The Treasury

Families Package Information Release

Release Document

March 2018

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MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Inland Revenue
Te Tari Taake

THE TREASURY
Kaitohutohu Kaupapa Rawa

ORANGA TAMARIKI
Ministry for Vulnerable Children

Joint Report: Families Package: Key design issues

Date:	3 November 2017	**Report No:**	T2017/2415 REP/17/11/1045 IR 2017/566 REP-MVCOT/17/11/215
		File Number:	SH-13-5-2-4

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Discuss** with other Ministers and **agree** to the recommendations	Wednesday, 8 November 2017
Minister of Housing and Urban Development (Hon Phil Twyford)	Note recommendations	Wednesday, 8 November 2017
Minister for Social Development (Hon Carmel Sepuloni)	Note recommendations	Wednesday, 8 November 2017
Minister of Revenue (Hon Stuart Nash)	Note recommendations	Wednesday, 8 November 2017
Minister for Children (Hon Tracey Martin)	Note recommendations	Wednesday, 8 November 2017

Contact for Telephone Discussion (if required)

Name	Position		Telephone	1st Contact
Eina Wong	Senior Analyst, The Treasury	[4]	N/A (mob)	
Polly Vowles	Principal Policy Analyst, MSD			✓
Murray Shadbolt	Senior Policy Advisor, Inland Revenue		N/A (mob)	
Phillipa Campbell	Ministry for Vulnerable Children/Oranga Tamariki			

Actions for the Minister's Office Staff (if required)

Return the signed report to the Treasury, Inland Revenue, the Ministry of Social Development and the Ministry for Vulnerable Children/Oranga Tamariki.

Note any feedback on the quality of the report	

Enclosure: No

Joint Report: Families Package: Key design issues

Executive Summary

This report seeks decisions on key design issues for the major components of the Families Package. These decisions are required to meet the manifesto commitment to pass legislation for the Families Package in the first 100 days. Note that because this report has been prepared quickly, officials have not yet had the opportunity to provide full quality assurance to the figures used in this paper. Further refinements will be provided in subsequent reports.

The decisions sought in this paper will:

- Impact the form of the overall Families Package, and agencies' ability to successfully implement the changes on time
- Inform the detailed design of the different components (e.g. Best Start, Winter Energy Payment),
- Impact the total fiscal cost of the Families Package, and
- Influence the administrative costs of implementing the Package.

Nature of decisions sought

Element	**Key questions**
Winter Energy Payment	Eligible population
	Legislative vehicle
Best Start payment	Eligible population
	Delivery agency
Accommodation Supplement	Confirmation of settings
	Implementation date
Family Tax Credit	Implementation date
	Whether increases should be 'passed on' to kin and non-kin carers
Public communications	Supporting materials

Major decisions

The most significant policy decisions in this paper relate to:

1. Confirming implementation dates and corresponding cost impacts
2. Eligible population and corresponding cost for Winter Energy Payment, the Best Start Payment

It is also important for Ministers to note that officials have not yet quantified the total cost of the Package, this includes implementation costs. As decisions are made on the scope of the package, updated costings will be provided.

Next steps

- We will meet with Ministers on Monday 6 November to discuss and confirm decisions in this paper
- We will provide additional reports between 6-17 November seeking further design decisions.
- This will provide the basis for Cabinet decisions by 27 November and the drafting of legislation for introduction in mid-December.

Recommended Action

We recommend that you:

a **consult** with other portfolio Ministers on the recommendations below

Agree/disagree.

Families Package – implementation date

b **agree** that the changes to the tax thresholds and Independent Earner Tax Credit from Budget 17 will be repealed, effective from 1 April 2018

Agree/disagree.

c **note** that the implementation date of the Families Package has significant fiscal, administrative and user impacts.

d **Note** that there are two possible start dates, 1 April 2018 and 1 July 2018.

i. Implementing the Families Package on 1 July 2018 will add complexities to the tax and transfers system for users and agencies. This could result in confusion and inaccurate payments.

ii. Implementing the Working for Families, Accommodation Supplement and Accommodation Benefit components of the Package on 1 April 2018 would provide earlier benefits to recipients and avoid confusion and inaccurate payments. However, it would cost approximately an additional $153 million in the 2017/18 fiscal year.

EITHER

e **agree** to:

i. start the proposed increases to Working for Families tax credits (increasing rates for eldest child to $5,878 and subsequent children to $4,745, and the increase to the abatement rate to 25% and abatement threshold to $42,700) on **1 April 2018**
ii. Start the increases to Accommodation Supplement and Accommodation Benefit on **1 April 2018**, and
iii. start the Winter Energy Payment and Best Start payments on **1 July 2018**

Agree/disagree.

OR

f **agree** to:

i reverse the Budget 2017 changes to Working for Families tax credits and Accommodation Benefit and Accommodation Supplement, effective from **1 April 2018**; and
ii implement all the Families Package changes from **1 July 2018**;

Agree/disagree.

g **note** that if you agree to recommendation (f), the Working for Families settings as of 1 April 2017 will apply from 1 April 2018 to 30 June 2018

Winter Energy Payment

h Note that to enable officials to continue to undertake detailed design of the Winter Energy Payment and complete costings to policy, officials seek your direction on:

a) Eligible population
b) Legislative vehicle

Eligible population

i **note** that officials consider limiting eligibility to the Winter Energy Payment to those in in receipt of "main" benefits and New Zealand Superannuation may reduce incentives to work

j [2,3]

k **direct** officials to prepare advice on eligibility to the Winter Energy Payment to be based on income (rather than benefit /superannuation status)

Agree/disagree

l **note** the Social Security Act (1964) defines a main benefit as:

i. Sole Parent Support; or
ii. A Supported Living Payment; or
iii. Jobseeker Support; or
iv. An Emergency Benefit; or
v. A Youth payment; or
vi. A Young Parent Payment

m **confirm** you intended to include all recipients of New Zealand Superannuation and main benefits to be eligible for the Winter Energy Payment

Agree/disagree

n **agree** that, if eligibility for the Winter Energy Payment is limited to those in receipt of a "main benefit or New Zealand Super", this definition will be extended to include clients in receipt of a Veteran's Pension.

Agree/disagree

o **direct** officials to prepare advice on how students, including sole parents, might be able to access the Winter Energy Payment to be consistent with how other aspects of the benefit and student support systems currently interact

Agree/disagree

Legislative vehicle

p **note** there are two possible options to establish legal authority for the Winter Energy Payment :

a) through a Ministerial Welfare Programme. This requires Cabinet approval to implement and is typically easier to change in the future. [2,3]

b) through amendment to the Social Security Act 1964

EITHER

q **agree** to establish the Winter Energy Payment through a ministerial welfare programme;

Agree/disagree

OR

r **amend** the Social Security Act 1964 to establish the Winter Energy Payment (*recommended option if eligibility to WEP will be limited to those in receipt of main benefits and NZ Super* [2,3]

Agree/disagree

Best Start

s **note** that to enable officials to continue to undertake detailed design of the Best Start Payment and complete costings to policy, officials seek your direction on:

i. Eligible population
ii. Administering agency

Eligible population

t **note** that the cost of implementing Best Start depend on decisions about the eligible population, and that the costs below are only preliminary. They do not include clawbacks, or savings from changes to the parental tax credit.

u **indicate** whether Best Start will apply to:

i children born **on or after** 1 July 2018 - with rising preliminary costs of around $160 million in 2018/19, $300 million in 2019/20 and $440 million in 2020/21

Agree/disagree.

ii all children **under the age of 3 as at 1 July 2018** – with a preliminary per annum cost of $440 million.

Agree/disagree.

v **agree** that officials will provide further advice on the abatement of Best Start, including:

i. changing the abatement rate from 20.8% to 21%;

Agree/disagree.

ii. the interaction of the abatement of Best Start with the abatement of other tax and transfer payments and their effect on the overall effective marginal tax rates families may face;

Agree/disagree.

Administering agency

w **note** that implementation of Best Start by 1 July 2018 will most likely be successfully achieved if it utilises existing processes, rules, customer information and legislation, and if it applies to children born on or after 1 July 2018;

x **agree** that Best Start will, for legislative purposes, be treated as a Working for Families tax credit so it can use existing definitions, customer information and processes, including the current Agreed Information Sharing Agreement between Inland Revenue and Ministry of Social Development but will continue to be a separate payment with its own abatement and payment regime

Agree/disagree.

EITHER *(Officials' preferred option)*

y **agree that** ;

- Inland Revenue is the primary administering agency for Best Start, and the Ministry of Social Development can administer Best Start for recipients of a main benefit, applying from 1 July 2018

Agree/disagree.

OR

- that Inland Revenue is the sole administering agency for Best Start

Agree/disagree.

Orphans Benefit, Unsupported Child's Benefit and Foster Care Allowance

z **note** that the Orphan's Benefit, Unsupported Child's Benefit (OB/UCB) and the Foster Care Allowance (FCA) are available for the care of children and young people.

aa **note** that recipients of these payments do not receive the Family Tax Credit

bb **note** that passing on the increases to the Family Tax Credit by increasing these payments has an additional fiscal cost of about $23.5 million per year

cc **agree** that all OB/UCB and FCA weekly payments are increased by $20.31 per week from 1 July 2018, based on changes made to Family Tax Credit rates through the Families Package

Agree/disagree.

dd **note** that officials will provide further advice on the eligibility for the Winter Energy Payment and Best Start payment of OB/UCB and FCA recipients;

Accommodation Supplement and Accommodation Benefit

ee **note** that the Accommodation Benefit changes will commence on 1 April 2018 in the absence of new regulations to shift the start date

ff **note** that a decision is required on which Statistics New Zealand boundaries MSD uses to update Accommodation Supplement Areas as part of the implementing the Families Package and that you will receive advice on this shortly

gg **indicate** your preferred approach to the design of changes to Accommodation Supplement:

EITHER

hh **agree** to

i. Retain the design of the Budget 2017 legislated changes to the Accommodation Supplement, or

Agree/disagree.

OR

ii. Explore alternative options for the design of Accommodation Supplement changes

Agree/disagree.

Approach to those financially disadvantaged and consequential impacts

ii **note** that a small number of families are likely to be financially disadvantaged as a result of the Package

jj **note** that further advice on those who are likely to be financially disadvantaged, and any other consequential impacts of the Package, including fiscal costs, will be provided in subsequent advice

Implementation costs

kk **note** that MSD's existing contingency of $4 million for implementation costs set aside in Budget 2017 is likely to be insufficient to cover the costs of implementing the new components of the Families Package

ll **note** that the $1.1 million of Inland Revenue's remaining contingency for the implementation costs set aside in Budget 2017 is also likely to be insufficient to cover the costs of implementing the new components of the Package

mm **note** that any request for funding that is greater than the remaining amount in the tagged contingency may need to be charged against the between-Budget contingency (BBC). The BBC is included in the Government's fiscal plan

Communications and calculators

nn **agree** that officials prepare further advice on:

i. Calculators allowing people to see the impact on the changes on their circumstances

Agree/disagree.

ii. Factsheets

Agree/disagree.

iii. Brochures

Agree/disagree.

iv. Bill commentary

Agree/disagree.

oo **note** that officials have not yet calculated what it would cost to produce public communications and calculators.

Meeting with Ministers and officials

pp **note** that Joint Ministers are meeting with officials on Monday 6 November at 4pm

Mark Vink
Manager, Tax Strategy
The Treasury

Simon MacPherson
DCE Policy
Ministry of Social Development

Murray Shadbolt
Senior Policy Advisor
Inland Revenue

Jen Ritchie-Campbell
DCE – Policy, Evidence and Investment
Ministry for Vulnerable Children/ Oranga Tamariki

Hon Grant Robertson
Minister of Finance

Joint Report: Families Package: Key design issues

Purpose

This report seeks decisions on key design issues for the major components of the Families Package. These decisions are required to meet the manifesto commitment to pass legislation for the Families Package in the first 100 days.

The decisions sought in this paper will:

- Impact the form of the overall Families Package, and agencies' ability to successfully implement the changes on time
- Inform the detailed design of the different components (e.g. Best Start, Winter Energy Payment),
- Impact the total fiscal cost of the Families Package, and
- Influence the administrative costs of implementing the Package.
- More detailed decisions on the components of the Families Package will be sought in a series of Reports going to Ministers on Friday 10 November.

Families Package

1. The manifesto commitments in the Families Package are:
    a Repeal the increases to **income tax thresholds**
    b Retain the **Independent Earner Tax Credit** (IETC)
    c Changes to **Working for Families** (WFF):
        i Increase the Family Tax Credit eldest child payment rate to $5,878 and the subsequent child payment rate to $4,745
        ii Increase the abatement rate to 25%
        iii Raise the abatement threshold from $36,350 to $42,700
    d **Accommodation Supplement and Accommodation Benefit** changes as currently planned
    e Introduce a **Best Start** payment for families with children under 3 years of age
    f Introduce a **Winter Energy Payment** for beneficiaries and superannuitants
    g Extend **Paid Parental Leave** from 18 to 26 weeks over 3 years
2. Aside from repealing the current changes in the Budget 2017 Family Incomes Package, which will apply from 1 April 2018, we would like to confirm that the new Families Package is to take effect on 1 July 2018. Paid Parental Leave is being progressed separately.
3. Both new payments – Best Start and Winter Energy Payment – will also require a set of detailed design decisions not covered below. There will also be further advice and

decisions on the Accommodation Supplement and the Independent Earner Tax Credit. Officials plan to report on 10 November on these detailed decisions.

Tax and Transfer System

4. The six principles used generally for evaluating a *tax* system are to achieve economic efficiency, equity, fiscal integrity, compliance and administration, fiscal cost and coherence. These same principals can be applied to a transfer system. Designing a tax and transfer system that supports living standards involves trade-offs between various objectives. The common framework used for *welfare policy* design is the "iron triangle," which highlights the trade-offs between ensuring adequate incomes, limiting fiscal cost, and providing work incentives. It is generally possible to design a system that achieves two of these three objectives. This highlights choices between universal and targeted forms of social assistance.

5. The main problems with the current tax and transfer system include high effective marginal tax rates (EMTRs) that it generates (which dampen work incentives), its complexity, whether the tax and transfer system could better support adequate incomes and reduce poverty, the issues with the current design of housing subsidies, and whether the compliance costs on recipients can be reduced.

6. The Families Package will improve incomes for many families; however, it will also have a small, negative impact on labour supply. The new Best Start and Winter Energy payments will also add complexity to the overall tax and transfer system. We provide more information on how these new payments will increase EMTRs, which could affect a significant number of families. We will report to you shortly on options for the detailed design of these payments to help minimise these effects.

7. Further background on the tax and transfer framework and strategic direction has been provided to you separately [refer to Joint Report T2017/2414].

Confirm start date for Families Package

8. The manifesto referred to the Families Package as coming into effect from 1 July 2018.

9. Without new regulations, the AS changes will come into force on 1 April 2018.

10. The reversal of the Budget 2017 tax changes would come into effect from Royal assent so that the current legislative settings for tax thresholds and the Independent Earner tax credit (changed in Budget 2017) would no longer apply from 1 April 2018.

11. Officials seek confirmation whether the reversal of the Budget 2017 tax changes will also include reversal of the Working for Families tax credit changes that apply from 1 April 2018. Those changes are in Table 1 below.

Table 1: Budget 2017 changes to Working for Families tax credits, applying 1 April 2018

Annual rate	1 April 2017	1 April 2018	1 July 2018
Eldest child, 16-18	$5,303	$5,303	$5,303
Eldest child, 0-15	$4,822		
Subsequent child, 16-18	$4,745	$4,745	$4,745
Subsequent child, 13-15	$3,822		
Subsequent child, 0-12	$3,351		
Abatement rate	22.5%	25%	25%
Abatement threshold	$36,350	$35,000	$35,000

12. Officials are seeking decisions on the start date of the Families Package. All components of the Package could be delivered on 1 July 2018. Alternatively, the Working for Families, Accommodation Supplement and Accommodation Benefit changes could be delivered on 1 April 2018. The approximate fiscal cost of this would be around $153 million in 2017/18 (with around $90 million associated with the Working for Families changes, and around $63 million associated with the Accommodation Supplement and Accommodation Benefit changes).

13. Changes to Working for Families on 1 April 2018 would minimise the implementation impacts on Inland Revenue and Ministry of Social Development and make it easier for families to understand. The impact arises from the complexity associated with changing the calculation of an annually income-tested payment part way through a tax year. For families a 1 July change would mean they are informed about one rate of payment starting 1 April and then are shortly informed about another rate of payment from 1 July. At both times they will be asked to confirm that all their details for the year are correct, especially their annual income estimate. At the end of the year their payments would be "squared up" to determine if they had been paid the right amount over the year. If not, they would receive a refund or have an overpayment to repay.

14. When a mid-year rate change applied previously it lead to more overpayments. This "square-up" would not only need to account for the changes in family tax credit rates, but also a change in abatement threshold and abatement rate, along with the replacement of Parental Tax Credit with Best Start. It is expected to result in more calls to Inland Revenue during peak periods.

15. If Ministers do not agree to implement WFF from 1 April 2018, and agree that the Budget 2017 changes are repealed, then the changes to Working for Families would apply as below in Table 2.

Table 2: Family Package option

Annual rate	1 April 2017	1 April 2018	1 July 2018
Eldest child, 16-18	$5,303	$5,303	$5,878
Eldest child, 0-15	$4,822	$4,822	
Subsequent child, 16-18	$4,745	$4,745	$4,745
Subsequent child, 13-15	$3,822	$3,822	
Subsequent child, 0-12	$3,351	$3,351	
Abatement rate	22.5%	22.5%	25%
Abatement threshold	$36,350	$36,350	$42,700

16. Regardless of the start date for Working for Families, officials recommend that the Family Tax Credit and Accommodation Supplement changes start on the same date. Changes to the payment rates of the Family Tax Credit impact on Accommodation Supplement payments[1]. Implementing the changes at the same time means that recipients only face one change in their Accommodation Supplement payment, combining the overall impact of both changes, and are not negatively impacted.

17. Two start dates for the Families Package would complicate any approach to compensate those who are financially disadvantaged as a result of the changes. It would mean that any transitional assistance payment would need to apply at two points in time, and is likely to increase the overall cost of the payment. Further information about people likely to be financially disadvantaged as a result of the Package is provided in paragraph 90.

Winter Energy Payment

18. The Winter Energy Payment (WEP) is described as being a payment of $450 a year for a single person and $700 a year for a couple or a person with dependent children for people receiving superannuation or a main benefit. The manifesto also sets out that WEP is to be paid in monthly instalments from May to September.

19. To enable officials to continue to undertake detailed design of WEP and complete costings of the policy, officials seek your direction on:

    a who should be eligible for WEP; and

    b what legislative vehicle should be used to give effect to WEP.

[1] The eldest child 0-15 rate of the Family Tax Credit is linked to the entry threshold for the Accommodation Supplement. The entry threshold is the amount that a person must pay towards their housing costs before they are entitled to the Accommodation Supplement. When the relevant Family Tax Credit rate increases, the entry threshold increases by 25% of this amount, so that AS recipients receive less assistance, all else constant.

There are risks associated with limiting eligibility for the Winter Energy Payment to only those in receipt of "main" benefits and New Zealand Superannuation.

20. The purpose of WEP has been identified in the Labour Party Manifesto as being part of a response to the approximately 1,600 New Zealanders who die each year and the thousands of New Zealanders who are admitted to hospital with respiratory illnesses brought on by living in houses that are too cold.

21. The election manifesto notes that older New Zealanders and those on low incomes are most at-risk because of the poor quality of their housing and the difficulty they have in paying for heating. There are many New Zealanders who are not benefit dependent, but are on low incomes.

22. WEP is intended to support people on low incomes to meet the costs of heating their house over winter, however, the proposal in its current form does not appear to enable non-beneficiaries to access it, regardless of income. This also means that around 40% of the children in hardship would not be able to access WEP.

23. If WEP was targeted in this way, it would be the only form of supplementary assistance in the social security system that low-income New Zealanders who are not on benefit cannot apply for. All other supplementary and hardship assistance under the Social Security Act 1964 can potentially be accessed by all New Zealanders provided they meet the eligibility requirements, such as income tests.

24. Officials consider limiting eligibility to WEP to those in in receipt of "main" benefits and New Zealand Superannuation may reduce incentives to work[2] [2,3]

<u>Compliance with the New Zealand Bill of Rights Act 1990</u>

25. [2,3]

26.

27.

28.

29.

[2] An example is how Working for Families tax credits incentivise sole parents to move off benefit at 20 hours work, but this group wouldn't be able to access WEP with the proposed policy settings

[2,3]

30.

31. Officials recommend you request the preparation of advice on eligibility to WEP being altered to be based on income (rather than benefit /superannuation status). It is important to note that NZ Super clients would likely need to be subject to the same income test to ensure the WEP policy is not discriminatory on the basis of age. A full analysis of BORA implications will be included in the advice..

32. It is important to note that the current welfare system contains a significant amount of income-tested assistance, so it is possible to implement these. However, there are substantial efficiencies associated with automatic entitlement to the WEP, and the number of individual applications that need to be assessed will significantly increase implementation and on-going operational costs.

If you want to limit eligibility to the WEP to "main beneficiaries and those in receipt of New Zealand Superannuation", officials seek confirmation of what categories should be automatically entitled to receive WEP.

33. The Social Security system defines a main benefit as:

    a Sole Parent Support; or

    b Supported Living Payment; or

    c Jobseeker Support; or

    d an Emergency Benefit; or

    e a Youth Payment; or

    f a Young Parent Payment.

34. Veteran's Pension and Student Allowance are not defined as main benefits under the Act. Furthermore, carers that receive Orphan's Benefit and Unsupported Child's Benefit cannot have those children regarded as dependent children under the Act, which potentially has a negative impact on some carers.

<u>Veteran's Pension</u>

35. The Veteran's Pension is paid at the same rate as NZ Superannuation and is available to clients who:

    a have served in the New Zealand Armed Forces in a war or other emergency; and

    b are a New Zealand citizen or resident; and

    c are ordinarily resident in New Zealand; and

    d are aged over 65 years of age.

There are currently around 8,000 clients in receipt of a Veteran's Pension.

36. The purpose of having a separate Veteran's Pension is to ensure veterans can readily access the additional supports they may need as people who have served in war or other emergencies as part of the New Zealand Armed Forces. . There is generally no distinction between the supplementary assistance available under the Social Security Act 1964 to people receiving New Zealand Superannuation and those receiving Veteran's Pension[3].

37. Expanding the eligibility criteria for the WEP to clients receiving Veteran's Pension appears to meet the policy rationale for the payment (that is, support people on low incomes to meet the costs of heating their accommodation over winter). Officials have included recipients of Veteran's Pension in the costings of the WEP.

38. Officials recommend that, if eligibility for the WEP is limited to those in receipt of a "main benefit or NZ Super", this definition is extended to include clients in receipt of a Veteran's Pension.

Student Allowance

39. Student Allowance is not included in the definition of main benefit under the Social Security Act 1964. In 2017, to 30 September, 63,366 clients received student allowance and of those, 8,430 (13%) have dependent children. Accommodation Benefit for sole parents on student allowance is assessed on the same criteria and paid at same rate as Accommodation Supplement for sole parents. This is a result of changes implemented for study starting on or after 1 January 2015, intended to better align student support with the generally higher rate provided through the Accommodation Supplement in the benefit system, to encourage more sole parent beneficiaries into higher education.

40. Officials await your direction on whether you would like further analysis completed on the impacts of extending eligibility for WEP to include clients in receipt of Student Allowance.

There are two options to establish legal authority for the Winter Energy Payment

41. There must be legal authority for the Chief Executive to authorise payment of WEP to a client. There are two possible options to establish legal authority for WEP:

    a To establish WEP through a Ministerial welfare programme;

    b Amend the Social Security Act 1964 to establish WEP.

Establishing WEP through a Ministerial Welfare Programme has benefits and risks

42. A Ministerial welfare programme is a tertiary legislative instrument which is widely used in the Social Welfare system. Currently most Hardship Assistance is established through Ministerial welfare programmes, such as Special Needs Grants, and programmes such as the Employment Work Readiness Assistance programme and the Home Help programme.

43. Ministerial welfare programmes are flexible and effective tools for enabling the provision of special assistance by the Ministry. Ministerial welfare programmes can be approved by you and do not need to go through a protracted legislative process (Cabinet will, however, need to approve the expenditure for a newly established Ministerial welfare programme). As such Ministerial welfare programmes can be quicker to both establish and amend (if required, at a future date).

[3] However there are some specific entitlements that client's receiving Veteran's Pension get on top of the usual assistance available to clients receiving New Zealand Superannuation.

44. [3]

Amending the Social Security Act to establish WEP through legislation would likely afford less flexibility in the future

45. Establishing WEP through the amendment to the Social Security Act would be an effective vehicle to establish WEP but would require a full legislative process. The Legislative Design and Advisory Committee's guidelines advise that matters of significant policy are best addressed through primary legislation. The Social Security Act currently contains details of main benefits and establishes payments such as the Accommodation Supplement, Childcare Assistance, Child Disability Allowance and Funeral Grants.

46. Establishing WEP through an amendment to the Social Security Act would arguably increase certainty about the payments to clients, and could serve to reduce ambiguity regarding entitlement. However, there is a risk that by enshrining WEP in legislation it would be more difficult to make amendments to the programme in future.

47. If you wish to establish WEP through amendment to the Social Security Act we need to know as soon as possible to ensure we can get adequate resource allocated to enable legislation to be introduced in mid-December. For scope reasons, this may need to be through a separate Bill from the legislation implementing the rest of the Families Package, although introduced and enacted at the same time. This would be clarified with PCO. We will be seeking Cabinet approval of policy decisions by the end of November 2017 to allow time for drafting a Bill for introduction to the house before Christmas.

48. Officials seek your decision on whether you would like to establish WEP through a Ministerial welfare programme or through amendment to the Social Security Act.

Other decisions on the Winter Energy Payment will be sought shortly

49. This will include decision about the timing of payments and options for applications and automation. It will include whether it is possible for monthly instalments to move to weekly or fortnightly instalments, as this would be more consistent with current payments of benefits (weekly) and superannuation (fortnightly). Automation questions include whether there is interest in more automated options (e.g., removing the requirement for an application) for some or all superannuitants to ensure access to entitlements and to minimise the administration, given the volume of applications expected.

50. Note that these decisions will have material impacts on the implementation costs of MSD.

Best Start payment

51. The ability to implement a new payment by 1 July will depend on the design of the payment. To the extent that it can be keep simple, utilise existing policies, processes and existing customer information, the likelihood of a successful implementation improves. Similarly, the range of families who can apply from 1 July and the

information they are required to provide, and the degree of processing required to calculate payments will also affect the ability to successfully implement.

52. Officials recommend that Best Start be legislatively treated as coming under the banner of a Working for Families tax credit. This will enable some existing rules, process and customer information to be used to determine and administer Best Start. In particular, Best Start would mimic many of the rules and process applying to Family Tax Credit including definitions of child, residency, family income, minimum age of principal caregiver, payment frequency etc. It would also mean that it would be treated as a tax credit (not taxable) and not income for most other welfare payments. In particular, it will allow departments to use existing information sharing arrangements for Working for Families to assist any joint delivery. However, Best Start would be kept simple and have its own payment and abatement regime and would not be part of the abatement of the Family Tax Credit and In Work Tax Credit.

The eligible population

53. The key decision is whether the Best Start payment is available to all children under the age of three on 1 July 2018, or whether it is progressively rolled out to children who are born on or after that date.

54. The advantage for applying Best Start to children born on or after is that in the first year there is no abatement of payments. This allows for a very simple application and processing arrangement to pay $60 a week in the first year of operation. It also means that customer contacts are limited and spread over the year as children are born. It would also reduce the fiscal cost of the payments in the first two years.

55. The preliminary fiscal costs for applying Best Start to children born after 1 July 2018 is around $160 million in 2018/19, $300 million in 2019/20 and $440 million in 20/21.

56. Applying Best Start to all children aged under 3 on 1 July 2018 will involve significantly more customer contact before and from 1 July 2018. As it will include children for whom Best Start payments will be abated, it will require caregivers to provide income information for the tax year. The system would also need to be set up to calculate abated payments, and cope with any changes in people's estimates of income as well as changes in caregiving. Under this option the design of the payment may need to focus more on keeping it simple and easy to understand in the first year, rather than on upfront accuracy of weekly payments. The fiscal cost would be around $440 million in 2018/19.

57. Other questions include eligibility for carers of children receiving the Orphan's Benefit, Unsupported Child Benefit (OB/UCB) and Foster Care Allowance. These will be discussed in subsequent advice.

58. Officials will be considering detailed design questions such as how the payment operates when care of the child is shared. Decisions would also be required on whether the Parental Tax Credit is fully repealed or is grandparented once Best Start is in place, and whether people can receive both Best Start and the Independent Earner Tax Credit.

The administrating agency

59. Inland Revenue will be in the best position to deliver the payment to most families, given its administration of paid parental leave and income information. However, the Ministry of Social Development has a close relationship with beneficiaries and a requirement to ensure they are receiving the correct entitlements from Government. Most beneficiaries would reasonably expect to continue to claim entitlements through MSD.

60. MSD would prefer to pay Best Start, on behalf of Inland Revenue, to clients in receipt of a main benefit. This would mirror the current arrangements with the Family Tax Credit, where this is assessed and paid by MSD to those on a main benefit. This means that recipients of main benefits with children receive all (or almost all) of their financial assistance from one agency, and do not need to contact or apply for payments through multiple agencies, reducing the chance of low take-up. This will result in some implementation costs to MSD, which will be identified in subsequent advice.

61. Joint delivery will require both departments to share information around payments to ensure families are not paid twice, or miss payments as they move between the two agencies, as occurs with Family Tax Credit. This is expected to be accomplished through the current Approved Information Sharing Agreement and can be done if Best Start is defined as a Working for Families tax credit. Otherwise, new legislative amendments would be required to allow the sharing of information.

Abatement rate

62. The manifesto indicated that Best Start would have no abatement for child up to the age of 1, and from age 1 until 3 years the payments would be abated from $79,000 of household income at a rate of 20.8%. This means Best Start for a child is abated over a $15,000 income range. This is relatively easy to remember when families make decisions about returns from extra work. However, if the intention is to adjust payments by inflation over time then the income range will change over time and become less memorable . For ease of customer understanding we recommend the abatement rate be a whole number. Officials can provide further advice on the abatement rate if Ministers wish.

63. The proposed abatement regime overlaps with the abatement of other Working for Families tax credits and the Accommodation Supplement for some families. It is also in addition to compulsory payments of student loans and child support, where relevant. This means that some families may face very high effective marginal tax rates[4] (EMTRs), with a small group potentially facing EMTRs over 100%. High EMTRs dampen work incentives and add barriers to employment which is a key pathway out of poverty. We can provide further advice on the scale of this issue and options to mitigate this.

64. Officials understanding of the policy is also that the universal payment for new-borns is from when Paid Parental Leave ends until the child turns one. How much Best Start they receive in the first year will depend on whether they qualify for Paid Parental Leave and how many weeks of Paid Parental Leave they claim. The number of Best Start payments will reduce as the number of weeks of paid leave is extended.

Working for Families tax credits

65. The key decision on the Working for Families payments is the date from which changes will apply. These are discussed earlier in the report.

66. If Ministers decide on a 1 July implementation date, officials will work on detailed design of the part-year calculations and associated questions such as whether any overpayments resulting from the part-year approach should be automatically written off.

[4] The effective marginal tax rate (EMTR) shows how much income people keep if they earn $1 more, after the impacts of both taxes and any reduction in transfer payments have been taken into account. An EMTR over 100% means that a person (or family) will be worse off overall if their income increases by $1.

Accommodation Supplement

67. Accommodation Supplement (AS) is paid to clients with accommodation costs higher than an entry threshold. Clients contribute 30 percent of accommodation costs and AS meets 70 percent of accommodation costs up to a maxima, which is set based on household size and location.

68. You have indicated that changes to AS enacted following Budget 2017 will be implemented through the Families Package. The changes enacted include:

    - increasing AS maximum amounts (maxima) based on the 40th percentile of 2016 rents

    - updating the four AS Areas so people in areas where housing costs have increased the most will be eligible for a higher AS maxima.

69. MSD wants to confirm that you would like to retain the settings around increases to AS maxima as enacted following Budget 2017.

70. In developing the AS changes, MSD considered a range of different options, including setting the maxima based on median 2016 rents, and making changes to the client co-payment rate. Any alternative AS options that you may wish to consider as part of the Families Package would require trade-offs between better reflecting accommodation costs for clients and limiting the fiscal cost of the package. Further analysis of the impact of any additional changes to AS in the context of the Families Package would be required.

71. If you want to consider any of these alternative options, MSD could provide further advice to you in the next Report on the Families Package.

72. Another key decision required is on which Statistics New Zealand boundaries MSD uses to update AS Areas as part of implementing the Families Package. MSD will provide you with advice on this shortly.

Accommodation Benefit

73. The Accommodation Benefit is a supplement to student allowance payments that recognises the housing costs of students who do not live at home.

74. Regulations to increase the maximum rate of Accommodation Benefit are legislated to come into force on 1 April 2018. New regulations will be required to shift the implementation date to 1 July 2018 if desired. Officials are seeking a decision on which start date you would prefer.

75. The effect of increasing the maximum rate varies for students, as the amount of Accommodation Benefit received depends on the region in which the student lives. It is estimated that around 41,000 Student Allowance recipients will benefit from the increases to the Accommodation Benefit. Around 26,000 students who live in Auckland, Wellington or Christchurch will receive a $20 per week increase.

Orphans Benefit, Unsupported Child's Benefit and Foster Care Allowance

Orphans Benefit, Unsupported Child's Benefit and Foster Care Allowance are available for the care of children and young people

76. A weekly Orphan's Benefit (OB) or Unsupported Child's Benefit (UCB) is available to caregivers of children or young people in need of care because their parents have died, cannot be found or suffer from a serious long-term illness or incapacity, or where there has been a family breakdown and no parent is available to care for the child.

77. A weekly Foster Care Allowance (FCA) is available to caregivers of children or young people who are in the care or custody of the Chief Executive of Oranga Tamariki.

These children and young people are at increased risk of poor life outcomes

78. Children and young people cared for by caregivers receiving OB/UCB or FCA are at increased risk of poor life outcomes. It is estimated 55 per cent of children and young people moving onto OB/UCB assistance have had care and protection contact prior to year end.

Incorporating the Family Tax Credit increase in OB/UCB and FCA

79. Children cared for by recipients of either OB/UCB or FCA are not eligible for the Family Tax Credit (FTC). In 2007 Cabinet determined that this was because FTC had been incorporated within the OB/UCB and FCA base rates. In the past (2005 and 2007), when FTC rates have increased, the amount of this increase has been included within OB/UCB and FCA rates to ensure that all caregivers benefit from these FTC increases.

80. The recent changes announced by the incoming Government as part of the Families Package, mean that:

- FTC rates for children aged 0-15 will increase by $20.31 per week for eldest child
- FTC rates for young people aged 16-18 will increase by $11.06 per week for the eldest child

81. Officials are seeking a decision on whether the increase in FTC rates should be passed on to OB/UCB and FCA recipients.

82. Including FTC increases within OB/UCB and FCA rates will increase financial support for this group of children and young people and retain some level of relativity compared to children and young people who are not living with OB/UCB or FCA recipients. OB/UCB age brackets differ to FTC brackets.

83. In terms of administrative simplicity[5] it is recommended that higher $20.31 per week increase is applied to OB/UCB and FTC rates.

84. It should be noted however that paying the $20.31 to all OB/UCB and FCA recipients regardless of age will mean that OB/UCB and FCA recipients aged 16 years and over will receive more financial assistance through the FTC rate increase than those children and young people who are not living with OB/UCB or FCA recipients.

85. Funding would need to be sought for this initiative, including administrative costs. The table below set out the fiscal costs of this initiative for increasing both OB/UCB and FCA rates by $20.31 per week from 1 July 2018.

[5] The top age bracket for OB/UCB and FCA is 14+ which straddles the 0-15 and 16-18 FTC age brackets. Directly applying the FTC increases to the OB/UCB and FCA 14+ age bracket would mean that children aged 14-15 would receive a higher rate of OB/UCB or FCA compared to children aged 16 and above.

Table 3: Increase to OB/UCB rates for all ages by $20.31 per week from 1 July 2018

Vote Social Development Cost - $'000s

		2018/19	2019/20	2020/21	2021/22	Outyears	Four year total
OB/UCB cost		$17,800	$19,100	$20,300	$21,700	$21,700	$78,900

Note that implementing these changes from 1 April 2018 would incur an additional cost of $4.3 million.

Table 4: Increase to FCA rates for all ages by $20.31 per week from 1 July 2018

Vote Vulnerable Children, Oranga Tamariki - $'000s

	2018/19	2019/20	2020/21	2021/22	Outyears	Four year total
FCA cost	$5,700	$5,700	$5,700	$5,700	$5,700	$22,800

Note that implementing these changes from 1 April 2018 would incur an additional cost of $1.4 million

Best Start

86. Officials will provide further advice on the interaction between Best Start and OB/UCB and FCA, in light of decisions on who Best Start will apply to. Oranga Tamariki officials are exploring whether the $60 Best Start payment should also be made available to. children up to the age of three being cared for by e OB/UCB and FCA caregivers. These early years are important for a child's development and this additional assistance would help to support OB/UCB and FCA recipients in being able to meet the needs of children and young people they care for and in providing them with a stable and loving home.

87. There are complications in how the two payments would interact in that OB/UCB and FCA are income tested based on the income of the child or young person as opposed to the caregiver , whereas Best Start will be income-tested on household income for children aged one and two.

88. Subsequent advice will provide further information and seek decisions on Best Start for those receiving OB/UCB and FCA.

Winter Energy Payment

89. We will provide further advice on the interaction between Winter Energy Payment and the OB/UCB and FCA.

Approach to those financially disadvantaged

90. The tax and transfer system is complex and the component parts are often interdependent. As a result of this, changes in one type of assistance can often impact the level of support for other assistance.

Some families are likely to be financially disadvantaged as a result of the Package

91. The interdependencies in the tax and transfer system can create situations where people are financially disadvantaged as a result of policy changes which are intended to increase levels of support.

92. In previous major reforms, such as the 2015 Child Material Hardship package and Budget 17 package, the Government included a small fiscal provision for a payment to families who were financially disadvantaged as a result of the Package. Such a payment ensures that the complexity in the system does not create unintended consequences for families receiving financial assistance.

93. If Ministers wish to compensate those who are negatively affected as a result of the package, a Ministerial Welfare Programme under the Social Security Act could provide for this. Further decisions on the parameters of the welfare programme will be sought in subsequent advice, such as whether to compensate anyone who is financially disadvantaged or only those disadvantaged by more than a set amount.

94. Overall estimates of the numbers of families likely to be financially disadvantaged are not yet completed, though it is likely to be a small number of families. The overall number of those affected will be determined by some of the detailed decisions on other components of the Package (such as whether the Winter Energy Payment will be considered as income for the purposes of eligibility for Hardship Assistance[6]). Information on the overall numbers of families likely to be financially disadvantaged, and the maximum and average losses, will be provided in subsequent advice.

There are also a number of consequential flow-on impacts

95. These consequential impacts include flow-ons to Childcare Assistance[7] payments (from the changes to Family Tax Credit, Accommodation Supplement and Best Start payments), the Community Services Card[8] and the Income-Related Rent Subsidy[9] (both from the changes to the Family Tax Credit). Further advice will be provided on these impacts in subsequent reports.

Legislation

96. We are working with Inland Revenue's tax law drafting unit and the Parliamentary Counsel Office (PCO) on feasible options for legislating the various elements of the Families Package. We will provide advice to Ministers on these options shortly.

97. We understand that the legislation for changes to Paid Parental Leave will be introduced by 9 November under its own Bill. The Ministry of Business, Innovation and Employment will provide advice to their Minister regarding these changes.

[6] Hardship Assistance includes a range of assistance to meet essential needs in certain circumstances.
[7] Childcare Assistance includes payments to help low-income parents meet the cost of childcare for pre-school children (Childcare Subsidy) and for school-aged children outside of school hours (Out of School Care and Recreation (OSCAR) Subsidy).
[8] The Community Services Card is available to low and middle income families to enable them to access subsidised health services.
[9] The Income-Related Rent Subsidy is paid to social housing providers, and is the difference between the Income Related Rent (that the tenant pays) and the market rate for the social housing property.

98. Providing that detailed policy decisions are made by Cabinet by late November at the latest, officials will have a Bill or Bills for the remaining components of the Package ready for consideration by Cabinet for 11 December.

Communications material required

99. If Ministers' wish to have supporting material available when legislation is introduced and enacted, such as calculators, officials will need to begin planning and building these now. The types of communications material could include:

    - A calculator for entitlements
    - Fact sheets with hypothetical family scenarios
    - brochures; and
    - A Commentary on the Bill(s).

100. We will continue discussions with the Department of Internal Affairs (DIA) about using a planned proactive entitlements calculator under the SmartStart initiative. SmartStart is an integrated service aimed at New Zealanders experiencing particular life events, such as the birth of a child. It is a cross-agency collaboration, with DIA as the lead agency supported by MSD, Inland Revenue, and Ministry of Health. The calculator is expected to be available in February 2018, based on current tax and transfer settings. We will continue to liaise with DIA on the timing of the calculator and other opportunities for simplifying the administration of payments.

101. Officials will report on options for informing the public about the Winter Energy Payment and Best Start at a later date. This would discuss the level of advertising that should occur and the associated costs.

Implementation costs

102. A tagged contingency of $4 million was set aside in Budget 2017 for MSD's implementation costs associated with Budget 2017's Family Incomes Package. However, it is likely that the current size of the contingency will be insufficient to fund all of the changes proposed in the Families Package. This is largely driven by the creation of two new and relatively complex on-going payments. Decisions on the eligible population and approach to automation for the Winter Energy Payment will materially impact on the magnitude of the implementation costs for MSD.

103. Inland Revenue was also provided funding for the Budget 2017 Family Incomes Package. Officials are working on how much of that funding has already been spent and what additional spending will be required for Inland Revenue to implement the Families Package. Again, this will depend on some of the design decisions.

104. Inland Revenue is also considering the impact of the Families Package changes and the new Best Start payment on its current timetable for implementing Business Transformation.

Next steps and timetable for advice

105. The table below updates the timeframe for reporting to and meeting with Ministers.

Table 2: Updated reporting timetable

Report #1	*Covering report for Families Package*	*31 Oct*
	Meet with Ministers	*1 Nov*
Report #2	Tax and Transfer framework	3 Nov
Report #3	Families package – key design issues (this report)	3 Nov
	Meet with Ministers	Week of 6 Nov
	Placeholder – Report on Fiscal Implications	
Report #4	Detailed report: Best Start payment	10 Nov
Report #5	Detailed report: Winter Energy payment	10 Nov
Report #6	Detailed report: AS boundaries	10 Nov
Report #7	Detailed report: consequential impacts	10 Nov
Report #8	Detailed report: Independent Earner tax credit	10 Nov
	Meet with Ministers	13 or 14 Nov
Report #9	Final package summary	17 Nov
Report #10	Draft Cabinet paper and RIS	21 Nov
	Lodge Cabinet paper and RIS	23 Nov
	Cabinet meeting – agree to recommendation for implementing Families Package, and give direction to draft legislation	27 Nov
Report #11	Draft Cabinet paper to introduce legislation	5 Dec
	Lodge Cabinet paper with draft Bill(s)	7 Dec
	Cabinet meeting – agree to introduce Bill(s)	11 Dec
	House considers legislation under urgency	TBC

We will provide additional reports if further clarification of any decisions is required.