# The Treasury

## Budget 2021 Information Release

## August 2021

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Key to sections of the Act under which information has been withheld:

[1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government

[23] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information

[26] 9(2)(ba)(i) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied

[33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment

[36] 9(2)(h) - to maintain legal professional privilege

[37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice

[38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[40] Not in scope

[42] 18(d) - information is already publicly available or will be publicly available soon.

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

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TE TAI ŌHANGA
THE TREASURY

# Treasury Report: Budget 2021 - Potential Income Support Package

| | | | |
|---|---|---|---|
| **Date:** | 5 March 2021 | **Report No:** | T2021/371 |
| | | **File Number:** | SH-3-6 |

## Action sought

| | Action sought | Deadline |
|---|---|---|
| Hon Grant Robertson<br>**Minister of Finance** | **Note** the contents of this report<br>**Indicate** if you would like further advice<br>**Refer** a copy to the Prime Minister | Budget Matters meeting on Tuesday 9 March 2021 |

## Contact for telephone discussion (if required)

| Name | Position | Telephone | 1st Contact |
|---|---|---|---|
| Laura Browne | Senior Analyst, Welfare and Oranga Tamariki [39] | [35] | ✓ |
| Chris Thompson | Senior Analyst, Welfare and Oranga Tamariki | | |
| Keiran Kennedy | Manager, Welfare and Oranga Tamariki | | |

## Minister's Office actions (if required)

**Return** the signed report to Treasury.

**Refer** a copy of this report to the Prime Minister.

| | |
|---|---|
| Note any feedback on the quality of the report | |

**Enclosure**: No

# **Treasury Report:** Budget 2021 - Potential Income Support Package

## Purpose of Report

1. We understand that there was a discussion at the first Budget Ministers meeting regarding a $50 per person increase to main benefits, implemented either in full on 1 July 2021, or as a two-stage increase on 1 July 2021 and 1 April 2022.

2. This report responds to a specific commissioning from your office to provide high level analysis of the considerations and trade-offs with progressing the $50 option.

3. This advice should be read in conjunction with a number of other pieces of advice you will be receiving ahead of the second Budget Ministers meeting. These include:

   a **Joint report on the main benefit increase (T2021/492)** which responds to a specific commissioning from the Prime Minister to look at the flow-on impacts of a $50 per person main benefit increase to other support, commentary on the interaction with housing, and updated analysis looking at the increase in the context of WEAG recommendations.[1]

   b **Budget team advice on draft package (T2021/359)** which includes a $25 increase in the low package, and a $50 increase in the high package.

   c **Fiscal strategy advice (T2021/316)** which notes the pressure welfare reform may have on operating allowances over the short-to-medium term.

## Analysis

**We recommend using a range of levers to address your income adequacy and poverty alleviation objectives.**

4. While we agree that a benefit increase of this scale would make a significant difference for particularly vulnerable groups,[2] **our high level advice is that your income adequacy and poverty alleviation objectives need to be addressed through a range of levers, including both direct transfers and a focus on paid employment.**

5. Using a range of levers (e.g. benefit system, Working for Families, and reducing barriers to employment) will ensure that particular groups (e.g. beneficiaries without children, low-income working families with children) do not miss out or become further disadvantaged, and that potential adverse effects of particular policy changes are mitigated where possible.

[1] This updates earlier analysis in T2020/3497 and T2020/3565 which showed the impact of a $25 increase.

[2] A $50 increase to main benefits would lift 48,000 (±9,000) adults and 25,000 (±6,000) children out of poverty on the after-housing measure, and 41,000 (± 10,000) adults and 20,000 (± 7,000) children out of poverty on the before-housing measure. *Access to the data used in this TAWA analysis was provided by Stats NZ under conditions designed to give effect to the security and confidentiality provisions of the Statistics Act 1975. The results presented in this study are the work of the TAWA, not Stats NZ or individual data suppliers.*

6. [33]

For example, the flow-on increases to the Minimum Family Tax Credit from the $50 increase, further expands the tax credit's coverage and the distortionary effect it has on work incentives. This is at the same time as Ministers have signalled interest in significant reform of Working for Families (T2020/3615 refers).

**There are a range of trade-offs with a $50 increase which suggest caution is needed.**

7. The accompanying joint advice (T2021/492 refers) notes a range of specific trade-offs around the $50 increase option that are worth highlighting:

   a Without an accompanying increase to in-work support for families with children, a $50 benefit increase risks weakening work incentives for this group,[3] particularly the incentive for sole parents to move from part-time to full-time work[4] (e.g. some sole parents would only see a $16 gain from moving from 20 to 40 hours of work at minimum wage, excluding housing and childcare costs).

   b Without an accompanying increase in the student support system, the misalignment with the student support system risks dis-incentivising people to move into study, and instead move onto benefit (as it will be roughly $25 higher) – this at a time where the labour market conditions may mean that upskilling may be a desirable outcome for some groups, particularly young people.

   c Without any support going to low-income non-beneficiary families with children, a number of children living in poverty will miss out on any additional support. Approximately 40% of children in poverty live in working households and therefore are likely to miss out on gains from a main benefit increase.[5]

8. There are policy options in the short-term to mitigate some of these adverse impacts, however they too will have a significant fiscal cost (over and above the $1.1 billion p.a. of the benefit increase). Moreover, some of these changes may be inconsistent with the overall direction of the welfare overhaul. The following table provides an initial indication of high level costings of some such policies.

| **Objective** | **Policy response** | **Indicative costing** |
|---|---|---|
| Additional investment to address impact on **study incentives** | *Example: $25 increase to student allowances and loans* | ~$140m p.a. |
| Additional investment to address impact on **work incentives** | *Example: $25 increase to In-Work Tax Credit*<br><br>*Example: increase the Family Tax Credit abatement threshold*<br><br>*Example: Improving Childcare assistance* | [33] |
| Additional investment to support those with the **highest housing costs** | *Example: increase the AS maxima* | |

3 Work incentives have been strengthened previously, in part, through the strong growth in minimum wage

4 This is due to the Minimum Family Tax Credit (MFTC) which is designed to ensure that there is a financial return from work at 20 hours for sole parents to incentivise the transition off-benefit. Therefore when the benefit increases, the MFTC will also increase.

5 Source: MSD Household Incomes Report 2019 (Bryan Perry)

**Our advice is therefore to progress at most a $25 per person increase to main benefits this budget.**

9. This approach would allow for fiscal space to use a range of levers to address your objectives and ensure there is coherency in reform. [33]

**The short-to-medium term programme for welfare reform is ambitious.**

10. The Government committed in its manifesto to continue overhauling the welfare system. Furthermore, ten-year targets set under the Child Poverty Reduction Act commit to an ambitious goal to reduce the proportion of children in low-income households to 5% on the before-housing poverty measure and 10% on the after-housing poverty measure by 2027/28.

11. The accompanying advice on the fiscal strategy notes that welfare expenditure is one area which is expected to place significant pressure on operating allowances across the short-to-medium term (T2021/316 refers). Due to the broad based nature of transfers, most welfare changes have a significant permanent fiscal cost. This is particularly so if the changes have the objective of improving income adequacy and/or poverty alleviation.

12. The fiscal strategy advice notes that welfare expenditure could cost $0.5 to $1.0 billion p.a. across the next four budgets. [6] This estimate is based on current signals and predicated on the following policy choices:

    a **Budgets 2021 and/or 2022:** $50 increase to main benefits

    b **Budgets 2023 and/or 2024:** Working for Families reform

13. [33]

14. The welfare overhaul has an ambitious work programme in addition to the headline policies of benefit increases and Working for Families reform. [33]

[6] This equates to around 20-30% of current operating allowances ($2.625 billion p.a.), or around 15-25% of provisional operating allowances ($3.0 billion p.a.) over the next four years (T2021/316 refers).

[7] For reference, increasing the Family Tax Credit by $25 per child had an indicative fiscal cost of around $1 billion p.a.

15. The current welfare overhaul short, medium and long term work programme was agreed by Cabinet pre-COVID-19 (CAB-19-MIN-0578 refers), but the impact of the pandemic may warrant some aspects of reform being sped up such as the fundamental review of housing support[8] and/or childcare subsidies. [33]

16. There are also other related policy areas that you have recently signalled as a priority within this timeframe, such as the introduction of Social Insurance, which may place additional pressure on your allowances (and system capacity to deliver reform). Beyond welfare, other areas, particularly health reform, will also place continued pressure on allowances (T2021/316 refers). Committing to such a significant spend now, to raise main benefits by $50 per person, risks not leaving enough fiscal headroom for these other areas.

**The next round of child poverty targets and the upcoming Ministerial meeting on Working for Families reform present an opportunity to bring a fiscal strategy lens.**

17. The Prime Minister will shortly set her next round of interim Child Poverty targets. We are working with the Child Poverty Unit to develop advice that considers the fiscal strategy implications of the targets, and the role of other levers such as employment and housing. Given the role of transfers in making progress towards the targets, we recommend that you use this process as an opportunity to emphasise the need for stronger links between the target setting process and the fiscal strategy.

18. We understand that a ministerial meeting will shortly be scheduled to discuss the next stage of Working for Families reform. Advice will be provided ahead of this, but any early indication you may have around your level of ambition for this reform programme would mean we could incorporate this into the advice to support the discussion.

[8] For example, increasing pressure from housing costs, particularly for low-income renters, could warrant work on more targeted income support measures and/or bringing forward the more fundamental reform of housing support.

## Recommended Action

We recommend that you:

a **note** the current programme for welfare reform is ambitious and could account for a significant proportion of allowances over the next four years;

b **note** that we recommend that you meet your income adequacy and poverty alleviation objectives through a range of levers, including both direct transfers and a focus on paid employment;

c **note** that we recommend progressing <u>at most</u> a $25 per person increase to main benefits this budget;

d **note** there are a range of trade-offs with a $50 increase to main benefits which suggest caution is needed;

e [33]

f **note** any early indication you may have around your level of ambition for the Working for Families reform programme would mean we could incorporate this into the advice to support the upcoming ministerial discussion; and

g **refer** a copy of this report to the Prime Minister.

*yes/no*

Keiran Kennedy
**Manager, Welfare and Oranga Tamariki**

Hon Grant Robertson
**Minister of Finance**