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Office of the Minister for Social Development

Chair Cabinet

SUPPORT FOR CHILDREN IN HARDSHIP BILL: REQUEST FOR PRIORITY IN THE 2015 LEGISLATION PROGRAMME AND APPROVAL FOR INTRODUCTION

Proposal

- 1 This paper seeks approval to:
 - include the Support for Children in Hardship Bill (the Bill) in the 2015 Legislation Programme with a priority of 2 (must be passed in 2015);
 - introduce the Support for Children in Hardship Bill to the House on Budget Night 2015 (21 May 2015) for immediate first reading and referral to the Social Services Committee for consideration.
- 2 Subsequent approval will be sought to refer a suite of regulations required to support the Bill to the Executive Council including, but not limited to: Student Allowances Amendment Regulations, Social Security (Expiry and Re-grant of Specified Benefits) Amendment Regulations, Health Entitlement Cards Amendment Regulations, Social Security (Childcare Assistance) Amendment Regulations, Social Security (Exemptions under Section 105) Amendment Regulations, and Social Security (Financial Assistance to Financially Disadvantaged Persons) Regulations.

Background

- 3 On 13 April 2015, Cabinet agreed to a Support for Children in Hardship Package of significant policy changes to assist families with dependent children experiencing deeper or more persistent material hardship [CAB Min (15) 11/12 refers]. The Support for Children in Hardship Package (the Package) provides more financial resources to families who are struggling, while continuing the Government's emphasis on paid work as the best route out of hardship.

Policy

- 4 The key components of the Support for Children in Hardship Package agreed to by Cabinet include:
 - strengthening work availability obligations for beneficiary parents, by:
 - lowering the age of youngest child at which part-time work search obligations for beneficiaries begin from five years to three years
 - changing the hours of part-time work sought from 15 to 20 hours a week (while retaining flexibility around suitable employment and the exact hours required)

- increasing Childcare Assistance (including both the childcare subsidy for pre-schoolers and the OSCAR subsidy for after-school and school holiday programmes) for the lowest income families from \$4.00 an hour to \$5.00 an hour
- introducing a requirement for Sole Parent Support recipients to reapply for the benefit and reconfirm eligibility on an annual basis
- increasing certain working age benefit rates for families with dependent children by \$25 a week, giving households an average gain of around \$20.16 in the hand each week
- a transitional change to enable the payment of financial assistance to the small number of people financially disadvantaged as an unintended consequence of the net effects of the package
- increasing incomes for low-income working households through Working for Families, by way of a \$12.50 per week increase in the \$60 rate of the In Work Tax Credit (IWTC), and a \$12.00 increase in the Minimum Family Tax Credit (MFTC)
- a consequential increase to maintain current eligibility to the Community Services Card when the In-Work Tax Credit increases by \$650 (\$12.50 per week) for families with one or more dependent children
- increasing the abatement rate for Working for Families tax credits from 21.25c to 22.5c in the dollar, to better target these payments towards low-income families.

Possible contentious aspects of the Bill

- 5 Strengthening work availability and seeking obligations for beneficiary parents of dependent children is likely be an aspect of the Bill that will attract interest and scrutiny during the Select Committee phase. The decisions agreed to by Cabinet will extend part-time work availability obligations to Sole Parent Support recipients and work-tested spouses or partners of main beneficiaries with a youngest dependent child aged 3 to 13 years (currently 5 to 13 years).
- 6 Public consultation has previously been carried out on the introduction of part-time work availability obligations for parents on benefit with a child over 6 as part of welfare reforms in 2010, and again in the subsequent extension of these obligations to parents with a child over 5 through reforms in 2012. The widely reported Welfare Working Group's "Recommendations Report", published in 2011, also traversed work availability for parents on benefit and recommended that they "be required to seek part-time paid work of at least 20 hours per week once their youngest child is three years of age".
- 7 Further extension of part-time work availability contained in this Bill is important in maintaining an appropriate balance of incentives that will better support families into work and out of hardship, and to support children's participation in quality Early Childhood Education from three years of age or earlier.

Overview of legislative changes

- 8 The Bill is required to make the necessary legislative changes to the Social Security Act 1964, the Education Act 1989, the Income Tax Act 2007, and the Taxation (Annual Rates and Budget Measures) Act 2011 to introduce the increased benefit rates for beneficiary and student parents, the increased tax credit financial assistance and amended abatement, extended work availability obligations, and related policy proposals set out in the package to support children living in material hardship. All of the changes are intended to be implemented

from Friday 1 April 2016, with the exception of the Childcare Assistance increase which will be implemented from Monday 4 April 2016.

9 The specific legislative changes required through this Bill are set out below.

Strengthening work availability through Social Security Act Amendments

- 10 The Government continues its strong focus on paid employment by strengthening work availability expectations for parents on a benefit. Stronger obligations to seek work will help to reduce benefit receipt, increase the number of beneficiaries who are working, increase paid work hours, and increase earned income. Participation in work provides the most sustainable pathway out of hardship for families.
- 11 Amendments to the definitions of part-time work-tested beneficiary, work-tested sole parent support beneficiary, and work-tested spouse or partner are needed to align the age at which beneficiaries are required to take all reasonable steps to enrol their children in Early Childhood Education (3 years) with the age that part-time work availability obligations start. This means part-time work obligations would take effect when the youngest dependent child turns 3, rather than the current age which is 5 years.
- 12 The definition of part-time work for the purposes of the Act will also be changed from work that averages not less than 15 hours a week to work that averages not less than 20 hours a week (while retaining flexibility around suitable employment and the exact hours required).
- 13 A consequential amendment to section 61A(1A)(a) of the Act (Emergency Benefit) is also included to correct an anomaly where full-time work availability obligations do not apply to partners of Emergency Benefit recipients until their youngest child reaches 18 years of age, whereas other beneficiary parents are expected to seek full-time work from when their youngest child reaches 14 years of age.

Increase to the main benefit rates and student allowances for families with dependent children

- 14 Nearly two-thirds of children in deeper or more persistent material hardship are in families supported by a benefit or families moving between benefit and work. As wages increase, these families' incomes have fallen behind those of most working people, even those on the lowest incomes. The Government recognises there is scope for an increase in the amount that beneficiary families with dependent children receive, to help ensure that they can provide for their children and pay for family necessities. A matching increase is made to Student Allowances for students with dependent children to ensure an incentive is not created to move from study to benefit status.
- 15 The Support for Children in Hardship Package increases the rates of certain main benefits and student allowances for each household with one or more dependent children by a total of \$25 per week, effectively after the 1 April 2016 annual general CPI adjustment is applied on the same day.
- 16 It is not intended that the \$25 increase is to be adjusted upwards by the CPI on 1 April 2016, but it is intended to be included in the rate that is adjusted for CPI on each subsequent 1 April.
- 17 In the benefit system this is achieved through amendments to section 61HA of the Social Security Act including the introduction of a provision setting out how the CPI adjustment to relevant main benefit rates, and the Package increase, are to be achieved in April 2016.

- 18 The Bill includes a matching amendment to section 303 of the Education Act 1989. The amendment will ensure the CPI adjustment applies to the rates of student allowances before the increases made through the Package.
- 19 Increases to the net rates of the following benefits and allowances for sole parent and couple recipients with one or more dependent children are achieved through amendments to schedules in and regulations under the Social Security Act 1964 and the Education Act 1989:
 - 19.1 Jobseeker Support and Emergency Benefit
 - 19.2 Supported Living Payment
 - 19.3 Sole Parent Support
 - 19.4 Youth Payment and Young Parent Payment
 - 19.5 Student Allowances.

Increase to In Work Tax Credit and Minimum Family Tax Credit rates, and to the abatement of Working for Families Tax Credits

- 20 Material hardship is an issue that is not just restricted to children from households in the benefit system, but also to those in low income working families. To provide additional support to low income working families on top of the childcare increase, the Bill lifts the base rate of the In Work Tax Credit (IWTC) from \$60 to \$72.50 a week, while also raising the abatement rate for Working for Families payments from 21.25 cents to 22.5 cents in the dollar to ensure support is well targeted.
- 21 As a consequence of the Package, there will also be an increase to the Minimum Family Tax Credit (MFTC) by \$12 for the 4,000 people in receipt of this payment (achieved by Order in Council). The MFTC is a guaranteed minimum income tax credit for working people with dependent children on the lowest incomes, which is adjusted to retain the margin between benefit and work.

Omnibus Bill

- 22 The Bill is an omnibus Bill that includes amendments to the Income Tax Act 2007 and the Taxation (Annual rates and Budget Measures) Act 2011 to make the increases to the rates of In Work Tax Credit, and to the abatement of Working for Families Tax Credits, in addition to the amendments to the Social Security Act 1964 and the Education Act 1989 set out above.

Transitional provision

- 23 Increasing main benefit rates for beneficiaries with dependent children can impact on other entitlements such as Accommodation Supplement, Child Support, rates and thresholds of supplementary assistance, and Temporary Additional Support income. The majority of these “flow-on” impacts are a standard and appropriate result of an increase to main benefit rates. There may, however, be a small number of people in exceptional circumstances who are financially disadvantaged as an unintended consequence of the net effects of the Package.
- 24 The Bill establishes a new regulation making power under the Social Security Act to support the development of a financial assistance payment for people who are financially disadvantaged as a direct and unintended consequence of the net financial impact of the Package.

Subsequent suite of supporting regulations

- 25 Significant elements of the package are addressed in regulations rather than primary legislation.
- 26 Subsequent Cabinet approval will therefore be sought to introduce a suite of supporting regulations including but not limited to:
- 26.1 Student Allowances Amendment Regulations to increase Student Allowance rates for students with dependent children
- 26.2 Social Security (Expiry and Re-grant of Specified Benefits) Amendment Regulations to extend annual reapplication to Sole Parent Support recipients
- 26.3 Health Entitlement Cards Amendment Regulations to retain current eligibility for the Community Services Card when the In-Work Tax Credit increases
- 26.4 Social Security (Childcare Assistance) Amendment Regulations to increase the highest rate of Childcare Assistance from \$4.00 to \$5.00 per hour for families earning less than:
- \$800 per week with one dependent child
 - \$920 per week with two dependent children
 - \$1,030 per week with three or more dependent children.
- 26.5 Social Security (Exemptions under Section 105) Amendment Regulations to align the ages at which work obligations may apply and when certain exemptions from work obligations apply. These address circumstances such as sickness, injury or disability; where a child has special needs; or where a spouse has recently died
- 26.6 Social Security (Financial Assistance to Financially Disadvantaged Persons) Regulations to establish financial assistance for people in exceptional circumstances who are financially disadvantaged as a direct and unintended consequence of the net financial impact of the Support for Children in Hardship package.

Regulatory impact analysis

- 27 A Regulatory Impact Statement (RIS) was prepared in accordance with the necessary requirements, and was submitted at the time that Cabinet approval of the policy relating to the Bill was sought [CAB Min (15) 11/12].

Compliance

- 28 The Bill complies with the following:
- 28.1 principles of the Treaty of Waitangi;
- 28.2 rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;
- 28.3 regulatory disclosure statement requirements;
- 28.4 principles and guidelines set out in the Privacy Act 1993;

28.5 relevant international standards and obligations; and

28.6 LAC Guidelines: Guidelines on Process and Content of Legislation, a publication by the Legislation Advisory Committee.

Consultation

29 Consultation on the Bill was limited due to the Budget sensitivity of the Support for Children in Hardship Package. Restricted consultation was carried out with named officials in the Department of Prime Minister and Cabinet, the Treasury, the Ministry of Education, the Ministry of Social Development, and Inland Revenue.

Binding on the Crown

30 The Income Tax Act 2007 is binding on the Crown. Neither the Social Security Act 1964 nor the Education Act 1989 is binding on the Crown (Section 27 of the Interpretation Act 1999 provides that "No enactment binds the Crown unless the enactment expressly provides that the Crown is bound by the enactment."). The nature of the amendments made by the Bill to these Acts do not require reconsideration of this position.

Creating new agencies or amending law relating to existing agencies

31 Not applicable

Allocation of decision making powers

32 Not applicable

Associated regulations

33 A number of associated amendments to regulations are required to give effect to the policy agreed by Cabinet.

34 Subsequent approval will be sought to refer a suite of regulations required to support the Bill to the Executive Council, including but not limited to: Student Allowances Amendment Regulations, Social Security (Expiry and Re-grant of Specified Benefits) Amendment Regulations, Health Entitlement Cards Amendment Regulations, Social Security (Childcare Assistance) Amendment Regulations, Social Security (Exemptions under Section 105) Amendment Regulations, and Social Security (Financial Assistance to Financially Disadvantaged Persons) Regulations.

Other instruments

35 Not applicable

Definition of Minister/department

36 Not applicable

Commencement of legislation

37 The Bill has a commencement date of 1 April 2016 except for the two amendments to section 61HA of the Social Security Act and section 303 of the Education Act (amendments relating to the annual CPI adjustment of rates of benefits and allowances), which will need to come into force when the Bill receives Royal assent. This is to provide that the amended provisions are

in effect in time for the 2016 CPI adjustment. Although the legislation giving effect to the CPI adjustment commences on 1 April 2016, it is made in February each year and the provisions as amended by the Bill need to be in force before this legislation is made (February 2016).

Parliamentary stages

- 38 I propose that the Bill has a category 2 priority and should be passed by December 2015. I propose that the Bill should be introduced on Budget Night 2015 (21 May 2015) for immediate first reading and referral to the Social Services Committee seeking report-back by November 2015.

Recommendations

The Minister for Social Development recommends that Cabinet:

- 1 **note** that on 13 April 2015, Cabinet agreed to a Support for Children in Hardship Package of significant policy changes to assist families with dependent children experiencing material hardship [CAB Min (15) 11/12];
- 2 **note** the Package aims to get more resources to families with dependent children who are struggling, while continuing the Government's emphasis on paid work as the best route out of poverty;
- 3 **note** that the Support for Children in Hardship Bill and associated regulations give effect to the decision referred to in recommendation 1 above;
- 4 **approve** the inclusion of the Support for Children in Hardship Bill on the 2015 Legislation Programme with a priority of 2 (must be passed in the year);
- 5 **approve** for introduction the attached Support for Children in Hardship Bill;
- 6 **approve** the Minister for Social Development making any minor amendments to the Bill that are required, consistent with policy intent;
- 7 **agree** that the Bill be introduced in the House on Budget Night 2015 (21 May 2015) for immediate first reading and referral to Select Committee;
- 8 **agree** that the Government propose that the Bill be:
 - 8.1 referred to the Social Services Committee for consideration and reported back by November 2015;
 - 8.2 enacted by December 2015;
- 9 **note** that subsequent Cabinet approval will be sought to refer a suite of regulations required to support the Bill to the Executive Council, including but not limited to: Student Allowances Amendment Regulations, Social Security (Expiry and Re-grant of Specified Benefits) Amendment Regulations, Health Entitlement Cards Amendment Regulations, Social Security (Childcare Assistance) Amendment Regulations, Social Security (Exemptions under Section 105) Amendment Regulations, and Social Security (Financial Assistance to Financially Disadvantaged Persons) Regulations.

Hon Anne Tolley
Minister for Social Development

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