The Treasury

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Report

DEPARTMENT of the PRIME MINISTER and CABINET

To:	Prime Minister
CC:	Ministers English, Joyce, Bennett and Tolley
From:	Andrew Kibblewhite (CE, DPMC) on behalf of Brendan Boyle (CE, MSD) and Vicky Robertson (acting Secretary to the Treasury)
Date:	5 February 2015
Status:	For discussion and feedback on 11 February
Subject:	**Your material hardship package**

Summary and purpose of the report

1. As you know, we have been developing a package of initiatives for Budget 2015 focused on reducing material hardship for children that also maintains work incentives for parents.

2. Since the meeting with you on 15 December 2014, we have undertaken more detailed policy work, costings, and have worked through operational implications for the package. We have focused our efforts on the initiatives that you indicated interest in at the meeting and subsequently:
   - An increase in core benefit rates for those with children, balanced by increases to the In Work Tax Credit (**IWTC**) for low income working families and a strengthening of work expectations for beneficiary parents. On the suggestion of Minister Bennett, we have also looked at introducing an annual benefit expiry and reapplication process for Sole Parent Support, similar to that introduced in 2013 for Jobseeker Support, to send a strong message that benefit receipt is expected to be temporary
   - the impact of stand-down periods and any other similar barriers to work
   - increases to Childcare Assistance for working families and assistance for other costs through a new non-recoverable Special Needs Grant (**SNG**)
   - [8]

3. This report provides you with further detailed advice for each of the above aspects. We would now like to confirm with you the features of the package, so that work can commence on a Cabinet paper for late March/early April, in time for Budget 15. We would also like to discuss with you some important practical considerations including:
   - how to manage the flow-on impact of the package e.g. those who would otherwise ‘lose out’ due to the changes
   - legislation management
   - monitoring progress for children living in material hardship

4. You gave an indicative cost for the package of around $1 billion over four years, or 200-$300 million per annum. At this stage the initiatives come in toward the upper end of this

range on an annualised basis (around $272m p/a when fully implemented). However the package is within the $1b range ($874m) over the four year forecast period due to our recommended implementation timing, with relatively few costs falling in 2015/16 (around $69 million).

5. We think the key factors for you to focus on at your meeting on 11 February are:
   - the total cost and phasing of that cost, in light of pressures in Budget 2015
   - who wins and who loses as a result of the package and how you would like this managed
   - fit of the package with other objectives e.g. reducing welfare dependence.

Structure of report

6. This report is divided into three parts:
   - Part one provides an overview of the package (based on feedback to date), proposed implementation timeframes, cost and options to reduce cost should this be required. Part one also provides an outline of "winners" and "losers" from the package and seeks guidance on how you would like to manage those who lose out.
   - Part two provides further detail on the components of the package and explains why we are not recommending some elements previously discussed. Part two also seeks guidance on some key lower-level policy decisions for different features (including recommendations for future work).
   - Part three quickly covers off the legislative changes that would be required for the package, as well as issues with impact and monitoring, and discusses next steps.

Recommendations

It is recommended that you:

1. **note** the estimated overall cost of the package presented in this paper is $874m over the forecast period and phased in the following way (see Table 1 for details):

2015/16	2016/17	2017/18	2018/19 & outyears
69.1	268.5	266.8	270.0

2. **note** that there are options to scale the package, which are presented as alternatives through these recommendations and summarised in Table 2

3. **note** that there are options to phase the implementation of the package to defer the impact of the full costs

4. **note** that the Treasury will be working with the Ministry of Social Development (**MSD**) and Inland Revenue to further refine costings and impact analysis before a paper is bought to Cabinet

5. **note** that officials recommend that key elements of the package start on 1 April 2016 aligning benefit changes to the start of the year for Working for Families payments

6. **note** that officials suggest the new Special Needs Grant (**SNG**) start on 1 November 2016, with the later start date due to the current re-platforming of MSD's IT system

<u>Benefit Rates</u>

1. **confirm** an increase in benefit rates for people with children of $25 a week (after tax), to provide approximately 134,000 families with children an average of $20 in the hand

   OR

   agree to an increase of $20 a week (after tax)

2. **confirm** that Student Allowances for people with children should also increase by the same amount as benefits

   OR

   agree to not increase student allowances

3. **note** that in some circumstances, due to the normal operation of the welfare system, some individuals will have increases in benefit rates and In Work Tax Credit (**IWTC**) partially offset due to a reduction in other assistance

4. **note** that a smaller number of individuals could experience an overall slight reduction in total assistance due to reductions in supplementary assistance

<u>In Work Tax Credit (IWTC)</u>

5. **agree** to an increase in the IWTC per family of $12.50 a week, providing approximately 203,000 families with an average weekly gain of $8

OR

of $10 a week

6. **note** that the Minimum Family Tax Credit (MFTC) will automatically adjust to reflect the increases to benefits and the IWTC with an increase of $12 a week (less if those increases are scaled)

7. **note** that the Minister of Finance has asked officials for advice on options to improve the targeting and work incentives of the MFTC and tax credits more generally.

8. **note** that either IWTC option involves creating some losers, as outlined in more detail on paras 4-6 and in Appendix One.

Work obligations

9. **agree** to lower the youngest child age for part-time work obligations from 5 years to 3 years.

10. **agree** to change the part-time obligation to 20 hours retaining flexibility around the exact hours required for the part time test

11. **agree** to keep the age of the youngest child for full-time work obligations at 14 years

12. **agree** to introduce a reapplication process for Sole Parent Support recipients

Childcare

13. **agree** to increase Childcare Assistance for low income working families, by introducing a new lower income threshold combined with a higher assistance rate

14. [8]

Other hardship assistance

15. **note** special needs grants (SNGs) are a way of providing tightly targeted assistance to families with children in hardship

16. **agree** to a new non-recoverable SNG for specified school-related costs with an upper of $500 limit a child a year)

Debt

17. [8]

18. **note** that Mr McClay will be bringing a paper to Cabinet on child support debt

19. **agree** that initiatives aimed at public sector debt not been included in the package for Budget 15

20. **agree** to officials developing a longer term work programme focused on preventing debt creation through information exchange and system improvements

Barriers to work

21. **note** that the standard initial stand-down period for benefit applicants is now relatively short, and officials have found little evidence that it has a significant role in discouraging beneficiaries from entering employment

22. **agree** that officials cease further work on stand-down periods

23. **note** that officials from MSD will continue to update Minister Tolley on planned measures to improve the uptake on in-work assistance

24. **indicate** if you would like officials to undertake further policy work on making hardship assistance more available to low income working families

Next Steps

25. **note** that some of these proposals have legislative implications, outlined in Table 3

26. **delegate** detailed interim decisions to the Ministers of Finance, Social Development, and Revenue, with final decisions taken by Cabinet

PART ONE: OVERVIEW OF PACKAGE

Summary of package components

1. Based on your direction on 15 December and subsequent feedback, we have been working on a package that has the following components:

   - An increase of $25 per week (after tax) in benefit rates for families with children, to give an average increase in income of $20 in the hand. Approximately 134,000 families with children are expected to be better off financially as a result of this change – see paras 24–29 of Part Two for more detail.
   - Changes to Working for Families (paras 30–35), including:
     - a $12.50 per week increase in the $60 rate of the IWTC, benefiting approximately 203,000 families with an average weekly gain of $8
     - an increase in the abatement rate of 1.25 percentage points, to 22.5%.
   - An expansion of work obligations for beneficiaries (paras 38 – 53), by:
     - lowering the youngest child age for starting part time work obligations from five to three years
     - changing the hours of the part-time work obligation from 15 to 20 hours a week (while retaining the current discretion around the exact hours required to avoid unintended consequences)
     - introducing a reapplication process for Sole Parent Support recipients.
   - Increases to childcare assistance, by introducing a new lower income threshold combined with a higher assistance rate, providing additional support to around 49,000 children in the first year (paras 54-62).
   - Targeted assistance with school costs through a new non-recoverable SNG ($500 limit per child, per year). (paras 63-72).

2. We looked into lowering the youngest child age for starting full time work obligations from 14 to 12 years of age (see paras 46 – 47) and relief options for government debt (see paras 73 - 78). We are not recommending you pursue these options as part of this package. We also looked into barriers to work, but do not recommend that any identified issues be addressed through this Budget package – discussed further in paras 79-87.

3. As the initiatives for inclusion in the package have been iteratively refined down, the weighting of focus has become more toward measures that increase income (benefit rates and IWTC) with a smaller weighting on measures to reduce costs faced by households (Childcare Assistance and SNG). Similarly the package favours broad-brush interventions, which will achieve good coverage of the population you are concerned about, but will also benefit families who are not in material hardship (spill-over). However, the interventions that have been selected make for a sound package, especially when set within the context of the broader work the Government is undertaking to target assistance to families in need.

Families who may be financially disadvantaged as a result of the package.

4. There are two situations in this package where families may face some level of financial disadvantage:

   - families who face a reduction in supplementary payments that are not offset by an increase in other payments, and who are consequently worse off overall as a result of the package. There may be a very small group (number not identified yet) of working families who are not receiving the IWTC but are receiving Accommodation (**AS**), who will lose out (this is discussed in more detail in para 27). We suggest that you ask officials to look at this further and delegate decisions to Minister Tolley

- families who are worse off overall from the package as a result of deliberate policy changes (i.e. those earning higher incomes who have a reduction in their IWTC due to the increased abatement rate). Around 7,000 families earning over $100,000 p/a lose an average of $5 p/w.. We do not recommend any action is taken for this group, as it is the result of a deliberate policy decision.

5. In addition some families will be better off overall, but may face a reduction in supplementary payments that reduces the overall benefit they receive from the package. We recommend taking no action to address this situation, as it is the result of deliberate policy decisions and the normal function of the social welfare system.

6. Ministers may, however, want to consider options to minimise the risk that anyone is unintentionally disadvantaged overall due to the package. If so, we recommend delegating consideration of options to achieve this to Minister Tolley, with final confirmation by Cabinet. Further information on ‘losers’ is provided in the appendix.

Relationship to welfare BPS target

7. A key plank of the Government’s strategy to address material hardship for children is increasing family incomes through adequately paid employment. This goal is supported by the Government’s focus on reducing welfare dependency through BPS Result Area 1.

8. The proposed package has a strong focus on lifting incomes for families most at risk of more severe hardship, and we think achieves a good balance between very targeted interventions and broad brush interventions that achieve good coverage of the target group. As lifting payment levels for people out of work risks reducing financial rewards from work, the package seeks to balance lifting those incomes with additional support for working people (IWTC and Childcare Assistance).

9. Officials are undertaking further work on the net impact of the package on work incentives, but overall our preliminary view is that the package achieves a credible balance between meaningful help for families experiencing material hardship and financial incentives to work. It also seeks to balance incentives through the introduction of new work obligations, sending a clear signal about expectations. In addition, other work outlined in this note has the potential to further improve incentives and signalling, including improvements to Working for Families, as well as the take-up of in-work assistance.

10. If there is a need to reduce the overall cost of the package, there will be a difficult trade-off between maintaining the focus on hardship and the net impact on financial incentives to work.

Implementation timeframes

IWTC

11. While IRD could implement a mid-year change to the IWTC (i.e. before 1 April), this presents some issues including the need for more detailed end of year composite calculations and more involved communications to customers and agents. The risk of overpayment increases when a composite rate applies. For these reasons, we do not recommend implementing IWTC changes until **1 April 2016**.

Benefit rates

12. Although benefit rates could be increased earlier, we recommend implementing any increase in benefit rates alongside an increase in IWTC to balance work incentives – again giving an implementation date of **1 April 2016**.

Work obligations

13. New work obligations will require changes to legislation. Changes to benefit obligations have previously been contentious, and a fuller Select Committee process may therefore be desirable. For this reason we recommend implementing new work obligations in line with IWTC and benefit rates on **1 April 2016**.

Increases to Childcare Assistance

14. Changes to Childcare Assistance could be implemented as soon as October 2015. However, they fit with changes to work obligations and add more balance to the financial pay-off of entering work when benefit increases kick-in. For this reason, we are recommending aligning with a **1 April 2016** implementation.

New SNG

15. The new SNG could not be implemented until **November 2016** if the payment of the SNG is administered on a presenting basis to Work and Income and tied to expenditure on certain goods. This is due to the re-platforming of the part of MSD's IT system that administers the Grants. If you want to implement the SNG sooner, then this can be implemented in time for **2016 school year** if the payment is more automatic and not tied to certain expenditure. While administratively simpler, this quicker option does come with down-sides (see para 71) – so on balance we do not recommend this approach.

Cost of the package

16. We have estimated the cost of the above package to be around $270 million p/a when fully implemented. However the vast majority of these costs will not come into play until the 2016/17 financial year. Based on the implementation timeframes outlined above. Under these timeframes only around $69m would be needed in 2015/16. Over the four year forecast period the cost of the package would come in at around $874m.

17. The table below (table 1) sets out the cost breakdown for each part of the package over the four year forecast period. The table includes a breakdown of implementation costs – where a cost range has been provided for implementation (IWTC and work obligations) we have used the upper end estimate. The majority of implementation costs relate to additional Work and Income case manager time to administer work obligations, the annual reapplication process, and the Special Needs Grant.

18. The costs in the following table do not include off-benefit outcomes/savings that may occur as a consequence of the increased work obligations.

Table 1: four year cost of package

	2015/16	2016/17	2017/18	2018/19 and outyears
OPERATIONAL COSTS ($m p/a)				
*Benefit Rates**	*34.762*	*139.566*	*139.363*	*141.831*
Rates increase	33.049	132.650	132.200	133.927
Impact on AS	0.547	2.244	2.338	2.807
Impact on Special Benefit	-0.040	-0.149	-0.130	-0.113
Impact on TAS	-0.419	-1.679	-1.545	-1.290
Impact on Student Allowance	1.625	6.5	6.5	6.5
Tax Credits	*20.15*	*70.61*	*70.69*	*70.68*
IWTC increase IWTC abatement rate and threshold changes	20	70	70	70
Increase in MFTC	0.15	0.61	0.69	0.68
Childcare	*7.75*	*31.48*	*32.09*	*32.83*
Childcare Subsidy Increase	5.58	22.10	21.94	21.90
OSCAR Increase	2.17	9.38	10.15	10.93
Hardship assistance	*-*	*13*	*13*	*13*
SNG for school costs	-	13	13	13
IMPLEMENTATION COSTS ($m p/a)				
Benefit rates	0.350	1.269	-	-
IWTC**	1.4	-	-	-
Work Obligations***	1	4.451	4.451	4.451
Reapplication	0.927	5.004	5.004	5.004
Childcare	0.6	0.146	0.146	0.146
School SNG	0.180	2.010	2.010	2.010
Other costs (MSD)	2.006	1.003	-	-
Total operational	*62.662*	*254.656*	*255.143*	*258.341*
Total implementation	*6.463*	*13.883*	*11.611*	*11.611*
TOTAL	**69.125**	**268.539**	**266.754**	**269.952**

***** Benefit rates total includes impact on student allowance, estimated at $6.5 million per annum. This may be shift at the margins.

****** IRD estimate the implementation cost to be between $0.750m to $1.400m.

******* These costs are for additional case management resources to allow MSD to work with the group facing new work obligations. There is good evidence that this investment is likely to generate positive returns in terms of reduced benefit expenditure (see paragraphs 48-53). Obligations could be applied only to clients currently being actively worked with by Work and Income at minimal cost ($1m in 2015/16 and $20,000 p/a ongoing). The costings for implementing work obligations in the above table account for a larger pool of clients being actively worked with i.e. 50% of clients with children aged 3-4 years (approximately 22,000 clients).

Impact on benefit liability

19. MSD has run very preliminary calculations of the impact of the proposed package on the valuation of the welfare liability. These are summarised below. The package will increase the overall liability, in a way which is outside of MSD's management control, and this will need to be explicitly and separately accounted for as part of future actuarial valuations. Estimates also do not model behavioural impacts e.g. as a result of new work obligations.

Proposed change	Estimated one year fiscal cost ($ million)	Estimated liability impact ($ million)
$25 per week (after tax) increase to benefits	157	1,100-1,300 increase
SPS – introduce part-time work obligations once child is three		400–600 decrease
Increase to Childcare Assistance rates for lower incomes (and remove for high income)	27-31	260-290 increase
SNG up to $500 per child for school expenses per annum	13-27	72-176 increase

Options for cost reduction

20. There are significant pressures on the Budget 2015 allocation, so further scaling options might need to be considered. There will be opportunities to consider the relative size of the material hardship and other budget packages through the budget process, including the first Budget Ministers meeting on 23 February. If you are concerned about cost, there are options that would reduce the cost of the package, discussed later in this report (see pages 10-11).

21. The implementation of the package could be staggered to help manage cost, by phasing in some of the changes and incurring the costs more gradually. For example, benefit rates could be increased in two stages (e.g. $10 in April 2016, $15 in April 2017), and the introduction of the SNG could be delayed until April 2017.

22. The following table (Table 2) indicates other options for cost reduction. The options for scaling in Table 2 are presented in the order that officials would propose i.e. lens of addressing material hardship is applied as the first order priority. The options at the top are if you need to reduce cost and want a greater focus on material hardship in the package. The options at the bottom are if you want a package that balances assistance for families in material hardship with more of an emphasis on work incentives.

23. Alternatively, you could introduce a combination of increases to the AS as the centrepiece of the package, rather than benefit and IWTC increases. As outlined in our last report, this option is recommended only if you need to scale back the size of the package significantly i.e. if the increase in benefit rates dropped below $20 p/w.

Table 2: cost reduction options

Component	Reduction in cost ($m p.a.)	Comment
Reduce operational costs		
Remove 52 week reapplication from the package	$5m	This option potentially has a good return on investment, but does not fit will with the package's focus on material deprivation. This proposal requires significant addition of front line case managers to process reapplications, but it is likely to result in decreased benefit expenditure.
Provide no additional case management resource for enforcing work obligations	$4.5m	Any savings in operational costs by removing these elements from the package may be offset by fewer off-benefit outcomes.
Reduced childcare option		
No increase to OSCAR	$8.7m	While Childcare Assistance reduces pressure on the budget of working families, and addresses a barrier to work, increases for under 5s are more important if the age for part time work expectations is lowered. However, introducing a differential rate for OSCAR subsidy would add complexity to the system, and result in reductions in assistance for parents when their children start school.
In Work Tax Credit		
Remove the IWTC increase from the package	$70m	While the IWTC is an important component of the package for balancing work incentives, it is also a blunt tool that is poorly targeted at those on low incomes, and particularly poorly targeted at those in severe material hardship. The increase in the IWTC could be reduced by a small amount ($2.50 per week) resulting in a significant saving. However, this will result in a higher number of losers, and higher average losses than currently shown in this paper.
Reduce the IWTC increase to $10	$20m	
Benefit rates		
Increase benefit rates by $20 (giving on average $16.10 in the hand) instead of $25 (giving on average $20.16 in the hand)	$34m	Not as substantial as a $25 increase, but would still be meaningful.
New Special Needs Grant		
Remove the school costs SNG from the package	$15m	The SNG component of this package is the most tightly targeted on families struggling.

PART TWO: COMPONENTS OF THE PACKAGE

Increases to benefit rates for those with children

24. Increasing benefit rates for families with dependent children (sole parents and couples) by $25 per week (after tax) will result in an average in-the-hand income gain of $20.16 for these families. The amount received in the hand is the result of some types of supplementary assistance (e.g. Accommodation Supplement and Temporary Additional Support) automatically reducing when benefits increase. Approximately 134,000 families with children are expected to be better off financially as a result of this change. Of those who gain from the benefit rate increase:

- 24,749 benefit by up to $10 per week
- 25,931 benefit by $10-$20 per week
- 76,161 benefit by $20 -$30 per week
- 7,000 benefit by more than $30 per week

25. This change would increase rates for beneficiary families with children regardless of family type (ie both couples and sole parents), and for all benefit types (Sole Parent Support, Jobseeker Support, Supported Living Payment, Young Parent Payment, and Student Allowances). There would be no increase to rates of Orphans Benefit, Unsupported Child's Benefit or the Foster Care Allowances, as these benefits are additional payments that are more analogous to Family Tax Credit.

26. The majority of families who benefit from the increase in rates are in receipt of a main benefit, however around 26,000 non-beneficiary AS recipients will gain by up to $9 per week due to an increase in their AS entitlement (as the abatement threshold for AS is linked to the main benefit rate). This impact, along with changes to Childcare Assistance, IWTC and MFTC, will help to address the potential decrease in financial incentives to work as a result of increasing benefit rates.

27. However, there are approximately 4,100 working families who are not receiving a benefit, but who are receiving AS, who will be financially disadvantaged, as the amount of a person's accommodation costs they must pay themselves before receiving AS is linked to the main benefit rate. This group are mainly very low income earners, and lose on average $4.22 per week. Officials expect that most of this group will receive the benefit of the increase in the IWTC, and so will not be financially disadvantaged overall. We suggest that you ask officials to look at this further and delegate decisions to Minister Tolley.

28. Our original proposal was to increase Temporary Additional Support (**TAS**) to increase income for the worst off beneficiaries, at a cost of around $34m. We now believe the impact of the benefit rate rise on Temporary Additional Support to be less significant and therefore are not recommending the significant increase to TAS. This is also covered in Appendix 1.

29. Student Allowances are set at the same rates as benefit payments to reduce the financial incentive to go onto a benefit rather than study. We recommend retaining this link, and this is built into the costings in Part One of this paper.

Increasing Working for Families Tax Credits

In Work Tax Credit (IWTC)

30. IWTC is paid to working families with children. It is paid at $60 per week for families with up to three children and $15 per week extra for each additional child. It is currently abated at 21.25% once the families' entitlement to the Family Tax Credit has ceased. We have modelled a $12.50 per week increase in the $60 rate of the IWTC, and an increase in the abatement rate of 1.25 percentage points, to 22.5%.

31. The changes to the IWTC benefit approximately 203,000 families with an average weekly gain of $8. 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.

32. Further information on winners and losers is discussed in the Appendix to this report.

The Minimum Family Tax Credit (MFTC)

33. The Minimum Family Tax Credit (MFTC) is a guaranteed minimum income tax credit for working people on the lowest incomes. Under current policy settings the MFTC will automatically adjust to the changes in benefit rates and the IWTC, in order to retain the margin between incomes from benefit and work.

34. Around 3,500 households currently receive the MFTC (most of whom are sole parents), at an approximate cost of around $14m in 2013/14. The MFTC is calculated so that a couple working 30 hours a week (at the minimum wage) will be better off (by at least $1) transferring off-benefit to the tax credit system.[1] This means that the MFTC takes into account both the rate of benefits, and the rate of the IWTC.

35. The MFTC is currently paid to ensure that eligible households' incomes are not less than $443 per week ($23,036 per year). The new rate of the MFTC, calculated using the current formula and given the proposed increase to benefits of $25 per week and the increase in the IWTC of $12.50 per week, works out to a $12 per week increase to an income of no less than $455 per week ($23,660 per year). The MFTC is paid weekly and must be a whole dollar amount due to system settings. All households receiving the MFTC 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.[2]

Improving the policy settings for tax credits for families with children

36. In the context of this package, changes to MFTC and IWTC help to balance the impact of the increase in benefit rates on financial incentives to work. However, the current policy settings are not well designed for achieving this purpose. The IWTC is a costly instrument, as it is paid to families up to relatively high incomes, and the MFTC is very tightly targeted with EMTRs over 100%, and has poor visibility as a financial incentive. As a result of these constraints, the IWTC element of the package is relatively expensive for what it achieves.

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[1] If only benefits are increased, the MFTC will increase to retain the gap between benefits and low-wage work. If only the IWTC is increased, the MFTC will decrease to retain the original gap between benefits and low-wage work.

[2] Once received, the MFTC is abated dollar-for-dollar against after tax wages but before deductions such as ACC are taken into account. This creates an effective marginal tax rate of around 102%. There may be options that could reduce the effective marginal tax rate of the MFTC in the medium term. Officials will provide further advice to Minister English on these options.

37. Addressing these issues would require significant reform, and could not be achieved within the timeframe for Budget 2015, nor delivered in the short-term. However, we are seeking a steer from you as to whether you would like officials to undertake further work on this alongside work to improve take-up of assistance for people in work, outlined further below.

Strengthening Work Obligations

38. We also recommend a series of changes to strengthen work expectations for parents, to further balance out increases to benefits, and continue the Government's emphasis on paid work as the primary means of addressing poverty and hardship.

Part-time work obligations: lowering the age

39. We think there is a sound rationale for extending part time work obligations to those with a youngest child aged three (currently set at age five):
    - This group has proven amenable to work activation, and on balance the change is likely to have a positive impact on children's wellbeing.
    - The current child age threshold was based on school entry age. Beneficiary parents are now required (through their social obligations) to have children from three years participating in Early Childhood Education or similar until they start school. Currently this obligation can be met by the child participating in ECE that is not necessarily compatible with work, such as in parent-led care and centres offering short sessions.
    - The change would increase the number of clients Work and Income can activate, and would support Work and Income to meet the BPS target (result 1, reducing long-term welfare dependency).

40. There are some risks to lowering this age. While the average quality of Early Childhood Education in NZ is high, and there are proven benefits to quality ECE for children particularly over the age of three, there are concerns that there is some low-quality ECE provision.

41. In terms of international comparisons, comparable English-speaking countries (Australia and the UK) have similar work obligation settings to New Zealand, though some countries have work obligations for parents starting at age three or earlier. There are stronger work expectations in Europe (where there is substantial welfare provision) and, by default, in North America and Asia (as welfare provision is minimal).

42. On balance, we recommend that you confirm pursuing reducing the part-time work-test to start when a child is aged three.

Part-time work obligations: increasing the hours

43. We recommend changing the hours of the part-time work obligation from 15 to 20 hours a week. With suitable work of 20 hours, clients become eligible for Working for Families tax credits as they move 'off benefit'.

44. Discretion around the exact hours of work that can be required was introduced in 2012 as the previous fixed hours requirement limited the jobs a client could be referred to or required to accept. The discretion (plus or minus 5 hours) allows:
    - individual circumstances to be taken into account (making it more likely that a recipient can be placed in a job and gain labour market attachment)

- some groups to maintain a level of labour market attachment appropriate for them (e.g. those with short-term health conditions or injuries).

45. If you agree to increase the hours, we recommend you retain the discretion clause around the exact hours required for the part time test.

Changes to full time work obligations

46. Lowering the youngest child age for full-time work obligations from 14 to 12 years is less straightforward:
   - The age of the child used for this obligation, 14 years, is based on the age a child can currently be left unsupervised without making reasonable provision for their care and supervision.
   - There is some limited international evidence that maternal work can have adverse impacts on younger adolescent teens, though this is far from conclusive.

47. We do not recommend that you proceed with the change at this time. Off benefit outcomes could instead be achieved through increasing the hours for the part-time work obligation described above.

Return on Investment analysis for work obligations

48. The enforcement of work obligations through active case management carries significant implementation costs, but these costs are likely to be offset by a reduction in income support spending from people moving off benefit.

49. Evaluation evidence from MSD shows that its work-focussed case management streams (work focussed case management (**WFCM**) and work support service (**WSS**)) generate very positive returns that are toward the upper end of international best practice. The table below shows the Return on Investment **(ROI)** at 44 weeks after clients start each service

Table 2: Work and Income Return on Investment for WFCM and WSS after 44 weeks

	Investment	**Return**	**ROI-WI**
WFCM	$642 (±$13)	$589 (±$169)	$0.92 (±$0.27)
WSS	$289 (±$9)	$428 (±$136)	$1.48 (±$0.47)

Investment: Additional case management and employment assistance cost for client in WFCM or WSS compared to being on GCM.

Return: Avoided Work and Income costs from reduced time on main benefit.

Bracketed figures provide the 95% confidence interval.

50. Of the two services, WSS breaks even 24 weeks after clients start the service. In comparison, WFCM is not expected to achieve payback until after one year based on current trends. The difference in payback periods is mainly because of the higher net cost of having a client in WFCM compared to WSS, and reflects the more complex barriers to work that WFCM clients tend to have, and the larger potential reduction in long term benefit liability that can be achieved through a benefit exit for this group.

Annual benefit expiry and reapplication

51. You could also introduce an annual benefit expiry and reapplication process for Sole Parent Support **(SPS)**, similar to that introduced in 2013 for Jobseeker Support **(JS)**. The annual JS expiry sends a strong message that benefit receipt is temporary and clients must continue to meet obligations if they still require assistance. The policy has reduced the amount of time these clients spend on benefit (by an average of 41 days) and is cost-effective – an estimated ROI of $5.71

52. A benefit expiry for the SPS group is unlikely to have an impact of the scale seen with JS clients, as SPS clients have different circumstances, more work barriers and lower obligation settings (work preparation or part-time work). However, it could still have a significant impact, particularly through a reduction in fraud and debt by people failing to declare a change in their relationship status.

<u>Return on Investment analysis for reapplications</u>

53. As the reapplication requires an interview with a case manager, the option carries significant implementation costs – an estimated $5 million per year. Even if the ROI was lower than that for JS, the cost of the policy's implementation could still be more than offset by savings through off-benefit outcomes. This option would impact around 71,000 sole parents, based on current client numbers. However these expected savings would not be counted for the purposes of funding this package.

Supporting working families by reducing childcare costs

54. We also recommend that you increase assistance for childcare costs, especially if you want to strengthen work obligations. This would not only complement any increase in work expectations for sole parents, but would also alleviate pressures on the budget of working families, improve financial returns from work, and address a significant barrier for those shifting into employment.

Proposed rates and thresholds

55. Childcare Assistance **(CCA)** includes both the Childcare Subsidy (for pre-school children aged under five years) and the Out of School Care and Recreation (**OSCAR**) subsidy (for out of school care for children aged 5-13).

56. We propose an increase to CCA for low income earners through an increase in the hourly subsidy rate from $4 to $5 per hour, along with the introduction of a new lower threshold to target this higher rate to low earning households (see below). This change would apply to both the Childcare Subsidy and OSCAR, and would provide additional support to around 49,000 children in the first year.

57. A $5 rate is below the average fees currently paid by parents for these services, although there is a fairly wide distribution of costs, particularly for OSCAR. There is a risk that some providers could alter their pricing structure to take advantage of the increased rate, although we think this is likely to quite low given that only a small proportion of people would be eligible for the higher rate.

58. While the costing of the CCA increase has factored in an increase in take-up there are uncertainties around how take-up might be affected and therefore a risk that the costs might be greater.

CURRENT rates and thresholds			
# of children	**Gross weekly income**	**Subsidy per hour**	**Corresponding gross annual income**
1	Less than $1,200.00	$3.98	0 - $62,400
	$1,200.00 to $1,299.99	$2.78	$62,400 - $67,600
	$1,300.00 to $1,399.99	$1.54	$67,600 - $72,800
2	Less than $1,380.00	$3.98	0 - $71,760
	$1,380.00 to $1,489.99	$2.78	$71,760 - $77,480
	$1,490.00 to $1,599.99	$1.54	$77,480 - $83200
3 or more	Less than $1,540.00	$3.98	0 - $80,080
	$1,540.00 to $1,669.99	$2.78	$80,080 - $86,840
	$1,670.00 to $1,799.99	$1.54	$86,840 - $93,600

PROPOSED rates and thresholds			
# of children	**Gross weekly income**	**Subsidy per hour**	**Corresponding gross annual income**
1	Less than $800.00	$5	0- $41,600
	$801.00 to $1,199.00	$3.98	$41,600 - $62,400
	$1,200.00 to $1,299.99	$2.78	$62,400 - $67,600
	$1,300.00 to $1,399.99	$1.54	$67,600 - $72,800
2	Less than $920.00	$5	0- $47,840
	$921.00 to $1,380.00	$3.98	$47,840 - $71,760
	$1,380.00 to $1,489.99	$2.78	$71,760 - $77,480
	$1,490.00 to $1,599.99	$1.54	$77,480 - $83200
3 or more	Less than $1,030.00	$5	0 - 53,352
	$1,031.00 to $1,540.00	$3.98	53,352 - $80,080
	$1,540.00 to $1,669.99	$2.78	$80,080 - $86,840
	$1,670.00 to $1,799.99	$1.54	$86,840 - $93,600

Improving administration and uptake of CCA

60. [8]

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61. [8]

62. [8]

Targeted assistance to reduce hardship

63. Special Needs Grants **(SNGs)** are targeted Work and Income payments available to those who have an essential need, emergency need or require payment for specific circumstances. We recommend the introduction of a new SNG to assist with school-related costs for children.

64. The proposed SNG would replace existing hardship assistance currently available for these costs, which is mostly provided through recoverable assistance (ie it has to be paid back). The new SNGs would be non-recoverable, would provide a greater dollar-value of assistance and allow some additional essential items that are not currently covered.

Items available currently through recoverable assistance	School uniforms Stationary Computing equipment Tablet/device/iPad School camps/trips Exam fees
New items	Shoes Sports equipment/uniforms Sports club fees Backpacks Lunch boxes School transport*

65. To limit the amount that can be claimed each year, we recommend setting guideline limits of $500 per child per year. The $500 would not have to be claimed all at once: clients could be awarded multiple grants throughout the year until the cap was reached. Case managers would still have discretion to exceed the limits in exceptional circumstances.

Ruling out other potential assistance

66. We have also considered, for SNG/assistance in other areas, including:

- new SNGs for transport costs
- new SNGs for child orthodontics
- increasing the recoverable assistance limit for accommodation

67. We recommend against these options, as they are costly, and are less targeted specifically at children experiencing material deprivation.

Costs

68. Our best estimate for the school costs SNG is $13 million. The pool of potentially eligible clients is much larger than the group we expect to apply for the assistance. The forecasts are highly sensitive to assumptions around the uptake and amount granted. There is a risk that the uptake and costs of the new SNG will be higher or lower than forecast.

Administrative criteria

69. These payments would be made directly to the supplier after the families provide quotes for the items in question rather than given as cash. This reduces the chance of it being misspent, but increases administration costs – we estimate the cost of administering the payments to be $2 million per annum.

70. Alternatively, you could consider providing a similar direct cash payment to contribute toward school-related costs, similar to the School and Year Start Up Payments recently introduced for those receiving the Orphans and Unsupported Childs benefit. This would be simpler to administer and for families to understand, probably less expensive to administer, would achieve higher uptake among eligible families, and could be implemented from the start of the 2016 school year.

71. On the other hand, the cost of this option could be expected to be 7-8 times more expensive, depending on the policy parameters set, due to higher take-up, and a lower amount would likely need to be selected. It would also mean no control over what the money is spent on. For this reason, we do not recommend proceeding with this method of payment.

72. Introduction of the new SNGs may have a negative impact on work incentives due to the fact that when clients move into work, the extra income may push them over the income limits and result in ineligibility. You could extend eligibility for the school costs SNG to beneficiaries who move into work, by making it available for the first 3 months even if the individual's income was over the income limits. This would cost an additional $1.7m p/a. You could also look more generally at the availability of hardship assistance for those in work (see para 60-62 below)

Debt to government agencies

73. Debt is a significant issue for low income families, and there is currently a range of work across government focused on addressing this.
    - the Government has already made major changes to The Credit Contracts and Consumer Finance Act, which come into effect in June this year, significantly reforming consumer credit legislation.
    - [8]
    -

74. For this reason, you agreed at the last meeting that we would focus on public debt, and on proposals for debt forgiveness that could be developed in time for Budget 2015.

Options canvassed

75. Given the work above, this component of the material hardship package focused on public sector debt relief proposals that could be developed for Budget 2015. Options identified included:
    a) lump sum debt relief to reward movement off benefit, delivered in increments to ensure sustained off-benefit status
    b) lump sum incremental debt relief tied to on-going financial planning and partnership with a community budget advice service.
    c) matching repayments by former and or current beneficiaries with a level of debt relief (for example dollar for dollar for payments over a minimum threshold)
    d) increased debt relief powers tied to other actions by current and former beneficiaries to improve their circumstances, eg reducing debt or other outgoings.

76. Having explored a wide range of debt relief options, however, all appear to raise moral hazard issues. In particular, they could discourage self-reliance or the prior payment of debt, and could even encourage the creation of new debt. There would also be equity issues with most proposals, for example between current beneficiaries and those who have already left benefit and struggled to repay debt. In the light of these issues officials would not recommend any of the short term debt relief options identified for Budget 2015.

An emphasis on prevention

77. Overall, debt prevention is much more attractive and effective than relief. Proposals within the material hardship package, in particular increased financial support for families with children on benefit, and improvements to hardship assistance (making some components non-recoverable), are directly designed to reduce creation and reliance on debt (public or private).

78. If Ministers wanted to make even more progress on debt to public agencies, we would recommend a longer term work programme focused on preventing debt creation through information exchange and system improvements. We do not think anything concrete in this area could be achieved in time for Budget 2015, but further work could be signalled in this area as part of the announcement of the package.

Barriers to work

79. As requested, we have looked into the potential impact of 'stand-down periods' on people taking up work, particularly within the context of the 90 day employment trial period. We have also examined any other similar barriers to moving into employment that are related to current policy settings or administrative practice.

Stand-down periods

[8]

The withdrawal of hardship assistance

83. Concern about that the loss of hardship assistance if they leave the benefit system may deter people from moving into work, because they will be exposed to a greater level of risk should adverse events occur. Both Special Needs Grants and Recoverable

[3] Those on higher incomes can be subject to a two-week stand-down, but this is used relatively infrequently – officials are currently exploring proposals to remove the two week stand-down period as part of the Social Security Act rewrite.

Assistance are nominally available to those in work, but in practice few people in work are eligible - assistance is income and asset tested, and the income thresholds for losing eligibility are set at a fairly low level.

84. Possible options to make hardship assistance more accessible to those in work on low incomes could include:
    - changing the income limits for hardship assistance.
    - guaranteeing access to hardship assistance for 12 months after benefit cancellation, by waiving the income and asset test for this period.

85. These options could be costly, both in terms of the additional payments themselves and in terms of their administration. We could do further work on the cost and merits of either or both options should you wish.

Take-up of in-work financial assistance

[8]

Capitalising in-work transfer payments

88. Officials have undertaken some preliminary work on your idea of capitalising payments of transfer payments such as the Accommodation Supplement (AS), for people who enter and remain in work.

89. The idea of capitalising transfer payments has previously been raised in a number of different contexts. In the past, New Zealand had the universal child benefit which parents could capitalise over the lifetime of the child, and could put toward a deposit for a house. More recently questions have been raised about capitalising the AS for housing purposes. MSD is also trialling a work bonus payment, where people are rewarded with a lump sum payment if they move off benefit and remain in work for a certain length of time.

90. There are two main parts to the idea:
    - the provision of a lump sum bonus payment for being in work, and
    - the provision of that payment by capitalising existing financial assistance.

91. Officials view lump sum bonus payments for people remaining in work as a potentially promising form of financial incentive to work. MSD has previously recommended combining such payments with the provision of in-work support from a case worker – including ensuring access to all relevant financial support. We think this approach has

merit, and would recommend evaluating the current trial, and extending it depending on its success.

92. The capitalisation of existing payments such as the AS is more complicated to achieve. The key issue is that entitlement to these payments depends on a number of different factors (income, accommodation costs, marital status, etc) that can all change within short periods. As a result, capitalising payments that are not universally available tends to have a relatively high fiscal cost and poor targeting, as people who would otherwise be ineligible for the payment for some of the period, receive it. Most payments are also made to offset a specific cost (e.g. housing costs) so capitalising the payments could reduce the person's ability to meet their day to day costs.

93. On the other hand, capitalising payments for a short period effectively provides an income guarantee to the person, which could help to overcome some of the uncertainty of moving into work, and iron out some of the problems that lead to low uptake of these payments among working people.

94. If you do want capitalisation options explored more fully, we recommend doing so over a longer timeframe than Budget 2015 due to the complexities involved.

PART THREE: PRACTICAL CONSIDERATIONS

Legislative implications

95. The package contains a number of legislative implications, with changes required to both the Social Security Act and the Income Tax Act. The table below outlines the legislative impact of each component of the package.

Table 3: Legislative impact

Package component	**Legislative impact**
Benefit rates	
Rates increase	Change required to SSA to create new 'with child' benefit categories. Increases in rates can be achieved by order in council.
Flow-ons from rates increase	Unknown, further policy work required
Tax credits	
IWTC increase	Income Tax Act amendment required
IWTC abatement rate and threshold changes	Income Tax Act amendment required
Increase in MFTC	Order in Council
Benefit obligations	Social Security Act amendment required.
Childcare	
Changes to rates and thresholds	Order in Council
Hardship assistance	
New SNG for school costs	Ministerial Welfare Programme

96. You could consider Budget night legislation for all elements of the package except work obligations. While most of the package is expected to be non-controversial, changes to benefit obligations do tend to be contentious, and a fuller Select Committee process may therefore be desirable for this element. Obligations legislation could be introduced on Budget night but not be passed, and instead continue through a full select committee process.

Monitoring progress

Basic monitoring using MSD's Deprivation Index

97. Monitoring progress in addressing material hardship for children can be carried out at a population level using MSD's Deprivation Index (DEP-17). This ranks households based on responses to questions in Statistics New Zealand's annual Household Economic Survey (HES). MSD already reports on trends in material hardship in its annual Household Incomes Report, and will include DEP-17 trends starting with the 2015 report.

98. If the 2015 Budget package is implemented from 1 April 2016, the 2017-18 HES will be the first to pick up a full year's impact of the package, along with other impacts – this will be reported on in the 2019 Household Incomes Report.

Estimated impact of the package on measured material hardship

99. Based on the measured impact of the introduction of the Working for Families (WFF) package from 2004 to 2008, the impact of the proposed package is likely to be of the order of a one percentage point reduction using the more severe hardship threshold of 9+/17 (10% hardship rate).[4] A one percentage point decrease from a base of 10% (~100,000 children) drops the rate to 9% (90,000), a 10% reduction in the numbers. This is an order of magnitude estimate only, not a precise modelled figure. The impact for many individual recipient families will, however, be significant, and their average depth of hardship will decrease, even if the improvements do not get them all over the line for headcount purposes.

100. While the overall impact of this package on survey-based measures is likely to be small in the first year, the cumulative impact over time will be greater. In addition there are longer-term changes that will also have a positive cumulative impact. For example: a growing economy; an improving labour market; and extra support for sole parents moving into employment will all help.

Data gaps

101. There are two important aspects of material hardship for children for which we do not have up to date or ongoing information:

- The HES data does not include any child-specific items and activities that some miss out on but which most New Zealanders would want for all children (eg shoes, clothes, raincoats, ability to participate in school and after-school activities, go to the doctor and dentist, have friends over for a birthday party, have decent meals each day and a good bed for themselves, and so on). To date, we have relied on data from MSD's 2008 Living Standards Survey (LSS) for this information.
- It also cannot produce international comparisons. To do this requires some extra survey questions that are not in the HES. To date, we have also relied on the 2008 LSS for this.

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[4] Note that WFF was 5 to 6 times bigger but less well targeted than the current proposal.

- These data gaps could be addressed by new Living Standards Surveys in, say, 2016 and perhaps 2020. A 2016 survey would cost $1.0m.

Next steps

102. The Treasury will be working with the Ministry of Social Development (MSD) and Inland Revenue to further refine costings and impact analysis. We suggest that you delegate detailed interim decisions to the Ministers of Finance and Social Development.

103. A Cabinet paper will need to be prepared for consideration in late March/early April seeking agreement to the package, in time for Budget. We understand the Deputy Prime Minister will be taking this paper.

Andrew Kibblewhite
Chief Executive

APPENDIX: DISTRIBUTIONAL EFFECTS AND FLOW-ON CONSEQUENCES

Thinking about winners and losers from IWTC changes

Officials have modelled the number of ‘winners’ and ‘losers’ from the proposed IWTC changes (increasing the rate by $12.50 a week and increasing the abatement rate by 1.25 percentage points to 22.5%).

This is not straightforward because we have a package of several large moving parts that interact as families’ circumstances change. [5] In particular a significant proportion of families that appear to ‘lose’ from the IWTC changes do so because they are on the IWTC for only part of the year – the rest of the year they are likely to be on benefit and will ‘win’ from other parts of the package of changes, notably the proposed benefit increases (but also potentially things like childcare). Officials are now working on modelling the combined impacts of the benefit and IWTC changes.

Approximately 203,000 families have an average weekly gain of $8 from the IWTC changes. The increase to the abatement rate means that families on lower incomes gain more on average than those on higher 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.

Given the way that Working for Families operate there should be no losers among families that earn less than $88,000 and remain in work and receive the IWTC for the whole year (absent factors like administrative error).

The modelling indicates the increase to the abatement rate means that two groups of families ‘lose’ from the IWTC changes and are likely to lose from the package over all:

- Families with three or more children at the upper end of the IWTC income distribution. In general these will a bit worse off from the changes - 7,000 families earning over $100,000 a year lose an average of around $5 a week.
- A small number of families whose peculiar circumstance means they may lose because they do not receive the IWTC but do receive the FTC. These are families with relatively high incomes who are not in work who have access to non-benefit income (e.g. investments).

There are a third group of people where we do not know yet what the net impact of the IWTC and benefit changes will be. They receive the IWTC for part of the year and benefit for part of the year. In terms of the package they will receive slightly less through the IWTC but are likely to gain from other parts of the package notably increases to the benefit rates. Many of these families will be net gainers from the package.[6]

Working for Families - consequential decisions from the abatement increase

The cost of the increase in the In-Work Tax Credit has been partially offset by bringing forward the increase in the abatement rate from 1 April 2017 to 1 April 2016. A decision will need to be made on about what will happen on 1 April 2017 to the abatement rate and threshold. Officials recommend continuing with the abatement threshold decrease as planned as part of Budget 2011 (from $36,350 to $35,900) and also increasing the

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[5] There are technical issues associated with sample size which interact with security and confidentiality requirements from Statistics NZ. In addition, the analysis does not include the impact of the increase to the (MFTC), which essentially ‘tops up’ families to make sure they are better off than they would be on benefit, as the recipient population is too small to model. This analysis is by Treasury’s using its Taxwell microsimulation model and is based on the tax year.

[6] There are approximately 23,000 families in the second and third group; we expect the great majority in the third group. All of these families earn over the abatement threshold of $36,350.

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, and that the only fiscal impact in the forecast period is the cost of increasing the IWTC less the savings generated by increasing the abatement rate (around $70m in 2016/17), as outlined in part one of this report.

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.

Flow on consequences from benefit changes

MSD has undertaken analysis of where changes in benefit rates would cause a change in entitlement to other assistance. The analysis below outlines the biggest impacts, but there may be others.

Accommodation Supplement (AS)

Benefit rates feed into the AS formula in several ways. There are two types of impact on the formula:

- The amount of accommodation cost a person must pay themselves before AS kicks in is linked to benefit rates, so an increase in benefits will reduce AS entitlement for people not already receiving the maximum rate.
- AS entitlements are reduced once earnings are above a certain level (e.g. $508 per week for a sole parent). This level is linked to benefit rates and will rise, leaving people with incomes above the threshold better off by up to $9 per week (increasing the return from paid employment)

The result of this is:

- for beneficiaries, a reduction in AS entitlement of up to $6 or $7 per week – partially offsetting the increase in benefit rate
- a reduction in AS entitlement that is not offset by an increase in benefit rate for working people earning less than the AS abatement threshold. However, most will receive $12.50 increased in-work tax credit
- a reduction in AS of up to $7 per week, potentially offset by an increase in AS of up to $9 per week for non-beneficiary AS recipients earning above the abatement threshold (see below)

While some people will have a reduction in their AS, which is not offset by a benefit increase, we expect most of these people to receive an increase of $12.50 in their in-work tax credit, more than offsetting the loss. There will, however be a small group who do not receive IWTC and would be financially disadvantaged overall.

Student Allowances

As stated above, student allowances are set at the same rates as benefit payments to reduce the financial incentive to go onto a benefit rather than study. We recommend retaining this link, and the cost of this is [not yet] included in the package.

Special Benefit and Temporary Additional Support

Special Benefit and Temporary Additional Support (TAS) are ongoing payments made to people with circumstances that mean they have an ongoing deficiency of income, allowing for reasonable costs. Special Benefit is a grandparented payment available only to a small number of recipients.

While the formula is complicated, in general people receiving TAS would see a reduction in their TAS payment, partially but not completely offsetting the increase in benefit rate. People receiving Special Benefit may see a reduction in this payment that fully offsets the increase in benefit rate in some circumstances. In effect those receiving TAS or Special Benefit have already received a higher rate of overall benefit payment. We would therefore not recommend any action to address this issue.

Child Support formula

The formula for calculating a parent's child support liability or entitlement includes a living allowance for the parent and any dependents. This living allowance is based on benefit rates, so increasing benefit rates would result in a reduction in child support liability for some parents. As this reflects the policy intent of the new formula, we would not recommend any action to redress this, but it does mean that a number of liable parents would see an increase in disposable income and some non-beneficiary liable receiving parents would see a reduction in disposable income. There is a minimum level of child support payable, which would be unaffected by the benefit increase.

Other entitlements

There are a range of other consequential impacts that we have identified, that we will work through in more detail with joint Minsters. These include implications for:

- the income related rent for social housing clients
- various supplementary payments that are linked to main benefit rates (e.g. some drought assistance for farmers)
- income thresholds and cash asset limits for some supplementary assistance
- the blind subsidy.