The Treasury

Budget 2015 Information Release

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Regulatory Impact Statement

Budget 2015 package to address child material hardship in New Zealand

Department of Prime Minister and Cabinet

Ministry of Social Development

Treasury

April 2015

Agency Disclosure Statement

This Regulatory Impact Statement has been prepared by the Department of Prime Minister and Cabinet, Ministry of Social Development (MSD), and the Treasury, in consultation with Inland Revenue. It provides an analysis of a package of policy options developed for Budget 2015 to address child material hardship in New Zealand.

There are a number of factors that influenced the options identified and the shape of the final package:

- The fiscal envelope available for the package was based on Ministerial considerations of New Zealand's current fiscal position and other competing priorities. The Government indicated scalable options should be developed within a fiscal range for the package of up to $1 billion over four years ($250m per year).
- Because the Government's overall objective was to take more immediate action to reduce material hardship amongst children, Ministers signalled an interest in options that would relatively quickly improve the material resources available to a family through the package. Interventions that address the deeper causes and consequences of poverty and hardship would continue to be addressed through the wider work of Ministers across Government.
- Ministers expressed a strong preference towards options that could be fully implemented within a year of announcement in the Budget.

There are a variety of legitimate ways to think about and measure child poverty. The focus for this package was on children experiencing material deprivation at the more severe end of the spectrum.

MSD regularly publishes a range of indicators of child poverty, including robust, internationally credible measures of material hardship. However, while this data is good for identifying the numbers of children in varying degrees of hardship, and the groups most at risk, Government policies do not generally target assistance on the basis of direct material hardship information provided by households. For one thing, such an approach would be highly intrusive and administratively complex and costly, requiring much more detailed information from potential recipients than is currently collected. The main direct financial levers available relate to raising incomes or reducing direct demands on the family budget through subsidies or services.

This complexity around suitable policy tools meant that officials have used proxies to direct assistance toward the primary target group. These proxies included benefit status, income, and other factors. Because there is no single policy instrument that will perfectly hit the target group, officials have recommended a balance of initiatives to achieve good coverage of the target group (at the cost of some spill-over to families outside the target group), and tightly targeted initiatives that provide more assistance but only to small groups in hardship.

This Regulatory Impact Statement assesses the estimated impact of identified options and of the proposed package. The analysis of the impact on household incomes is, however, limited in its ability to accurately model at a population level the aggregate impact of the package. This is because there is no single model that can incorporate and consider all of the interventions in the package simultaneously. What the analysis does instead, is model the impacts of the components of assistance in the final package at a population level separately (with some analysis done across two major components of the package), and then provides a series of case-study scenarios that illustrate the net impact of the package for various types of ‘example’ families.

In addition to this impact analysis, MSD will monitor progress in addressing material hardship for children through MSD’s Deprivation Index (DEP-17), and other measures as appropriate. The 2017-18 HES will be the first to pick up a full year’s impact of the package. However, due to the wide range of factors that affect material hardship, it will not be possible to identify the specific independent impact of this package on levels of material deprivation.

The changes to regulations required to give effect to most components of this package are relatively modest, and largely involve changes to rates and thresholds within existing regulations and legislation.

The changes proposed will not impose additional costs on business, impair private property rights, market competition, or the incentives on business to innovate and invest, or override common law principles.

Finally, public consultation on the package was not possible due to Budget secrecy. However policy responses to child poverty have been widely debated in the public sphere, particularly through the Children’s Commissioner’s Expert Advisory Group (EAG) on Solutions to Child Poverty. Agencies involved with the development of the package also engage on a regular basis with academics, non-government organisations, advocacy groups, and other key stakeholders on policy responses to child poverty and material hardship more generally.

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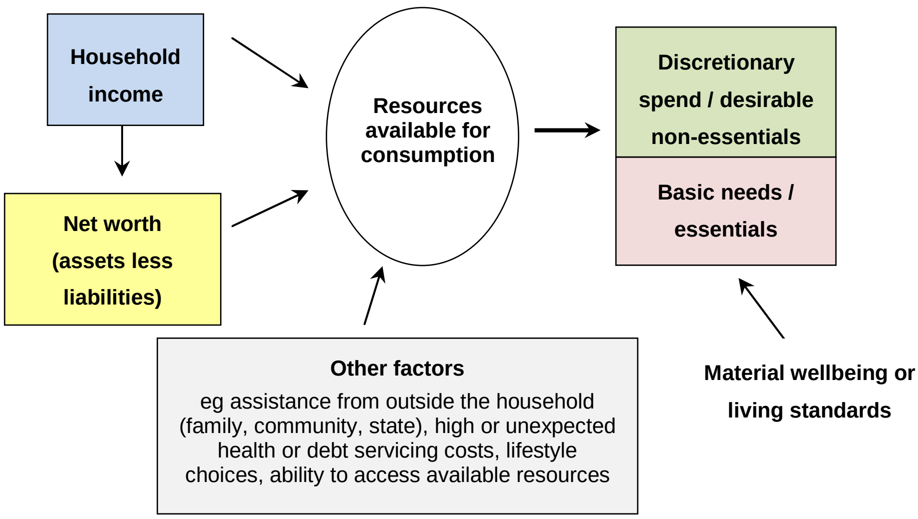
Status quo and problem definition

The wellbeing of New Zealand's children across multiple domains is a goal and ongoing commitment for parents, wider family members, communities, NGOs and governments alike. Society as a whole invests considerable resources into promoting the healthy development of each new generation both as a valued outcome in itself and also to "lay the groundwork for responsible citizenship, economic prosperity, healthy communities and successful parenting of the next generation".[1]

Material wellbeing is one aspect of overall child wellbeing – other domains are generally taken to include outcomes for physical health and safety, personal development and education, social and emotional wellbeing. Promoting the material wellbeing of children has value in its own right and because of its potential impact on other aspects of child wellbeing.

There is a particular public policy interest in children whose material wellbeing is below a minimum acceptable level – those identified as living in significant material hardship or deprivation. The Budget 2015 package of initiatives proposes steps to further address child material hardship, especially for those experiencing more severe hardship.

Household income is often used as an indicator of household material wellbeing. There is no doubt that income is a very important factor in determining a household's level of material wellbeing – especially for those with a minimal stock of basic household goods and appliances and low or zero cash reserves – but it is not the only factor.



The diagram above provides a framework for thinking through the relationship between household income, other factors and material wellbeing. For example, it shows how households with the same income can experience quite different actual day-to-day living standards because of different asset levels or because of different sets of "other factors".

[1] Shonkoff (2011), "Building a Foundation for Prosperity on the Science of Early Child Development", *Pathways*, Stanford University.

What is meant by "poverty" and "material hardship"

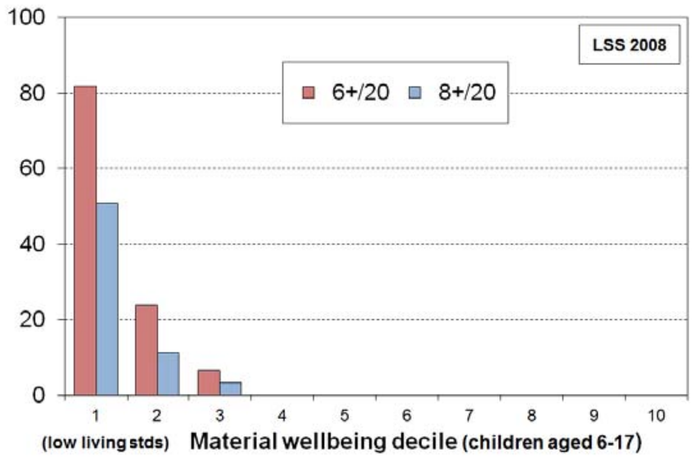
In the more economically developed countries (MEDCs) poverty is generally understood as "exclusion from a minimum acceptable way of life in one's own society because of a lack of adequate resources". A household is considered "poor" when its resources are not adequate to meet its consumption needs for the basics or necessities.

In MEDCs poverty has traditionally been measured using household income as an indicator of resources with poverty lines set in a variety of ways. In recent years more direct non-income measures of day-to-day living standards have been developed and are now widely used to measure hardship (deprivation). "Poverty" is sometimes used as a synonym for "unacceptably low income", and sometimes more generally to cover both low income and material hardship.

Whatever the language used, most would agree that there are children in New Zealand today whose actual day-to-day living standards are below a minimum acceptable level. It is not just that these children have less than others who are better off, it is that they are going without things that the bulk of New Zealand society considers that all children should have and none should be without.

Figure 1 below shows very clearly how different life is for children in households with low living standards. Households with children are ranked by their material wellbeing (living standards) from high to low using MSD's Economic Living Standards Index (ELSI), and the children from these households are grouped into deciles. Then, for each child in each household, the number of enforced lacks of basics is counted out of a list made up of 12 child-specific items and 8 general household items not in the index itself.[2] The day to day life experiences of children from poor families / families experiencing material hardship are typically very different from those of the vast bulk of the children (eg the top 70 to 80%), whose families report no deprivations at all from the list.

Figure 1: Life for children in the hardship zone is very different than for the vast majority of children: % with 6+ and 8+ deprivations out of a set of 20 (8 general household, 12 child specific)



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[2] Examples of the 12 child specific items are: no waterproof coat, no warm winter clothes, no separate bed, incomplete school uniform, unable to have friends to birthday party, participation in sport restricted "a lot" (because of lack of money or the need to use available money for other basics). Examples of the 8 general household deprivations: inability to keep main rooms warm, dampness and mould a major problem, received help with food / clothes from a food bank or community group more than once in last 12 months (same reasons as for child items).

While the use of material deprivation indices as well as income measures is a welcome advance, there are some fundamental aspects of the notion of "poverty" that mean that it will always be an awkward term. For example:

- Judgement calls are needed to decide where to draw the lines to identify the poor or those in material hardship. Different judgements lead to different reported levels of hardship or poverty, though the range of plausible thresholds is in practice relatively narrow once all the evidence is considered. This ambiguity can be dealt with in part by accepting that poverty and hardship exist on a spectrum from more to less severe, and by regularly using a range of measures to track progress.
- Whatever else poverty is understood to be it is in its essence an unacceptable state-of-affairs – it carries with it the implication that something should be done about it. How best to address child poverty is a vigorously contested area where empirical evidence, social norms, personal values, views on inter-generational equity, political philosophy and pragmatic compromise all play legitimate parts. Different judgements on these matters lead to different "solutions" to child poverty.

Rationale for addressing child poverty and material hardship

While there is a public policy interest in seeing an overall improvement in the material wellbeing of households of all ages ("raising living standards for all New Zealanders"), there is a particular interest in improving the lot of children who are living in households where their material wellbeing is below a minimum acceptable level (ie when "in hardship" or "in poverty").

Within the broader context of overall child wellbeing, there are three mutually reinforcing reasons for addressing child poverty and material hardship:

- to alleviate hardship for children in the 'here-and-now'
- as an investment to improve life chances and child wellbeing in other domains
- and to reduce potential harm and costs (including economic costs) to society.

Causes of poverty and hardship

There are many factors that lead to a household with children being "poor" or "experiencing material hardship". Causes of poverty and material hardship can be grouped in various ways. For example, looking at an individual household and its immediate circumstances three types of cause can be identified:

- the household income is too low, even with good budgeting and discipline
- the special demands on its budget are too high, from things such as: high levels of debt servicing; high net accommodation costs for renters; unusually high health-related costs; trying to fill major gaps in the stock of basic household furniture and appliances; high work-related costs (eg child-care and transport); and so on
- the household's ability to use its income and other resources efficiently is compromised by family dysfunction, poor choices, poor mental health or limited skill sets.

This level of analysis of causes gives some clear pointers for a policy intervention framework. However, the deeper drivers in behind each of the three types of cause need to be identified for a proper understanding of the full range of "causes".

A fuller framework for identifying causes of poverty and hardship is provided in an Appendix. It underlines the fact that there are a multitude of reasons for families experiencing poverty and material hardship, going beyond the three household-level aspects above.

In this wider context, causes can be categorised in another way – sometimes referred to as structural and individual causes. More structural causes range from high housing costs compared with income, to discrimination, to a constrained supply of suitable jobs that pay enough to live on, to current settings for main benefit levels and other income support. At an individual level they can also include low educational attainment, disability and illness, drug and alcohol abuse, mental health issues, budgeting issues, poor decision making, early parenthood without a robust support network, and misfortune.

A key driver of child poverty for households with adults on lower wages is too few paid employment hours in the household to ensure that resources meet needs. Having the equivalent of one lower-waged adult in full-time employment is not a guarantee that a household will have sufficient income, even with Working for Families tax credits and the Accommodation Supplement.

What is the government doing to address child poverty and material hardship?

All governments in MEDCs use a multi-pronged approach to addressing child poverty and hardship, reflecting the multiple causes outlined above. Governments seek to promote economic growth across the board and good employment opportunities for all who can be in paid work. Governments make special efforts to assist unemployed people into paid work. Substantial resources are committed to achieving good educational and health outcomes for children in childhood and later, thus improving their life chances of receiving good and ongoing income from employment as adults.

The re-distribution of income through financial support for low-income working families with children and for those with little or no market income is a central feature of what governments do to address child poverty and hardship. Governments also provide a range of services, directly and indirectly, to assist with family dysfunction and other factors, all of which increase the chances of lower income families experiencing material hardship. Successive New Zealand governments have used all these elements in their policy suite, and there is no evidence of New Zealand being an outlier in any of them.

In the 2013/14 financial year, $10.5 billion was spent on welfare benefits and other direct financial support. This includes $1.3 billion in Sole Parent Support, $2.6 billion on WFF Tax Credits, $1.1 billion on the Accommodation Supplement, and $186 million on Childcare Subsidy and OSCAR.

While government policies are a major component of the overall effort to reduce child poverty and hardship, the work needs the combined resources and energies of parents, wider families, communities, NGOs and businesses, as well as governments.

What do we know about child poverty and material hardship in New Zealand?

How many children in New Zealand are "in poverty" or "in hardship"?

There is no simple or single figure answer to that question that would command wide respect and support. As noted above, poverty and hardship exist on a spectrum from more to less severe. While an element of judgement inevitably comes into all discussions and assessments of poverty and material hardship, this does not mean that nothing definitive can be said, nor that any judgement is as good as another. The key to making robust assessments of the scope of the child poverty or material hardship challenge is to find relevant reference groups and to apply the same measure to each.

The following summary uses three different reference groups to show how today's children are faring, and in that context give an indication of the size of the challenge. The reference groups are the richer western European countries with whom NZ traditionally compares itself, earlier cohorts of children in New Zealand in the 1980s, and older New Zealanders today.[3]

In an international context, New Zealand's income poverty rates for children are around the middle of the OECD and the EU rankings using their standard relative income measures. However, these measures are essentially indicators of income inequality in the lower half of the income distribution, they do not (indeed cannot) produce international comparisons of the actual material living conditions that children experience.

Using the EU's 13 item material deprivation index[4], New Zealand's child hardship rate is 18% using their "standard" threshold (5+/13), a higher rate than almost all the richer western European nations with which we have traditionally compared ourselves (see Figure 2 below). New Zealand also has a relatively high ratio of child hardship rate (18%) to population hardship rate (13%) on the EU's standard measure. This reflects two factors:

- The hardship rate for older New Zealanders (aged 65+) ranks New Zealand with the best in the EU (3%), and this pulls down the overall population rate.
- NZ's lower GDP per capita (which the relative income poverty measures do not reflect in international comparisons).

The EU also uses a more stringent threshold to identify those in "severe material deprivation" (7+/13), and on this measure New Zealand's child hardship rate is 8%, the same as the UK, Ireland and Spain. This is still higher than the overall population rate (6%), but there is no evidence of New Zealand having a material hardship profile for children that is skewed towards deeper hardship.

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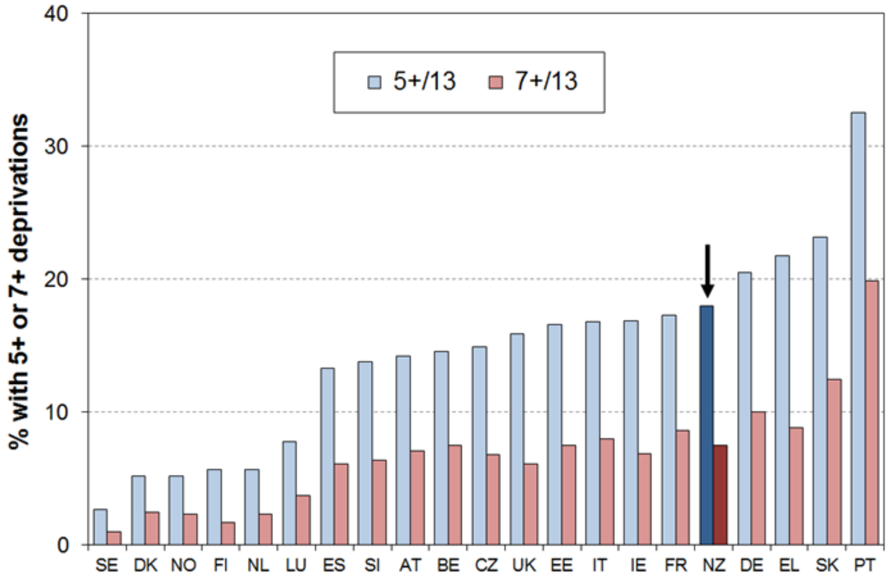
[3] This summary draws on MSD's 2014 Household Incomes Report, which is available at http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/index.html and on other MSD analysis of the 2008 Living Standards Survey

[4] The current official 9 item index is in the process of being replaced by the revised and more robust 13-item index.

Figure 2: Material deprivation rates for children (0-17 yrs): New Zealand compared to selected European countries, using the EU's 13-item index



SE	DK	NO	FI	NL	LU	ES	SI	AT	BE
Sweden	Denmark	Norway	Finland	Netherlands	Luxembourg	Spain	Slovenia	Austria	Belgium
CZ	UK	EE	IT	IE	FR	DE	EL	SK	PT
Czech Rep	UK	Estonia	Italy	Ireland	France	Germany	Greece	Slovakia	Portugal

Using incomes after adjusting for housing costs and looking just at New Zealand figures, three findings stand out:

- Poverty and hardship rates for children are much higher than those for older New Zealanders.
- Using relative measures, child poverty rates over the last two decades have on average been higher than in the 1980s (roughly double), reflecting the fact that housing costs for many low-income families are now much higher relative to income.
- Around 40% of children identified as poor come from families with at least one adult in full time work or self-employed. The issue of "the working poor" is one that most OECD countries face.

There is evidence from the recent SoFIE-based[5] research that highlights that there is a mix of mobility and immobility for families with children over the seven years of the survey. For example, 40% of children in families in the lower three deciles in 2002 were in the higher-income zone seven years later, though 60% remained. Unsurprisingly, the SoFIE research confirmed other international findings that the longer a family experiences low income, the higher is their reported material hardship. Overall, the results highlight the important of focusing on alleviating persistent low income.

Which children are more likely to be in families experiencing more severe hardship?

[5] SoFIE is Statistics New Zealand's longitudinal Survey of Family Income and Employment (2002 to 2009).

DEP-17 is a 17 item deprivation index used by MSD for measuring material hardship and for better understanding which groups of children are experiencing deeper hardship. The left-hand panel in Table 1 shows the child hardship rates for children in selected groups and using various hardship thresholds for DEP-17 (7+/17, 8+/17, and so on). The bottom row of the left-hand panel shows the overall child hardship rates and the corresponding number of children below various hardship thresholds. For example there are around 100,000 children (aged under 18 years) who live in families with a hardship score of 9+/17.

The right-hand panel shows the composition of those identified as being in hardship. It shows, for example, that the bulk of those in deeper hardship are from beneficiary families or from those moving between benefit and employment. Nevertheless one in three in more severe hardship are from working families (who received no main benefit income at all).

Table 1: Material hardship rates and composition for children in selected groups, using different material hardship thresholds (Living Standards Survey 2008)

	Hardship rates What % of this group of children are in hardship?					Composition What % of all children in hardship are in this group?				
	6+	7+	8+	9+	11+	6+	7+	8+	9+	11+
Family type										
Sole parent	46	40	32	27	16	48	53	58	65	70
Two parent	17	12	8	5	2	52	49	42	35	30
Benefit/work status (previous 12 months)										
Benefit (no move)	61	52	43	35	20	40	44	48	54	55
Some movement	42	35	29	23	13	10	10	11	12	12
Paid work (no benefit income)	15	11	7	5	2	50	46	41	35	33
Ethnicity (children) *(total, re-based to sum to 100%)*										
European	18	14	10	8	3	42	41	37	35	33
Maori	39	33	27	19	11	29	31	33	33	33
Pacific	51	43	36	30	19	20	22	24	28	31
Asian and Other	19	12	8	4	3	9	7	7	6	5
All (0-17 yrs) - %	**23**	**18**	**14**	**10**	**6**	**39**	**41**	**42**	**47**	**48**
All (0-17 yrs) – numbers	**240k**	**180k**	**150k**	**100k**	**60k**					

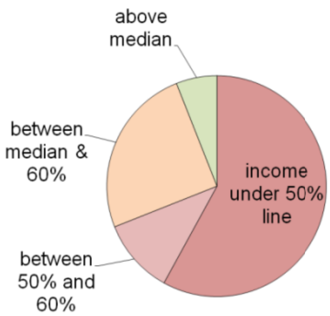
The household incomes of those experiencing material hardship

Household income is an important factor in determining the material wellbeing of a household. It is however not the only factor, as indicated in the high level framework on the first page and in the more detailed one in the Appendix.

It is not surprising therefore that the overlap between low-income households and households experiencing material hardship is much less than 100%. Some income-poor households do not experience hardship, and similarly some who do experience hardship have incomes above the usual income poverty thresholds. These differences occur because of the very different non-income factors and circumstances faced by different households. Looking at the bottom quintiles (20%) of both low-income households and households in hardship, the overlap is only around 45%, although for some groups the overlap is higher (eg around 60-70% for sole-parent households).

The pie chart below shows the distribution of household incomes (after deducting housing costs) for the 100,000 children experiencing deeper hardship. Around seven in ten (69%) are from households whose incomes are below the 60% of median income threshold. A few (6%) have incomes above the median.

The table below shows the percentage overlap between those in hardship and those in four different income bands. It shows that for those in deeper hardship, the overlap with those in low-income households is higher.



# of deprivations (out of 17)	6+	7+	9+	11+
# of children	**240k**	**180k**	**100k**	**60k**
Income bands….				
under 50% of median AHC line	47	51	58	58
between 50% and 60% lines	9	10	11	12
between 60% line and median	31	29	25	24
above the median	11	10	6	6

Child material wellbeing and their wider wellbeing across multiple domains

The material wellbeing of children is one aspect of their more general wellbeing across multiple domains. When looking at material wellbeing for children and wellbeing more generally, there is clear evidence that:

- emotionally warm, cognitively stimulating and physically safe home environments matter greatly for positive child development
- no single factor on its own determines poorer outcomes for children, but rather it is when multiple challenges or disadvantages are faced that poorer outcomes are much more likely
- material wellbeing (including affordable and good quality housing), sustainable employment, good education, and the development of life skills all play important roles in current and future child wellbeing
- many initiatives to address child poverty and material hardship can also have a direct positive impact on other dimensions of child wellbeing.

Objectives

The Government's overall objective for this package is to take immediate action to reduce material hardship amongst children, particularly those living in deeper levels of material deprivation, while taking into account other related policy objectives, including:

- supporting financial incentives and workforce attachment for households with children
- supporting children's development
- managing fiscal cost and ensuring value for money for tax-payers.

To achieve the stated objectives, a set of criteria has been established to assess the options. These include:

- **effectiveness of targeting**: due to the fact that we cannot target directly on the basis of material deprivation, the key criterion is the extent to which the option achieves a balance between:
    - extent of coverage – portion of children experiencing greater levels of material hardship affected by the policy change
    - depth of impact – how effective the option is in reducing severe material hardship amongst the group of children it targets
    - value for money – coverage and depth of impact relative to the cost of the intervention, and extent to which the option minimises the spillover of benefits to families who are not in material hardship.
- **impact on work incentives/employment outcomes**: the extent to which the option will promote incentives for beneficiaries to take up and enter employment, or otherwise affect their employment outcomes.
- **timeliness and administrative complexity**: the extent to which the option is timely, efficient and effective to implement, and administratively simple.[6]

Other key considerations within the context of this package were:

- how quickly each intervention would take effect - Ministers expressed a strong preference towards options that could be fully implemented within a year of Budget 2015), and;
- the costs of each intervention - the fiscal range for the full package was up to $250m per year).
- whether there was already work underway or planned by Government agencies in the same policy area - this became a relevant consideration in terms of whether to proceed with initiatives and put a premium on ensuring that any changes made as a part of the package did not cut across other work streams.[7]

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[6] Part of this criteria will include an assessment of operational costs.

[7] Significant examples of this were housing (where it was important that any initiatives that were part of the package did not cut across the Government's broader housing reform initiative), and Childcare Assistance (where it was important to be mindful of initiatives in the Early Childhood Education space - such as the Advisory Group on Early Learning set up at the end of 2014). In addition there were a number of areas where it was unlikely that proposals could be developed in time for decisions as part of Budget 15 because

Options and impact analysis

This section provides analysis on the broad package of policy options considered to reduce more severe child material hardship.

Officials considered a wide range of policy options that would quickly improve the material resources available to a family.

Because the Government's overall objective was to take more immediate action to reduce material hardship amongst children in the 'here and now', officials focused on policy options that could be quickly developed to:

- increase a family's income
- decrease the outgoing demands on a family's budget
- assist families to manage within the resources that are available to them.

There are a wider range of interventions that would address the deeper causes and consequences of poverty and hardship. Ministers signalled that these factors would instead be addressed through wider work across Government.

Ministers indicated a fiscal range for the package of up to but not exceeding $1 billion over four years ($250m per year), with scope to scale if circumstances require.

In designing the package, officials considered a number of different types of interventions. These options included:

- increases to incomes through:
    - Working for Families tax credits
    - benefit rates
- reducing demands on the family budget through:
    - increases to the Accommodation Supplement or other support for high housing costs
    - additional assistance with the costs of childcare/early childhood education (ECE)
    - assistance to alleviate problem debt
    - assistance with other costs eg through hardship assistance

A number of sub-options were considered in each of these categories, as outlined in the tables that follow.

Ministers also requested advice on introducing new obligations to promote employment or parenting that could be introduced alongside these options

Government also requested advice on new work search or parental obligations that could be introduced as part of any extension in assistance. The primary purpose of these obligations was to complement any increase in financial assistance by helping to ensure it goes only to those eligible for it, and to balance increased financial assistance with mutual obligations to improve income and circumstances. Officials examined a range of options, ranging from increased work expectations, new requirements to be introduced alongside existing 'social obligations', and measures to ensure entitlement and enhance the integrity of the benefit system.

Assessment of the individual interventions

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of their complexity or their interaction with other policies (e.g. ideas for the relief of debt to the Government, or more complicated changes to the Working for Families tax credits).

The analysis in the A3 tables below sets out the specific interventions considered for inclusion in the package and assesses their impact against the objectives. The next section discusses the selection of a combination of options into a balanced package.

Table 2: Income Support Options

Option	Description	Regulatory changes	Estimated costs	Impact on the household budget	Effectiveness of targeting	Impact on work incentives	Timeliness and administrative complexity	Summary
Increase working-age benefits for families with children **[included in package]**	$20 per week benefit increase for families with children	Change required to Social Security Act to create new rates for beneficiary couples with one or more dependent children. Increases in rates can be achieved by order in council.	$106m p/a	108,000 beneficiary families, gain on average $18.42. 26,000 working families gain, where average gain is $6.28	• Effective targeting (over two-thirds of children in the more materially deprived families are beneficiaries) • Incomplete coverage as some materially deprived children are in working families.	On its own, reduces the financial incentive to work	Would slightly increase the complexity of the current system by introducing a new rate for beneficiaries with children. **Could be implemented by April 2016.**	Larger increases would have a more meaningful impact on the household budget of families with materially deprived children, but would also reduce work incentives and mean less fiscal headroom for further interventions.
	$25 per week benefit increase for families with children		$132m p/a	108,000 beneficiary families, gain on average $23.10. 26,000 working families gain, where average gain is $7.76				
	$30 per week benefit increase for families with children		$158m p/a	108,000 beneficiary families, gain on average $27.68. 26,000 working families gain, where average gain is $9.27.				
Increase to sole parent benefit rates only	$20 per week increase to sole-parent benefit rates	Increases in rates through order in council	$90m p/a	96,000 beneficiary sole-parents, gain on average $23.10.13,000 working sole-parents, where average gain $8.07	• Similar but less complete coverage compared to options 1-3 above. Couples in beneficiary families are excluded from coverage.	As per above, but only affects sole-parents, not couples.	Relatively straightforward. **Could be implemented by April 2016.**	Does not provide coverage to beneficiary couples with children, and as such has significant equity issues.
Increase the In-Work Tax Credit (IWTC) **[included in package]**	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%.	Income Tax Act amendment required to change amounts and formulas.	$70m p/a	Approximately 203,000 families with children gain an average of $8 per week, families earning under $50,000 gain an average of $10. Around 18,000 medium and high income families will receive slightly less each week.	• Achieves good coverage of working families in hardship, but significant spill-over to families not in hardship • Excludes beneficiary families (around half of children in hardship)	Improves work incentives for key groups - increasing the IWTC increases the gap between benefit and work incomes, boosting the returns from working fulltime. Abatement changes slightly increase effective marginal tax rates for families earning above the abatement threshold, but increase is unlikely to result in significant changes in labour market behaviour.	These changes can be implemented within the current configuration of IRD's FIRST system **by 1 April 2016**.	Reaches working families in hardship and strengthens work incentives, but not well targeted at families in material deprivation as assists families further up the income distribution. Fits within the fiscal envelope available for the package.
Increases to the Family Tax Credit (FTC) for young children	Increase the rate for 0-2 year olds by $20 a week without abatement changes.	Income Tax Act amendment required to change amounts and formulas.	$130m p.a	Approximately 109,000 families (30% of FTC recipients) will gain $22 per week. No losers.	• Reaches both beneficiary and working families • Excludes families in material hardship with children older than 3/5 years old. • Significant spillover	Unlikely to have a significant impact on labour market participation, as payments go to both beneficiary and working families, and the increase is received over a period in children's lives when the labour market participation of sole parents and secondary earners is often relatively low.	The changes are not within the existing configuration of IRD's FIRST system. **They will involve increased complexity to WFF and require further work to determine whether the application date of 1 April 2016 is achievable.**	Increases support to families at a time of children's lives important to their development, and when labour market participation is low. Reaches beneficiary and working families, but excludes families with older children. Would also mean a household experienced a sudden drop in income once a child turns three/five years old.
	Increase the rate for 0-2 year olds by $20 a week, increase abatement rate by 1.25 pp, decrease the abatement threshold by $450 and also bring forward planned CPI increase		$110m p/a	246,000 gain, with average weekly gain $11, and around 110,000 lose, with an average loss of $6.				
	Increase the rate for 0-5 year olds by $20 a week, increase the abatement rate by 3.75%, decrease the abatement threshold by $1,350. Also bring forward planned CPI increase		$130 million p/a	240,000 gain, with average weekly gain of $17, and 116,000 lose, with an average loss of $16.				
Increases to FTC rates for (younger) subsequent children	Increase the rate paid for 0-12 year old subsequent children (i.e. not the eldest) by $9 a week, reduce the rate for subsequent children aged 16-18 years.	Income Tax Act amendment required	Net cost of approximately $130m in 2016/17.	191,000 gain, by an average of $13 per week.	• Covers both beneficiary and working families more than one child at least one of which is <12 (191,000 families); excludes many sole-parent families with one-child. • Amount of assistance received ($13 per week) is lower than other FTC options. Significant spillover.	Unlikely to have much effect on work incentives, as payments go to both beneficiary and working families, and the increase is modest in size. The impact would be slightly greater for families of younger children and less for older children.	The changes are not within the existing configuration of IRD's FIRST system. **They will involve increased complexity to WFF and require further work to determine whether the application date of 1 April 2016 is achievable.**	Increases support to families with children <12 and larger families; and reaches beneficiary and working families. Excludes one-child families and those with older children. Comparatively expensive, and amount of assistance lower than other FTC options

Create a new targeted Working for Families (WFF) payment for young children	Create a new, more targeted payment of $50 per week for 0-2 years-olds. This payment will abate on top of existing WFF payments (i.e. at the same time, not sequentially).	Income Tax Act amendment required	$160m p/a	Approximately 69,000 (19%) families, would gain an average of $45 per week.	• Covers both beneficiary and working families with children aged under 3, but excludes many families in severe material hardship with children aged over 3. • Will have a significant impact ($45 per week). • No losers. • Expensive, but tightly targeted and provides good value for money. • Minimises spillover.	This payment significantly increases (by 21.25c/$1) the effective marginal tax rates (EMTRs) of around 18,000 families, likely resulting in EMTRS from 50-90% due to the withdrawal of other payments. Payments would reduce once a child turns 3, however, which means changes happen over a period in children's' lives when the labour market participation of sole parents and secondary earners is often relatively low.	The changes are not within the existing configuration of IRD's FIRST system. **They will involve increased complexity to WFF and require further work to determine whether the application date of 1 April 2016 is achievable.**	Costly, but well targeted. Provides significant assistance to families with very young children who are more likely to be in material hardship; and reaches beneficiary and working families. Excludes families with children aged 3+. Significantly increases effective marginal tax rates, and significantly increases the complexity of the system

Table 3: Accommodation Supplement (AS) Options

Option	Description	Regulatory changes	Costs	Impact on the household budget	Effectiveness of targeting	Impact on work incentives	Timeliness and Administrative complexity	Summary
Increases to AS for families with children	Increase the AS subsidy rate to 80 percent and increase the AS maxima for all families with children	Amendment to Social Security Act required.	$73.9 million	Average weekly gain of $13.87. 95,113 winners, 278 losers.	Reasonably well targeted - children experiencing material deprivation tend to be living in families with high outgoing-to-income ratios. Other families that may not be in severe hardship will also benefit from these options but are likely to be experiencing high housing stress.	In principle, not expected to have a significant impact on work incentives as AS is available to both beneficiaries and non-beneficiaries, In practice, however, in-work take up of AS is relatively low, and so may have a small negative impact.	Requires legislative change. Not expected to be significantly complex to implement. **This option could be implemented by 1 April 2016**	Well targeted, most comprehensive housing option to alleviate material deprivation and give families with children a meaningful average gain per week. No clear consensus around potential for landlord capture and whether this will negate intended impact for families with children. Communication and take-up issues.
	Assist families not currently well supported by the AS structure, by creating a new maximum rate for sole parents with one child		$22.3 million	Average weekly gain of $17.94. 21,923 winners, 21 losers.				
	Assist families not currently well supported by the AS structure, by creating new maximum rates for 4 or 5 person households		$20.6 million	Average weekly gain of $19.51. 18,196 winners and 50 losers.				
	'Package' combination of above options to assist families with children:		$103.3 million	Average weekly gain of$19.02. 96,444 winners and 176 losers.				
Assist AS recipients in areas with the highest housing costs	Increase the AS subsidy rate to 80% and increase the maxima for Areas 1 and 2 only	Amendment to Social Security Act required.	$79.2 million	Average weekly gain of $12.54. 108,779 winners and 245 losers.	Not well targeted to families with children, with around 60 % of people benefiting being single people or couples with no children living in high cost locations.	As above, potentially some small negative impact	As above, not expected to be significantly complex **This option could be implemented by 1 April 2016**	Poorly targeted to children in severe material deprivation. Risk that this option will create inequity within the AS structure, with bigger gaps received in assistance between those living in different AS areas. Also involves concerns around landlord capture Take-up and communication issues not present in benefit rate options
Assist AS recipients at maxima, where this is out-of-kilter with market rents	Move Christchurch, Waimakariri and Selwyn up an AS Area	Can be implemented through order in council change to regulations.	$17.3 million	Average weekly gain of $29.51. 9,768 winners and 25 losers.	Only benefits AS recipients at the maxima – moderate overlap with children living in severe material deprivation with around half of the winners being families with children and the other half mostly single people.	As above, potentially some small negative impact	Likely to be more costly and complex to implement due to boundary issues. **This option could be implemented by 1 April 2016**	Moderate overlap with target group, main policy rationale for moving these locations to a higher maxima is to relieve pressure that increases in rents and their misalignment with the AS maxima has created. Take-up and communication issues not present in benefit rate options
	Move other locations with particular pressure points up an AS area		$9.3 million	Average weekly gain of $24.81. 6,377 winners and 7 losers.				
Assist people in most hardship in high cost locations	Increase the TAS upper limit to 35%		$16.4 million	Average weekly gain of $12.02. 28,571 winners.	Not well targeted – most people who benefit are single people in high cost locations.	Significant impact on work incentives with very high Effective Marginal Tax Rates because of a dollar for dollar abatement regime	Not expected to be that complex to implement. **This option could be implemented by 1 April 2016**	Not recommended as not well targeted and poor work incentives. Take-up and communication issues not present in benefit rate options

Table 4: Increasing Childcare Assistance options

Option	Description	Regulatory changes	Costs	Impact on the household budget	Effectiveness of targeting	Impact on work incentives	Timeliness and Administrative complexity	Summary
Target CCA towards low to mid incomes	Introduce a new: • lower threshold set at $600 with a new CCA rate of $6 per hour • middle threshold of $601-1000 with a CCA rate of $5 per hour Remove upper limit for high income earners receiving $1.54 per hour in CCA	Requires amendment to Social Security (Childcare Assistance) Regulations 2004, Schedule 1 Rates of childcare and OSCAR subsidies.	$53 million per year, grandparenting would cost around $4 million per annum.	Supports 62,000 children in low and middle income families. Reduces childcare costs for a one child household by: • up to $2 per hour for those earning under $601 • up to $1 per hour for those earning between $601-1000 Higher income households would lose on average $31 per week	Provides moderate value for money by targeting a higher rate of assistance to the lowest earning households in hardship, but has a high overall cost as a result of the increase for middle income households. The 'spillover' to middle income households not in hardship also limit the value for money of this option.	Improves work incentives for both low to middle income earners, particularly by reducing childcare costs as a barrier to work for the lowest earners families. Removing the top rate is unlikely to significantly alter employment decisions for high income earners who are better able to meet the cost of childcare without assistance.	Would not require significant changes to IT system or operational practice. Grandparenting, however, is complex to administer. **This option could be implemented by 1 April 2016**	Provides support to meet close to the cost of childcare for families likely to experience the most severe hardship, significantly reducing pressure on the household budget and creating strong work incentives. Option is more costly than option below, and has greater 'spillover' by assisting middle income earners where fewer families would experience material hardship. Also results in higher income households losing eligibility for assistance.
Increase CCA for low income families **[included in package]**	Introduction of a new lower income threshold of $800 at a higher rate of $5 per hour.	Requires amendment to Social Security (Childcare Assistance) Regulations 2004, Schedule 1 Rates of childcare and OSCAR subsidies.	$31 million per year	Supports around 49,000 children in low income households. Provides households with a lower assistance rate of $5 per hour. Reduces childcare costs for a one child households earning under $800 by up to $1 per hour.	Reduces the cost of childcare for the lowest earning households likely to experience hardship. Relative to option above minimises the potential for spillover by targeting assistance only to lower income earners likely to experience material hardship. Some middle income households in material hardship would not benefit from assistance to reduce childcare costs.	Creates positive work incentives for the lowest earning households by providing a higher Childcare Assistance rate. However, relative to option above, the work incentives are likely to be less strong as: • lower income households would receive a lower rate of $5 per hour (relative to $6 per hour under option two). • CCA rates would remain at the same level for middle income households.	Would not require significant changes to IT system or operational practice. Option is less complex as it would not result in grandparenting from the removal of the top assistance rate. **This option could be implemented by 1 April 2016**	This option provides the most effective balance between cost, coverage, and level of support for families experiencing significant hardship. This option will deliver a slightly lower rate increase across a wider number of lower income households, but will provide coverage across a higher number of low income families. On balance, the additional impact on work incentives and the household budget through the option above is unlikely to outweigh the additional $22 million required to implement it.

Table 5: Increased assistance with debt

Option	Description	Regulatory changes	Costs	Impact on the household budget	Effectiveness of targeting	Impact on work incentives	Timeliness and Administrative complexity	Summary
Relief of debt to the government	Lump sum debt relief to reward movement off benefit, delivered in increments to ensure sustained off benefit status	Unknown	Unknown	Write-off maxima options are $500, $750, and $1,000		Debt can create a disincentive for a parent to improve their financial situation through gainful employment. Parents perceive that an increase in income is going to result in an increase in repayment of debts previously incurred. This further reduces the perceived and real gains from employment and can trap the child and family in material deprivation.	Administration of all debt options is likely to be administratively complex. **Options unlikely to be developed in time for announcement in Budget 2015.**	All debt options appear to raise moral hazard issues (discouraging / failing to reward self-reliance or the prior payment of debt, and/or encouraging the creation of new debt up to any relief limit). Options also raise equity issues, for example between current beneficiaries and those who have already left benefit and struggled to repay debt
	Lump sum incremental debt relief tied to on-going financial planning and partnership with a budget advice service.	Unknown	Unknown	Write-off maxima options are $250, $500, and $7,50				
	Matching repayments with a level of debt relief (for example dollar for dollar for payments over a minimum threshold)	Unknown	Unknown	One dollar of Ministry debt written-off for every dollar of Ministry debt repaid				
	Increased debt relief powers tied to other actions by beneficiaries to improve their circumstances.	Unknown	Unknown					

Table 6: Increased assistance with other costs

Option	Description	Regulatory changes	Costs	Impact on the household budget	Effectiveness	Impact on work incentives	Timeliness and Administrative complexity	Summary
New Special Needs Grants for child-related items	A new category of SNG for newborn children that would cover child-related items available under current recoverable assistance, plus some additional items. $1000 limit.	Would require changes to Ministerial Welfare Programme	$7.7m p/a	Involves direct provision of essential items for newborns . Average of $908 for the first child and $420 for subsequent children. (Reaches an estimated 12,200 children p/a)	In general, hardship assistance is well targeted at children in families facing material hardship, can have a significant impact, and is good value for money overall.	Has a negative impact on work incentives – when someone moves into work and over the income limits they become ineligible for the assistance.	Complex to implement and administer - requires direct involvement with Work and Income case managers and significant IT changes. **Could not be implemented until November 2016** due to the current re-platforming of MSD's IT system	Provides essential items. Highly targeted, and would make a significant impact on deprivation for those who take it up. SNGs can already cover a wide range of costs Can also discourage financial independence and reduce incentives to work.
	A new category of non-recoverable SNG for children starting school (and returning each year). Would include all items covered by current recoverable assistance, plus some additional items. $500 limit per child per year.	Would require changes to Ministerial Welfare Programme	$13m p/a	Involves direct provision of essential school items. $265 per child who receives assistance (reaches an estimated 57,579 children p/a)	In general, hardship assistance is well targeted at children in families facing material hardship, can have a significant impact, and is good value for money overall.			
	A new SNG for orthodontic treatment (eg braces) for children. Limit $7,500 per child.	Would require changes to Ministerial Welfare Programme	~$11m p/a	Would benefit ~2,200 children p.a. The average value of assistance per child would be $5000.	Very targeted to a relatively small number of families. Poor coverage given its cost. A lower priority within the context of addressing material deprivation.	Has a negative impact on work incentives – when someone moves into work and over the income limits they become ineligible for the assistance. This provides a disincentive to work.	Complex to implement and administer - requires direct involvement with Work and Income case managers and significant IT changes. **Could not be implemented until November 2016** due to the current re-platforming of MSD's IT system	Provides significant help to a smaller number of families with children who need braces. Special needs grants may not be the best way of delivering this assistance. High costs and takes a long time to implement. Poor coverage given its cost. A lower priority within the context of addressing material deprivation.
Direct yearly payment for families with children	Low-income families could apply for a $500 direct payment per school-age child, per year, at the beginning of the school-year.	Would require changes to Ministerial Welfare Programme	$99.3m p/a	The families of 198,588 children would receive $500 per child.	• High coverage of beneficiary families • Moderate impact on hardship. • Relatively poorly targeted. • Less guarantee than other SNG options that the money will be used for the benefit of children	Could have a more pronounced negative impact on work incentives.	Administratively simple. **Can be implemented by January 2016**	Good coverage, and an administratively simple way of putting more cash in the hand of beneficiary families at an expensive time of year. Relative to other SNG options, less well targeted and less guarantee that the money will be used for the benefit of children. High costs.
Additional transport SNGs	Makes the current assistance for driver licence fees non-recoverable and car repairs a non-recoverable SNG; plus adds additional non-recoverable SNG's for other transport costs - vehicle licencing, WoF and term bus passes.	Would require changes to Ministerial Welfare Programme	~$15m p/a	Would benefit 20,000-40,000 people p.a. who would receive on average assistance worth ~$500 if also available to families without children.	Less targeted at material deprivation than the options above as it would apply to all families not just those with children, and does not provide child-related items.	Should have a positive impact on beneficiaries seeking work, as transport costs can be a key barrier to employment.	Complex to implement and administer - requires direct involvement with Work and Income case managers and significant IT changes. **Could not be implemented until November 2016** due to the current re-platforming of MSD's IT system	Helps with mobility and a significant household cost. Not targeted to only those with children and takes a long time to implement.
Increase recoverable assistance for accommodation	The guideline limits of Advances and RAPS for "Bonds and rent" would be increased to $2000.	Would require changes to Ministerial Welfare Programme	An additional $1.2m p/a would be loaned.	Would benefit 2500 families p.a. but current limits can be exceeded currently.	Less targeted at material deprivation than the options above as it would apply to all families not just those with children, and does not provide child-related items.	Has a slight negative impact on work incentives – when someone moves into work and over the income limits they become ineligible for the assistance. This provides a disincentive to work.		Would help families with one-off accommodation expenses including moving house. Low cost. Not targeted to only families with children. Takes a long time to implement.

Table 7: Changes to work search and parental obligations

Option	Option	Regulatory change	Administrative Cost	Wider fiscal Impact	Other impact	Summary
Lower youngest child age threshold for part-time work search obligations from 5 to 3 [included in package]	Lower youngest child age threshold for part-time work obligations from 5 to 3, with active case management provided to 100 percent of the group.	Involves changes to the Social Security Act 1964 to amend definition of work-tested sole parent support beneficiary, work-tested spouse or partner. Also involves amendment to Social Security (Exemptions under Section 105) Regulations 1998	$2.081 million	Supporting work search 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. 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. WSS breaks even 24 weeks after clients start the service, WFCM is not expected to achieve payback until after one year based on current trends.	Expected to have a strong positive impact on labour market outcomes for the group affected. Applies to a group that has proven amenable to work activation The proposed change mirrors trends in the wider labour market. Over the last 20 years, the largest gain in employment rate for all mothers has been in the group where the youngest child is aged 3–4 years (up 17.1 percentage points 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. 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, but there are some concerns about low-quality ECE provision.	Increasing work availability expectations for parents would lead to their earlier preparation for work and entry into the workforce, which can result in improved social and economic outcomes for parents and their children. However, this has to be balanced against child outcome considerations. Proposed approach applies to children who benefit most from participation in ECE, and at a higher age than Extended Parental Leave employment provisions.
	Lower youngest child age threshold for part-time work obligations from 5 to 3, with active case management provided to 80 percent of the group.		$0.734 million			
	Lower youngest child age threshold for part-time work obligations from 5 to 3, with active case management provided to 65 percent of the group.		No cost Note the Investment Approach already provides for and informs tailored service delivery.			
Lower youngest child age threshold for full-time work obligations from 14 to 12	Lower youngest child age threshold for full-time work obligations from 14 to 12	Involves changes to the Social Security Act 1964 to amend definition of work-tested sole parent support beneficiary, work-tested spouse or partner	This option has not been costed, but is likely to involve similar costs to those for the part-time age.		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.	As above, increasing work availability expectations for parents would lead to increased workforce participation for parents. There are issues with lowering the full-time test below the age at which a child can currently be left unsupervised.
Change the hours for the part-time work test obligations from 15 to 20 hours [included in package]	Involves changing the legislation to require clients with part-time obligations to work at 20 hours per week, while retaining discretion around the exact hours for a particular client. The current part-time work test is for an average of 15 hours, with discretion around the exact hours of work required .	Involves amending the current definition of 'part-time work' in the Social Security Act 1964	Negligible.	Small reduction in net government expenditure. Reduced benefit expenditure, partially offset by increase in expenditure through WFF tax credits.	At 20 hours, sole parents can go off benefit altogether and instead get supported through employment income and Working for Families tax credits. Under this option, 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.	This should increase the number of hours beneficiaries work, resulting in increased income, and also reduce benefit receipt.
Expand parental obligations	Beneficiaries with children must, when required, take all reasonable steps to ensure children enrolled with a dental practitioner.	Requires amendment to the Social Security Act 1964 and subordinate legislation.	Not costed. Additional funding would be required to add another social obligation to cover one-off IT and service delivery costs and the ongoing operational costs for service delivery. These types of obligations can be expensive to deliver – depending on the approach taken.	Where a service or programme is not already well provided for or funded, there would be additional programme costs, some small and some more significant. It is also likely that there would be costs or workforce implications for other agencies or departments.	Social obligations tend to be less controversial where supporting programmes and services are provided universally, and consistent with broader societal expectations of parents. Social obligations tend to be more contentious where requirements are not universally expected of all parents. The increase in uptake of beneficial services has the potential to improve children's outcomes, particularly amongst vulnerable groups. This needs to be considered in light of any potential negative impact of any sanctions imposed.	Most parental obligations that are more universal expectations are already in place, including: • enrolled with a general practitioner • up-to-date with their core Well Child/Tamariki Ora checks • enrolled in and attending approved ECE from age of three until school • enrolled in and attending school from age 5 or 6 Dental practitioner and LMC obligations were the preferred options, but would require further analysis.
	Beneficiaries who are pregnant must, when required, take all reasonable steps to enrol with a lead maternity carer.					
	Beneficiaries reaching a certain level of financial literacy.					
	Beneficiaries enrolling in some form of micro-saving scheme.					
	Beneficiaries attaining a NCEA level 2.					
	Beneficiaries attending a foundation-style social service and parenting course					
Introduce an annual benefit expiry and reapplication process for Sole Parent Support [included in package]	Require all Sole Parent Support beneficiaries to attend a face-to-face interview, with a work focus.	Involves a change to the Social Security (Expiry and Re-grant of Specified Benefits) Regulations 2013.	$5.2 million	For each beneficiary affected by the existing reapplication process for Jobseeker Support, the Ministry of Social Development estimates a saving in main benefit costs of $1,328 plus or minus $287. The cost of administering the reapplication process over the 21 month follow up period is estimated to be $232, giving a return of $5.71 for each dollar spent on administrating the provision. The Ministry of Social Development expects a lower reduction in benefit expenditure as a result of the extension of the reapplication requirement to sole parents, as this is a more complex group with different barriers to employment.	There is limited information about the extent to which the reduction in benefit expenditure is a result of new employment, employment income, or a change in circumstances that had previously been unreported, or other causes. Some Non-Government Organisations such as the Salvation Army and New Zealand Council of Christian Social Services have reported an increase in hardship and overcrowding, which they partly attribute to this policy.	The introduction of an annual benefit expiry and reapplication process is a means of ensuring eligibility for assistance and maintaining the integrity of the benefit system. It also sends a strong message that benefit receipt is temporary and clients must continue to meet obligations if they still require assistance. The cost of administering the process is more than offset by the reduction in benefit expenditure. There is limited information about its impact on clients and the reasons for off-benefit outcomes, and this provision would need to be implemented in such a way as to minimise the potential negative impacts identified by NGOs
	In the first year, all Sole Parent Support recipients attend a face-to-face interview, in subsequent years around half attend an interview, with other half required to reapply in writing.		$5.149 million in the first full year, $3.581 million in subsequent years			
	In the first year, half of all Sole Parent Support recipients attend a face-to-face, half required to reapply in writing. In subsequent years, one quarter attend an interview, remainder reapply in writing		$3.571 million in the first year, $2.817 million in subsequent years			
	Require all Sole Parent Support recipients to only reapply in writing		$2.2 million.			

Constructing the package

An important design consideration was how these options could be combined to best support the overall objective of the package, while also being consistent with other policy objectives (work incentives, children's development). In particular, a balance was needed between providing assistance to those out of work (who comprise a significant portion of the more materially deprived) and maintaining workforce attachment and incentives to work, recognising that paid employment is a very important and sustainable path out of material hardship in most cases.

As we cannot target interventions directly on the basis of material deprivation, in order to ensure that the package achieved high coverage of materially deprived children, officials proposed that any package should contain as its 'centrepiece' an option or options for directly increasing incomes for low-income households. Four main policy 'levers' were considered suitable for this:

- Family Tax Credit
- Accommodation Supplement
- benefit rates
- In-Work Tax Credit

With regard to the central, broad coverage options, officials' view was that:

- There is potential for meaningful increases through the FTC within the fiscal envelope indicated, but due to these fiscal constraints this is only if they are weighted towards families with pre-school aged children. Targeting increases at younger children aligns with evidence that the early years are the most important for child development, and minimises potential labour market impacts as this group is typically less responsive to financial incentives. However the resulting FTC options exclude significant numbers of families experiencing more severe material deprivation, and would also mean a household experienced a sudden drop in income once a child turns three years old.
- Increases to the Accommodation Supplement would be well targeted, particularly in light of evidence of high levels of housing stress and low residual incomes amongst families receiving the AS and particularly among beneficiaries. On the other hand, there remains no clear consensus about the degree to which increasing AS may result in higher rents generally, and therefore the degree to which the gains to target families would be eroded. Changes to AS are also complicated to communicate and take-up is imperfect.
- An increase in benefit rates is relatively well-targeted to families in material hardship, but misses working families in material hardship and could reduce financial incentives to work which in turn would reduce workforce attachment.
- On its own, the In-Work Tax Credit is limited to working families, and not well-targeted to those in deeper material hardship, as entitlement continues to families on relatively high incomes.

The issues with increasing benefit rates could in part be addressed by increasing benefits and the In-Work Tax Credit at the same time, and accompanying the IWTC changes with an increase to the abatement rate to target the increases to low-income working families. The option of a benefit increase and an IWTC increase has better coverage of families in deeper material hardship than the FTC options, is simpler to communicate and avoids the risk of landlord capture. Any concerns about incentives and workforce attachment could be further ameliorated by other options, namely increases to childcare assistance and an expansion of work search obligations for beneficiaries.

Mutual obligations

In considering greater work search obligations for beneficiaries, officials' preferred approach was a combination of stronger obligations and measures to ensure people are receiving the right support. This includes:

- Applying work availability obligations to parents on benefit when their youngest dependent child turns 3 (currently they apply when the youngest dependent child is 5). This aligns with expectations about children's participation in ECE, reflects patterns in the wider labour market, and targets a group who have responded well to work preparation support to date.
- Increasing the base part-time work-test requirement from 15 to 20 hours per week, while retaining the ability for case managers 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. At 20 hours work a week, sole parents are generally better off leaving benefit, because they become eligible for Working for Families tax credits.
- Introducing an annual benefit reapplication for SPS clients. This provides an opportunity to check clients are receiving the right support and are accessing relevant services to help them to meet their obligations.

Changes to parental obligations were considered across a range of areas and were ultimately rejected.

Childcare

Greater Childcare Assistance for working families was seen as a critical part of the package as it would reduce pressure on family budgets, align with the work expectations for beneficiary parents, and improve labour market outcomes. It would also allow children to be exposed to quality childcare and ECE, which has proven benefits, in particular for children from disadvantaged families.

To ensure increases were well targeted at those in deeper material hardship, and to fit within the fiscal envelope of the package, officials examined various options for a new lower-income threshold and higher assistance rate.

Officials identified a possible risk of childcare providers responding by increasing prices and 'capturing' the gains for families. These risks were lower with options that were more targeted and/or did not attempt to meet the full cost of childcare.

More targeted measures

Officials also considered a range of more targeted options. While not having the same breadth of coverage (ie some in material hardship would miss out), these options could achieve good levels of assistance, with relatively low spillover to groups not in material hardship. These were however ultimately discounted for different reasons:

- Some of the lower cost, more targeted AS options could also have been included in the package, but concerns about the risk of landlord capture of the assistance and fiscal cost led to them being set aside.
- Officials also considered that additional SNGs for newborns and school-costs should be included as they directly provide essential items for children from the poorest families. However, they were ultimately set aside because of fiscal cost, and concerns about the inability to implement them before November 2016. In addition, there are already a wide range of SNGs in existence.
- As longer-term work on the prevention of debt was being progressed by other Ministers, officials considered proposals for public debt forgiveness. However, all the conceivable options were unable to be ready in time for Budget 2015. They were also likely to be administratively complex and involve significant moral hazard and equity issues. On balance, officials recommended addressing debt through preventive work instead.

Components of the final package

The main components of the final package are:

- an increase of $25 per week (after tax) in benefit rates for families with children, giving 108,000 beneficiaries an average gain of $23.10, and 26,000 working families an average gain of $7.76 (due to consequential impacts on other assistance)
- increases to incomes for low-income working households through Working for Families, including a $12.50 per week increase in the $60 rate of the IWTC, benefiting approximately 203,000 families with an average weekly in-the-hand gain of $8
- an increase in the abatement rate for Working for Families tax credits of 1.25 percentage points, to 22.5%, to better target these payments towards low-income families
- increases to childcare assistance for low-income working families, by introducing a new lower income threshold combined with a higher assistance rate, providing 18,000 families on average an additional $22.96
- an expansion of work availability obligations for beneficiary parents, by:
    - lowering the age of the youngest child point at which beneficiaries' part time work search obligations begin from five to three years
    - changing the hours of the part-time work sought from 15 to 20 hours a week (while retaining discretion around the exact hours required)
    - introducing a requirement for Sole Parent Support recipients to reapply for the benefit and reconfirm eligibility on an annual basis

There are also a range of consequential changes that will occur as a result of these new policy settings, including:

- an increase of around $12 to the Minimum Family Tax Credit to retain the margin between benefit and work for around 4,000 people
- changes which occur as a result of the formula used to calculate Accommodation Supplement entitlement, as the entry threshold and the abatement threshold are both linked to the benefit rate
- an increase in the rent that social housing tenants receiving a benefit will pay[8]
- an increase to Student Allowances of $25 for those with children, to match the benefit increase
- a number of other smaller flow-on changes, including:
    - adjustments to Temporary Additional Support

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[8] The Income Related Rent charged to social housing tenants is set at 25% of their income up to a threshold based on New Zealand Superannuation rates. An increase in benefit rate will therefore result in an increase in the Income Related Rent that social housing tenants who are in receipt of a main benefit are charged. For a person receiving only benefit income, the rent increase would be $6.25. The increases are expected to result in savings of $22.968 million over four years to the appropriation for providing "Part Payment of Rent to Social Housing Providers."

- small increases in child support payments for some working parents that are liable
- adjustments to rates of supplementary assistance that are linked to benefit rates – such as drought assistance to farmers and bridging finance for people entering work
- a reduction in TAS for a small number of recipients.

The package also contains changes and small funding bids to manage some of the flow on effects of the core options and support the implementation of the package. The additional changes include:

- increases to Out of School Care and Recreation Programme funding for providers as a result of cost pressures for providers caused by increased demand as a result of the CCA increase
- a transitional payment for a small number of households who will be financially disadvantaged as an unintended consequence of the package
- adjustments to the income thresholds used to determine eligibility for the Community Services Card.[9]

[9] The Community Services Card thresholds include the In Work Tax Credit as income, and without these changes some families who receive a boost in income through this package would lose eligibility for the Card. The package therefore includes an increase to the relevant thresholds by the same amount as the In Work Tax Credit increase. As these increases are designed to retain the current population eligible for the Card, they are not expected to have any significant impact on household resources, nor any fiscal costs.

Net impacts of the package

The following section analyses the impacts of the package, with a particular focus on the impact on household incomes, and on measured material hardship.

The analysis begins with distributional analyses of each component of the package on its own, and then considers the net impact of the changes in combination.

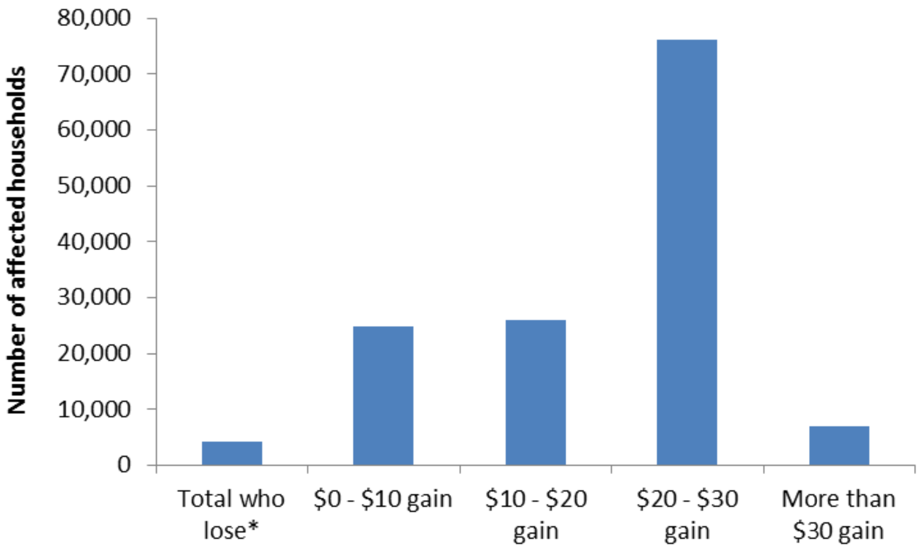
Benefit increase

Due to the $25 benefit increase, 108,000 families with children on benefit will gain $23.10 per week on average, with most receiving $20-$30 extra from the increase.

Due to the flow-through effects of the increase in benefit rate, around 26,000 non-beneficiaries will also see average gains in weekly income of $7.76. This is mainly due to the impact on the formula used to calculate Accommodation Supplement entitlement, as the entry threshold and the abatement threshold are both linked to the benefit rate.

As a result of the benefit rate change, around 4,000 non-beneficiary households will see a small decrease in weekly income from the Accommodation Supplement, as a result of the increased entry threshold (many of this group will, however, be eligible for the In-Work Tax Credit or Childcare Assistance, and receive an overall increase in income as a result).

Figure 3: Impact on incomes of the benefit increase (including impact on supplementary benefit assistance)



* Many of this group will, however, be eligible for the increases through the IWTC and/or CCA

Table 8 (below) shows that sole parent families will benefit more than couples from the benefit increase. This is consistent with the objectives of the package, as sole parent families are at greater risk of experiencing more severe hardship.

Table 8: Average increase for those who gain, by family type

Family type	No. of children	No. of families	Average gain per family type
Couple	1	8,593	$14.36
	2	8,376	$13.35
	3	3,977	$14.72
	4+	2,805	$16.95
Sole parent	1	55,846	$21.58
	2	32,824	$20.56
	3	13,087	$21.70
	4+	6,932	$22.85

Increases to Working for Families tax credits

Officials have modelled the impacts of increasing the base rate of the In-Work Tax Credit from $60 to $72.50 a week, and increasing the abatement rate for Working for Families tax credits from 21.25 to 22.5c/$1.

According to information from Treasury's micro-simulation model Taxwell, the changes will mean approximately 203,000[10] families will gain more through Working for Families, with an average gain of $8. Families on lower incomes gain more on average from the In-Work Tax Credit changes than those on higher incomes (due to changes in the abatement settings). 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.

Officials have used administrative data from Inland Revenue to estimate the number of financially disadvantaged households, They estimate that there is a group of around 18,000 medium and high income families who are likely to be financially disadvantaged.

There is also a further group of up to around 10,000 families who could potentially have a small increase or decrease in weekly incomes as a result of the package. These households earn over the abatement threshold of $36,350 and have partial year entitlement to the IWTC (they will gain or lose depending on whether the IWTC increase outweighs the loss from the higher abatement)

Information from Taxwell also indicates that this group of 10,000 families are not likely to be a significant contributor to the numbers of financially disadvantaged families. This suggests that the actual number of disadvantaged families is likely to be closer to 18,000.

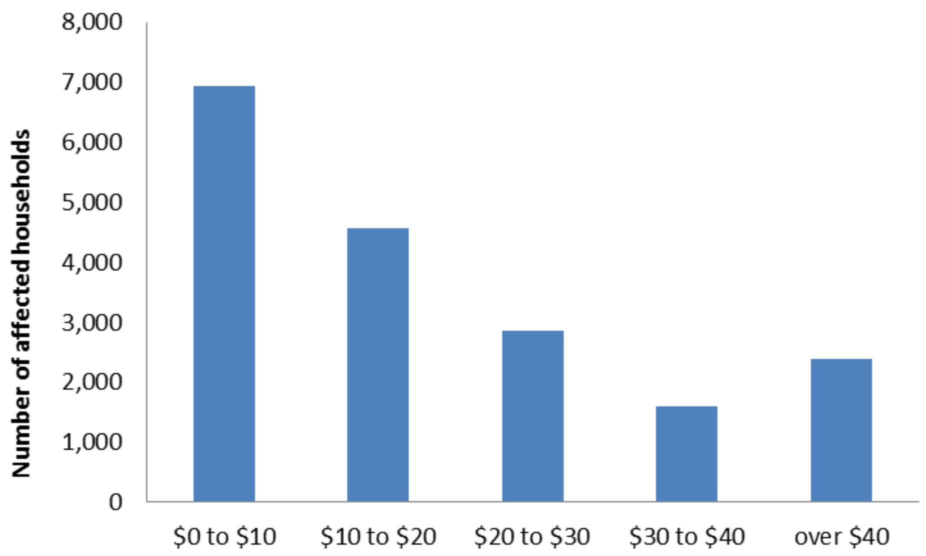
[10] These results were modelled in Treasury's microsimulation model, Taxwell, based on the Household Economic Survey. Access to the Household Economic Survey data was provided by Statistics New Zealand under conditions designed to give effect to the security and confidentiality provisions of the Statistics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

Increases to childcare assistance

The average weekly gain across all eligible households receiving Childcare Assistance (childcare subsidy or out of school care and recreation subsidy) is $22.96 per week. The total number of households that benefit from the policy change at a point in time is around 18,000.

Figure 2 (below) shows how the gains from the childcare assistance changes are distributed. The larger gains accrue to people with more than two children.

Figure 4: Amount gained from the childcare increase



Summary of impact

The table below summarises how the different components of the package will benefit families.

Table 9: Numbers of families who benefit from main components of the package:

Intervention	Number who will benefit	Average gain per week
Benefit rate increase for families with children	108,000 beneficiary families with children	$23.10
	26,000 working families with children	$7.76
In Work Tax Credit increase	203,000 working families with children	$8.00
Increase to childcare assistance	18,000 working families with children	$22.96
Automatic adjustment to Minimum Family Tax Credit	3,500 working families with children	$12.00

Table 10: Numbers of families who are likely to be financially disadvantaged

Household characteristics	Number of families	Reason
Families who receive WFF tax credits and earn over around $88,000 per year	13,700	The abatement rate increase more than offsets the increase in the In-Work Tax Credit.
Families who do not receive IWTC or benefit, but are eligible for the FTC and earn over the abatement threshold of $36,350 per year.	4,500	The abatement rate increase will reduce their Family Tax Credit, but they will not receive any increase from the In-Work Tax Credit or benefit rate rises.

Across the benefit and Working for Families changes, families that are financially disadvantaged will see an average reduction in assistance of around $4 per week.

Aggregate net impact by family type

Because an overall distributional analysis of the *aggregate* ('net') impacts of the package is not possible, the approach taken in this RIS is to model the net impacts on the level of individual families. We have modelled the net impact for different family types in the hypothetical scenarios in table 11 below. In all cases, the wage rate is assumed to be $15 per hour and the family is based in South Auckland, paying a close to median rent for suitably sized accommodation. The table illustrates the impact of the package both by component of the package, and overall.

Table 11: 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)**		
Employment hours/benefit type	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
Accommodation type	Private rental	Private rental	Private rental	Private rental	Private rental	Private rental	Social (IRRS)	Private rental
Benefit			+$25.00			+$25.00	+$25.00	
In Work Tax Credit	+$12.50	+$12.50		+$12.50	+$12.50			+$12.50
Minimum Family Tax Credit								+$12.00
Family Tax Credit		-$2.52			-$2.52			
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**

Estimated impact of the package on measured material hardship

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).

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 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.

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. MSD's ongoing reporting on trends in low-income (poverty) rates and hardship rates will reflect this cumulative impact rather than the impact of the separate components.

Effects on labour market participation

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

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

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

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

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

There are two key components of the package that are expected to impact on financial incentives to work:

- the increases in main benefits, balanced against the increase in the minimum family and in-work tax credits, and increases in Accommodation Supplement for some working families – are expected to have a small negative impact on financial incentives to work, and on labour force outcomes

- the increases in Childcare Assistance (which includes Out of School Care) – are expected to have a strong positive impact on financial incentives and labour market outcomes, for the group affected

In addition, the increase in work availability 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.

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

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

Impact of work availability expectations on parents and children

Increasing work availability expectations for parents will lead to earlier preparation for work and entry into the workforce, which can result in improved social and economic outcomes for parents and their children. However, this has to be balanced against other considerations. Earlier work availability expectations could reduce the amount of time that parents have available for the care of their children, which could impact on their child's health and developmental wellbeing.

The evidence suggests that:

- Maternal employment is generally beneficial for the children of sole mothers, mainly due to improved parental mental well-being and self-esteem, increased income and increased work-education values.[11]
- Long duration childcare (such as that required for full or substantial part-time work) from birth to a year or so in age, or lower quality care, is less likely to be beneficial and more likely to be outcomes-neutral or harmful, depending on the home circumstances and environment it replaces.
- The home environment remains by far the most important domain for child development – high quality out-of-family care very early in life (from under

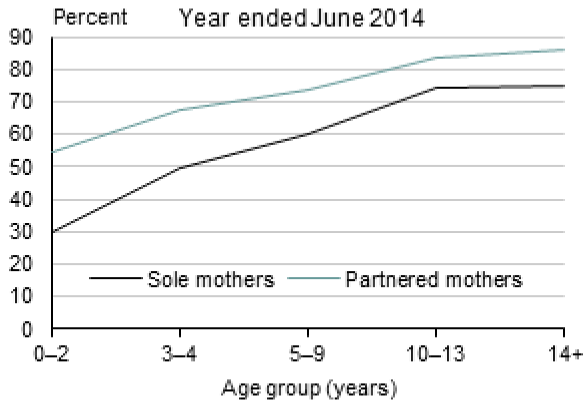
[11] Brewerton, M. (2004), Influences of Maternal Employment and Early Childhood Education on Young Children's Cognitive and behavioural Outcomes. Published by the Ministry of Women's Affairs.

one year of age) can be particularly beneficial where it replaces a home environment that is violent, abusive, highly chaotic, or neglectful.

- Exposure to high quality ECE appears beneficial for most children from around three years of age, with, at worst, neutral impact
- The children of beneficiaries face a greater risk of educational underachievement, and are more likely to benefit from quality Early Childhood Education from an earlier age
- From a career perspective, women are probably best advised to go back to work around six months after childbirth.[12]
- From a child development perspective, the OECD found "in general a return to work of the mother before the child is 6 months old may have more negative than positive effects. However, the effects are small and not universally observed."[13]

Officials have considered this proposal in relation to contemporary norms for parents returning to work. As Figure 5 shows below, by the time their youngest child reaches age three, half of all sole parents and two-thirds of all partnered mothers are already in paid employment in New Zealand.

Figure 5: Employment rate of mothers: by age group of youngest dependent child



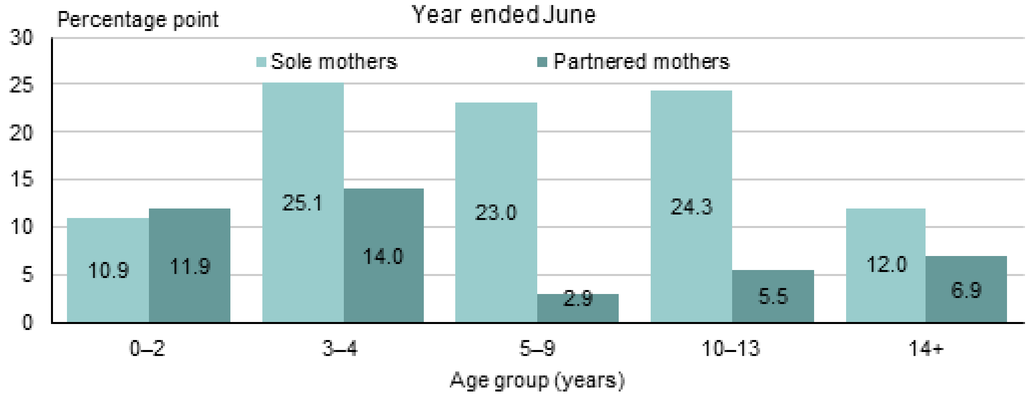
Source: Statistcs New Zealand

This reflects significant changes in employment patterns over the past two decades. As Figure 6 shows below, over the last 20 years the largest gain in employment rate for all mothers has been in the group where the youngest child is aged 3–4 years (up 17.1 percentage points). Sole mothers with children in particular have seen large increases in employment, with the most significant increases for those with children age three and four.

[12] OECD (2011) *Doing Better for Families*, OECD Publishing

[13] OECD (2011) *Doing Better for Families*, OECD Publishing

Figure 6: Change in employment rate of mothers between 1994 and 2014: by age group of youngest dependent child



Source: Statistics New Zealand

Total costs of the package

The total cost of the package is estimated at $71.8 million in 2015/16, $240 million in 2016/17 (the first full year) and $800 million over the four-year forecast period in the Budget. Ongoing Work and Income operational costs will be around $6 million per annum. The costs of each component are outlined in Table 12 below.

Table 12: Costs of the material hardship package

The total cost of the package is estimated at $790.313 million over four years.

Package component	**2015/16**	**2016/17**	**2017/18**	**2018/19 and outyears**
Benefit rates increase	33.025	132.139	132.105	133.820
Student Allowance increase	1.883	5.946	6.093	6.120
In Work Tax Credit increase and abatement changes	19.000	73.000	69.000	66.000
Minimum Family Tax Credit increase	0.400	1.600	1.800	1.800
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 due to higher tenant income	(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 for 52 week reapplications and work search obligations	8.350	6.872	3.618	3.618
Inland Revenue implementation costs	0.600	0.230	-	-
TOTAL	70.575	244.538	237.895	237.305

Consultation

Named officials from the following Government agencies were either consulted (subject to budget secrecy requirements) or contributed to the development of the package:

- Department of Prime Minister and Cabinet
- Ministry of Social Development
- Treasury
- Inland Revenue
- Ministry of Education
- Ministry of Health
- Ministry of Business, Innovation and Employment

Formal public consultation on the package was not possible due to budget secrecy rules. However, policy responses to child poverty have been widely debated in the public sphere, particularly through the Children's Commissioners Expert Advisory Group (EAG) on Solutions to Child Poverty.

Agencies involved with the development of the package also engage on a regular basis with academics, non-government organisations, advocacy groups, and other key stakeholders on policy responses to child poverty and material hardship more generally.

Implementation plan

The preferred options will be implemented together from 1 April 2016. As the package is designed to be a balanced whole, this is expected to achieve the best overall results.

The IT and implementation costs for the Ministry of Social Development associated with the changes to benefit rates, childcare assistance, changes to obligations and benefit reapplication processes, are $22.458 million over four years. $7.70 million of this is relatively fixed costs of implementing the components of the package, while the remainder of the cost mostly relates to the staffing levels for the 52 week benefit reapplication and new work search obligations. $3.963 million of the costs in the 2015/16 year relate to IT costs.

This package will be announced as part of Budget 2015. The Ministry of Social Development is currently working through detailed implementation plans. These will include communications to beneficiaries in particular about the new work search obligations and annual benefit reapplication for sole parents. In line with previous processes, the Ministry is not funded to work intensively with 100% of the new group with work search obligations, nor to conduct a face to face assessment for all benefit reapplications. As a result, MSD will use investment approach disciplines and data analytics to determine the groups of sole parents to actively work with and conduct face-to-face interviews with.

The increases to CCA in the package focus on the level of financial entitlement available to individuals. However, there are known problems with the administration of CCA which can lead to low uptake of this assistance. MSD is working on possible improvements to these systems, and will report back on possible enhancements that will support this package, in the context of Budget 2016. There are also known issues with the take-up of financial assistance by some working families, which may work against the intent of other payments like Accommodation Supplement, and MSD will report back to Joint Ministers on these issues following Budget 2016.

Inland Revenue estimates its operational costs will be $0.830 million. These costs are associated with the delivery of the changes to the In-Work Tax Credit per family rate, and the abatement rate for Working for Families Tax Credits.

Table 13: Implementation costs and proposed timings for the package

Preferred option within the package	Complexity of change required to implement	Cost of implementation through to 2019	Lead implementation agency
Increases to Childcare Assistance for low income families	Requires minor changes to regulations, IT systems and operational policy.	$0.727m	Ministry of Social Development
Strengthening part time work obligations – reducing trigger age from 5 to 3 years.	Requires changes to primary legislation under the Social Security Act 1964 to extend current work obligations for parents. More complex IT changes and operational policy required.	$1.042m	Ministry of Social Development
$25 per week increase to all benefit rates (including Student Allowance) for families with children	Requires moderate changes to IT systems and processes.	$2.136m	Ministry of Social Development
$12.50 increase to the in-work tax credit, and changes to abatement	Requires minor changes to the Income Tax Act, IT systems and operational policy. Changes can be made within the current configuration of IRD's FIRST system.	$0.830	Inland Revenue
52 week benefit reapplication	Modest IT systems change, but complex staff-client interaction	$11.469m	Ministry of Social Development

Monitoring, evaluation and review

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.

In addition, Statistics New Zealand will be expanding the list of deprivation item collected in the Household Economic Survey (HES) to enable the ongoing international comparison of hardship rates using the European Union's 13 item deprivation index, starting with the 2015-16 HES.

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.

Conclusions

- The focus for this package is on those children experiencing deeper material deprivation, taken to be the most disadvantaged 60,000-100,000 children.
- The Government indicated a fiscal range for the package of up to but not exceeding $1 billion over four years ($250m per year), with options to scale the package.
- Officials identified a range of policy options that could improve the material resources available to a family within 12 months of Budget 2015.
- Ministers also requested advice on introducing new mutual obligations that could be introduced alongside these options to encourage action to increase income or improve circumstances.
- The Budget 2015 package for children in material hardship implements the following main components from 1 April 2016:
    - an increase of $25 per week (after tax) in benefit rates for families with children
    - a $12.50 per week increase in the $60 base rate of the In Work Tax Credit
    - an increase in the abatement rate for Working for Families tax credits of 1.25 percentage points, to 22.5%,
    - increases to childcare assistance through a higher assistance rate for families on the lowest incomes
    - an expansion of work availability obligations for beneficiary parents, by:
        - lowering the age of youngest child point for starting beneficiaries part time work search from five to three years
        - changing the hours of part-time work sought from 15 to 20 hours a week (while retaining discretion around the exact hours required)
        - introducing a requirement for Sole Parent Support recipients to reapply for the benefit and reconfirm eligibility on an annual basis.

- The individual components of the package are expected to benefit households in the following ways:

Intervention	Number who will benefit	Average gain per week
Benefit rate increase for families with children	108,000 beneficiary families with children	$23.10
	26,000 working families with children	$7.76
In Work Tax Credit increase	203,000 working families with children	$8.00
Increase to childcare assistance	18,000 working families with children	$22.96
Automatic adjustment to Minimum Family Tax Credit	4,000 working families with children	$12.00

- These positive impacts are targeted predominantly to low and lower-middle income families, while a small number of higher-income families lose on average a few dollars a week.
- The package's net impact on the household budgets of a variety of affected family types was modelled. These families benefited by $17.44 to $49.58 per week as a result of the package.
- Officials' overall judgement is that the package is well balanced in terms of its impact on financial incentives to work, with broadly neutral impacts on financial incentives to work and slightly positive impacts likely in terms of employment outcomes overall.
- The package is expected to cost around $240 million per annum.

Appendix

Material hardship for children: causes/drivers and consequences