **agree** to introduce a new, \$5 per hour rate of Childcare Assistance for families earning below:
 - \$800 per week with one dependent child
 - \$920 per week with two dependent children
 - \$1,030 per week with three or more dependent children;
10. **agree** to increase funding to Out-of-School-Care-and-Recreation (OSCAR) providers to meet the costs of the expected increase in the take-up of before and after school care and school holiday programs as a result of the changes in this package;

11. [8]

12.[8]

Increasing benefits for families with dependent children

13. **note** that while employment offers the best route to increased family income for most families, the majority of children currently experiencing material hardship are in benefit dependent households;
14. **agree** that, for people with one or more dependent children, the after-tax weekly rate of the following benefits should increase by \$25:
 - Jobseeker Support
 - Sole Parent Support
 - Supported Living Payment
 - Young Parent Payment
 - Youth Payment
 - Emergency Benefit;
15. **agree** that, for people with one or more supported children, the net weekly rate of the Student Allowance should increase by \$25;
16. **note** that the above after-tax benefit rates could alternatively be increased by either \$22 or \$20 per week, if the fiscal position does not allow a \$25 per week increase;
17. **agree** that this increase be applied from 1 April 2016, in addition to and immediately after the 1 April 2016 indexation of benefit rates to the Consumer Price Index;
18. **agree** that the existing annual benefit expiry and re-grant (re-application) process will apply to recipients of Sole Parent Support;

Extra support for low income working families with dependent children;

19. **note** children in some of the lowest income working households can also experience material hardship;
20. **agree** to increase the In-Work Tax Credit for principal caregivers of one or more dependent children by \$12.50 per week by increasing “amount a” in the In-Work Tax Credit formula from \$3,120 to \$3,770;
21. **agree** that the abatement rate applying to income in excess of the abatement threshold for the calculation of Working for Families tax credits be increased from 21.25 cents in the dollar to 22.50 cents in the dollar;
22. **note** that the Minimum Family Tax Credit for working households on the lowest incomes will automatically increase to maintain the margin between benefit and work income;

23.[8]

Flow-on impacts

24. **note** that increasing main benefit rates for beneficiaries with dependent children can affect other entitlements such as Accommodation Supplement, Income Related Rent Subsidy, Child Support, rates and thresholds of supplementary assistance, and Temporary Additional Support income;
25. **note** that while most of the consequential impacts on other assistance as a result of this package have been identified and are intentional, there may be a small number of people who are financially disadvantaged as an unintended consequence of the package;
26. **agree** that there will be a financial assistance payment to people who are financially disadvantaged as an unintended consequence of the net effects of this package;
27. **agree** that the legislation enacting this package include a power to make regulations authorising the provision of financial assistance to any persons who are financially disadvantaged as an unintended consequence of the net effects of this package;
28. **note** that any payments made as a result of recommendation 26 will be limited to situations in which a family is financially worse off overall as a direct unintended consequence of this package, and excludes situations of financial disadvantage identified elsewhere in this paper;
29. **agree**, to retain current eligibility for the Community Services Card when the In-Work Tax Credit increases, by raising the amount of income for eligibility purposes by \$650 for families with one or more dependent children;
30. **note** that the amount of Income Related Rent Subsidy paid to social housing providers for beneficiary families with children will reduce by around \$6.25 per week as a result of the proposed increase in benefit rates;
31. **note** that the Income Related Rent Subsidy is paid from a capped appropriation;
32. **agree** to reduce the funding cap for the Part Payment of Rent to Social Housing Providers appropriation, which provides for payment of the Income Related Rent Subsidy to social housing providers, as a consequence of the increase to main benefit rates;

Legislative Changes

33. **note** that the proposals contained in this Cabinet paper will require amendments to existing legislation and to regulations under a number of statutes;
34. **agree** to include a Child Hardship Legislation Bill in the 2015 Legislation Programme with a priority of Category 2 (must be passed in the year);
35. **agree** that amendments to the Income Tax Act 2007 and the Social Security Act 1964 required to implement the policy changes agreed above effective from 1 April 2016 be introduced in May 2015;
36. **authorise** the Deputy Prime Minister, the Minister for Social Development and the Minister of Revenue to make technical, policy and administrative changes required to finalise draft legislation and regulations, in keeping with the policy aims, to implement this package;
37. **invite** the Deputy Prime Minister, the Minister for Social Development and the Minister of Revenue to issue drafting instructions to the Parliamentary Counsel Office and Inland

Revenue's Tax Law Drafting Unit to draft amendments to give effect to the policy decisions agreed above;

Financial Recommendations

38. **note** that the Budget 2015 package will have the following net impact on the operating balance:

	\$m - increase/(decrease)			
	2015/16	2016/17	2017/18	2018/19 & outyears
Operating Balance Impact	70.575	244.538	237.895	237.305
Debt Impact	-	-	-	-
No Impact (tax on benefits)	6.630	26.215	25.994	26.113
TOTAL	77.205	270.753	263.889	263.418

39. **note** that the table below presents the total financial impact of the Budget 2015 Child Material Hardship package on the Crown's operating balance, for each affected Vote:

Initiative	\$m - increase/(decrease)			
	2015/16	2016/17	2017/18	2018/19 & outyears
Vote Social Development				
Benefit rates increase	33.025	132.139	132.105	133.820
Student Allowance increase	1.883	5.946	6.093	6.120
Childcare Assistance Increase	7.753	31.484	32.088	32.822
Consequential impact on OSCAR programme costs	0.100	0.400	0.400	0.400
Consequential impact on Income Related Rent Subsidy appropriation	(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	8.350	6.872	3.618	3.618
Total Vote Social Development	50.575	169.708	167.095	169.505
Vote Revenue				
In-work tax credit increase and abatement rate increase	19.000	73.000	69.000	66.000
Minimum Family Tax Credit increase	0.400	1.600	1.800	1.800
Inland Revenue implementation costs	0.600	0.230	-	-
Total Vote Revenue	20.000	74.830	70.800	67.800
TOTAL OPERATING	70.575	244.538	237.895	237.305

Increases to benefit rates for families with children

40. **approve** the following changes to appropriations reflecting the increase to main benefit and student allowance rates, and the consequential impacts on other social assistance, to give effect to the decisions in recommendations 14, 15 and 17 above:

	\$m - increase/(decrease)			
Vote Social Development	2015/16	2016/17	2017/18	2018/19 & Outyears
Minister for Social Development				
Benefits or Related Expenses:				
Jobseeker Support and Emergency Benefit	7.805	31.544	31.432	32.002
Supported Living Payment	4.014	16.182	16.449	16.749
Sole Parent Support	26.979	107.253	106.540	106.761
Student Allowances	2.141	6.759	6.927	6.958
Hardship Assistance	(0.482)	(1.923)	(1.769)	(1.508)
Youth Payment and Young Parent Payment	0.534	2.241	2.275	2.284
Minister for Social Housing				
Benefits or Related Expenses:				
Accommodation Assistance	0.547	2.244	2.338	2.807
Total Operating	41.538	164.300	164.192	166.053

Increases to Working for Families

41. **note** the following changes to appropriations in accordance with section 185 of the Tax Administration Act 1994, reflecting the changes to Working for Families tax credits described in recommendations 20, 21 and 22 above:

	\$m increase/(decrease)			
Vote Revenue	2015/16	2016/17	2017/18	2018/19 & Outyears
Minister of Revenue				
Benefits or Related Expenses:				
Minimum Family Tax Credit PLA	0.400	1.600	1.800	1.800
In-Work Tax Credit PLA	27.000	105.000	100.00	95.000
Family Tax Credit PLA	(7.880)	(31.510)	(30.520)	(28.550)
Parental Tax Credit PLA	(0.120)	(0.490)	(0.480)	(0.450)
Total Operating	19.400	74.600	70.800	67.800

Increases to Childcare Assistance

42. **approve** the following changes to appropriations to give effect to the changes to Childcare Assistance in recommendations 9 and 10 above:

	\$m - increase/(decrease)			
Vote Social Development	2015/16	2016/17	2017/18	2018/19& Outyears
Minister for Social Development				
Benefits or Related Expense:				

Childcare Assistance	7.753	31.484	32.088	32.822
Non-departmental Other Expense:				
Out of School Care Programmes	0.100	0.400	0.400	0.400
Total Operating	7.853	31.884	32.488	33.222

Consequential impact on social housing funding level

43. **approve** the following change to the Part Payment of Rent to Social Housing Providers appropriation to give effect to the decision in recommendation 32 above:

Vote Social Development Minister for Social Housing	\$m - increase/(decrease)			
	2015/16	2016/17	2017/18	2018/19 & Outyears
Non-Departmental Output Expense:				
Part Payment of Rent to Social Housing Providers	(0.601)	(7.383)	(7.459)	(7.525)
Total Operating	(0.601)	(7.383)	(7.459)	(7.525)

Transitional assistance

44. **agree** to establish in Vote Social Development a benefits or related expenses appropriation Transitional Assistance, with the following scope “this appropriation is limited to supplementary financial assistance to people who are unintentionally adversely affected by changes in policy or legislation, so they will not be financially worse off at the point of change”;

45. **approve** the following changes to appropriations to give effect to the decision in recommendations 26 and 27, creating a payment of financial assistance to people who are unintentionally financially disadvantaged:

Vote Social Development Minister for Social Development	\$m - increase/(decrease)			
	2015/16	2016/17	2017/18	2018/19 & Outyears
Benefits or Related Expenses:				
Transitional Assistance	0.065	0.250	0.250	0.250
Total Operating	0.065	0.250	0.250	0.250

Departmental operational costs

46. **approve** the following changes to appropriations to fund the implementation costs for the Ministry of Social Development relating to the policy decisions in recommendations 1 to 32 above:

Vote Social Development Minister for Social Development	\$m - increase/(decrease)			
	2015/16	2016/17	2017/18	2018/19 & Outyears
Multi-Category Expenses and Capital				

Expenditure				
Improved Employment and Social Outcomes Support				
Departmental Output Expense:				
Administering Income Support (funded by Revenue Crown)	8.350	6.872	3.618	3.618
Total Operating	8.350	6.872	3.618	3.618

47. **approve** the following changes to appropriations to fund the implementation costs for Inland Revenue relating to the policy decisions in recommendations 1 to 32 above:

Vote Revenue Minister of Revenue	\$m increase/(decrease)			
	2015/16	2016/17	2017/18	2018/19 & Outyears
Departmental Output Expenses:				
Services to Process Obligations and Entitlements (funded by Revenue Crown)	0.300	0.115	-	-
Services to Inform the Public About Entitlements and Meeting Obligations (funded by Revenue Crown)	0.300	0.115	-	-
Total Operating	0.600	0.230	-	-

48. **agree** that the operating balance impact in recommendation 38 of expenses incurred under recommendations 40 to 47 above be a charge against the Budget 2015 operating allowance;

49. **authorise** the Minister of Finance, the Minister for Social Development, the Minister for Social Housing and the Minister of Revenue to approve jointly any technical adjustments to baselines necessary to remove any errors or inconsistencies identified while finalising the 2015/16 Estimates and the fiscal forecasts;

50. **note** that all communications relating to the 2015 Budget are co-ordinated by a Budget communications committee, and that any requests for early announcement will need to have both the written approval of the Minister of Finance and sign-off from the Prime Minister's office.

Hon Bill English
Deputy Prime Minister