The Treasury

Budget 2021 Information Release

August 2021

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[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

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[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.

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Report

Date: 21 January 2021

To: Rt Hon Jacinda Ardern, Prime Minister, Minister for Child Poverty Reduction

Hon Grant Robertson, Minister of Finance

Hon Carmel Sepuloni, Minister for Social Development and Employment

Hon David Parker, Minister of Revenue

Confirmation of decisions for the Budget 2021 proposal to increase main benefit rates

Purpose of the report

1. This report provides further advice on the Minister for Social Development and Employment's Budget 2021 bid to increase rates of main benefits. It:
   - provides updated modelling using the Half Year Economic and Fiscal Update 2020 (HYEFU);
   - seeks confirmation of key parameters for that bid; and
   - responds to a request for additional information on the youth rates of main benefits.

Executive Summary

2. Joint Ministers met on 1 December 2020 to discuss a possible income support package for Budget 2021. As a result of this meeting, the Minister for Social Development and Employment has been invited to submit a Budget 2021 bid to increase main benefit rates by $25 per week per adult from 1 July 2021 and progress complementary and minor income support changes to reduce the need for Transitional Assistance Payments (TAPs). Together, these changes will:
   - cost $2.2 billion over the forecast period (or $530 million per year in outyears);
   - reduce the number of children living in poverty by 9,000 on the before-housing-costs primary measure (BHC50) and 14,000 on the after-housing-costs primary measure (AHC50), with a margin of error of ±5,000[1]; and

[1] The poverty modelling is from the TAWA model, which uses Stats NZ's Household Economic Survey. The margin of error is a statistic expressing the amount of unavoidable random sampling error in a survey. The larger the margin of error, the less confidence one should have that the survey-based estimate accurately represents the entire population.

- benefit 436,000 individuals and families, with an average gain of $23 per week when factoring in flow-ons to other assistance (such as the Accommodation Supplement (AS) and Temporary Additional Support (TAS)).

3. This report also seeks your agreement to include a partial increase to the Minimum Family Tax Credit (MFTC) as part of the Budget bid to increase main benefits. A partial increase to the MFTC threshold ensures that sole-parent families (working at least 20 hours per week) continue to be guaranteed to be financially better off receiving the MFTC rather than remaining on benefit. While a partial increase means some two-parent families (working at least 30 hours) may be better off remaining on a benefit, it balances delicate trade-offs associated with fiscal costs, financial incentives to work full-time and the impact of any changes on the upcoming review of Working for Families (WFF).

4. Officials also understand that Ministers do not want to consider consequential increases to rates of student support or financial assistance for caregivers as part of the Budget 2021 bid to increase rates of main benefits. Funding for increases in these areas are therefore being sought independently through separate Budget bids led by the relevant Ministers, either through Budget 2021 or a future Budget.

5. [33]

6.

Recommended actions

It is recommended that you:

Updated modelling

1. **note** that the Budget bid to increase main benefits (including the complementary changes and the increase to the Minimum Family Tax Credit) will cost $2.2 billion over the forecast period ($530 million per year in outyears) and reduce the number of children living in poverty by 9,000 on the before-housing-costs primary measure and 14,000 on the after-housing-costs primary measure with a margin of error of ±5,000

Summary of key parameters included in the bid

2. **note** that the Budget bid as invited by the Minister of Finance also includes:
   - changes to the Temporary Additional Support (TAS) formula so that the TAS disability exception better reflects disability costs and reduces the number of people financially disadvantaged from future income support changes;
   - changes to the definition of income for Childcare Assistance to exclude other supplementary payments as income; and

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[33]

- a Transitional Assistance Payment (TAP) for those financially disadvantaged by the changes

3. **note** that the proposed main benefit rate increase has implications for the Minimum Family Tax Credit (MFTC) and was also included in the budget invitation letter

4. **note** that since 2006 the MFTC threshold has been fully aligned with benefit settings to ensure all eligible low-income families are financially better off working at least 20 hours (sole parents) or 30 hours (two-parent families) and receiving the MFTC rather than remaining on an abated main benefit [CAB-MIN-04-13/4]

5. **note** as a departure from the policy, Cabinet recently decided to only partially increase the MFTC in 2021/22 in response to increases in the benefit abatement thresholds [CAB-20-MIN-0512]

6. **agree** that the Budget bid to increase main benefits also include a partial increase to the MFTC threshold to ensure sole-parent families working at least 20 hours per week (but not necessarily two-parent families) will be financially better off receiving the MFTC rather than remaining on the benefit

Yes/No	**Yes/No**	**Yes/No**	**Yes/No**
Minister for Child Poverty Reduction	Minister of Finance	Minister for Social Development and Employment	Minister of Revenue

7. **note** that joint Ministers have previously indicated they do not wish to flow the proposed main benefit increase through to student support or financial assistance for caregivers, and instead any funding for increases in these areas are being sought through separate Budget bids led by the relevant Ministers (either through Budget 2021 or a future Budget)

[33]

8. [33]

9.

10.

11. **forward** this report to the Ministers for Children and Education for their information.

Yes/No

Minister for Child Poverty Reduction

Kristie Carter Director Child Poverty Unit Department of the Prime Minister and Cabinet	Keiran Kennedy Manager The Treasury	Polly Vowles Policy Manager Ministry of Social Development	Eina Wong Principal Policy Advisor Inland Revenue
Rt Hon Jacinda Ardern Prime Minister and Minister for Child Poverty Reduction	Hon Grant Robertson Minister of Finance	Hon Carmel Sepuloni Minister for Social Development and Employment	Hon David Parker Minister of Revenue

Increasing main benefits through Budget 2021

7. The Minister for Social Development and Employment has been invited to submit a Budget 2021 bid to increase main benefit rates by $25 per week per adult[3] from 1 July 2021. The invitation also included:
   - complementary and minor income support changes that reduce the need for TAPs in the future; and
   - the flow-on cost of a partial increase to the MFTC threshold to ensure sole parent families working at least 20 hours (but not necessarily two-parent families) will be financially better off receiving the MFTC than remaining on a main benefit.
8. The fiscal and distributional impacts of the proposed Budget bid have been costed in line with HYEFU forecasts. Compared to PREFU, HYEFU shows lower forecasted benefit numbers and therefore fiscal costs over the forecast period. A full breakdown of these impacts is attached as Appendix One.
9. The total cost of the main benefit increase is **$2.2 billion** over the forecast period (or $530 million per year in outyears). The expected reduction of this policy change on children living in poverty in 2021/22 is:
   - 9,000 on the before-housing-costs primary measure (BHC50), with a margin of error of 5,000; and
   - 14,000 on the fixed line after-housing-costs (AHC) measure, with a margin of error of 5,000.
10. Approximately 436,000 individuals and families are expected to benefit from the policy, with an average gain of $23 per week when factoring in flow-ons to other assistance (such as TAS and AS). Ministers have previously expressed concerns about main benefit increases being eroded by offsets in TAS; however, TAS recipients would gain by $24 per week on average – with the gains depending on individual circumstances [REP/20/11/1081 provides more information on these interactions].
11. Like other major reforms, such as Budget 2019 changes, there is a group of non-beneficiaries receiving AS who will be disadvantaged due to the flow-on impacts of increasing main benefits[4]. Around 23,000 people would receive a reduction of their AS of around $5 per week. Similar to previous reforms such as the recent $25 per week increase on 1 April 2020, officials do not recommend extending a TAP to cover this group as this flow-on impact is intended, and reflects that this group is likely to experience wage increases throughout the year (e.g. due to the minimum wage increase occurring on 1 April 2021).

Outlining key policy parameters of the Budget 2021 bid

12. The modelling outlined in this paper has been undertaken on the basis of the following policy parameters discussed by joint Ministers. Should the bid be successful, changes to regulations to give effect to these changes as well as an amendment to primary legislation to give effect to the MFTC change will be required.

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[3] "Per adult" includes those under 18 and receiving a main benefit e.g. the Youth Payment.

[4] Increases to main benefits increase the entry threshold for AS meaning that non-beneficiaries are required to use more of their income to cover their accommodation costs.

Amending the Temporary Additional Support formula

13. Currently, TAS recipients with high disability costs can receive additional support above the TAS upper limit through an additional top-up called the disability exception amount[5].

14. Due to a technical anomaly in the TAS formula, a small number of people receiving the disability exception can receive more support for disability costs than the level of disability costs claimed (e.g. receive more TAS than the deficiency in income). Clients with high disability costs can therefore face a significant reduction in their income because of small changes to income support settings, or changes in circumstances, resulting in the complete loss of the disability exception. Further information on the TAS disability exception is outlined in Appendix Three.

15. The Budget bid proposes amending the TAS formula to ensure people receiving the disability exception can no longer receive more in TAS than the deficiency in income. This will result in a short-term reduction in support for some clients. The change in the formula will also make the exception more generous for those with very high disability costs to offset any negative impacts. This will prevent any future instances of financial disadvantage if people have a change in circumstance and/or have an increase in income as a result of the Annual General Adjustment or other income support changes. As a result, TAP's will no longer be required for people with high disability costs in future years.

16. With this proposed change, it is estimated this change in the formula would still financially disadvantage around 120 people (around 60 people more than the number of people disadvantaged if a main benefit increase was progressed on its own). In order to avoid this group being financially disadvantaged, officials recommend also introducing a TAP for the benefit increase on 1 July 2021.

17. While changes to the disability exception are primarily intended to prevent people from being disadvantaged going forward, they are also expected to benefit around 1,600 people with high disability costs by an average of $24 per week (in addition to any gains from the main benefit increase itself). The policy change is estimated to cost around $2.6m per year and $9.2m over the five-year forecast period.

18. This change is consistent with the intent of a number of the recommendations made by the Welfare Expert Advisory Group, including recommendations related to reforming supplementary and hardship assistance to improve income adequacy and improving the health and wellbeing of people with health conditions and disabilities.

Changing the definition of income for Childcare Assistance

19. Currently, Childcare Assistance is the only supplementary assistance which considers other supplementary assistance as income. This means that increases in benefit rates and the flow-on effects to supplementary assistance can reduce eligibility for Childcare Assistance. This could reduce the financial incentive for people to work. For example, two low-income families with the same level of childcare costs and income can receive very different levels of support for childcare depending on whether or not they receive AS.

20. Amending the definition of income for Childcare Assistance would exclude other supplementary payments as income, to reduce the impact of income support increases on eligibility for Childcare Assistance. This change will prevent around 260 people from being financially disadvantaged from the main benefit increase and all future increases. The change will also provide additional support to around 2,200 families with childcare costs (by an average of $24 per week) most of which are non-beneficiaries.

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[5] The disability exception amount is calculated as 30 percent of the client's excess disability costs (total disability costs minus their Disability Allowance).

21. If the main benefit bid does not progress through Budget 2021, officials recommend that this change is instead progressed through the Minister for Social Development and Employment's Budget 2021 bid 'Improving Childcare Assistance'. This is because this change is a key element for improving access to Childcare Assistance for low- and middle-income families. This change was also one of the detailed recommendations in the Welfare Expert Advisory Group's report in 2019.

Partial increase to the Minimum Family Tax Credit - to ensure all sole parents working at least 20 hours per week are financially better off receiving the MFTC than they would be remaining on the benefit.

22. The policy intent behind the MFTC is to provide a financial incentive for low-income families to move off the benefit and into "full time" work. For MFTC purposes, "full-time" is defined as 20 hours or more per week for sole-parent families, and 30 hours or more per week for two-parent families.

23. Since 2006, Cabinet policy has been to fully align the MFTC threshold with benefit settings to ensure all low-income families, regardless of whether they are sole parent or two-parent families, are financially better off working and receiving MFTC rather than on benefit [CAB Min (04) 13/4].

24. However, as part of its December 2020 decision to increase to the benefit abatement thresholds, Cabinet departed from this policy, agreeing to only partially increase the MFTC threshold for the 2021/22 tax year [CAB-20-MIN-0512].

25. This partial increase ensured sole parent families working at least 20 hours per week (approximately 90 percent of MFTC recipients) would still be financially better off receiving the MFTC rather than remaining on benefit. However, two-parent families working at least 30 hours per week (approximately 310 MFTC recipients) could potentially be better off remaining on benefit than receiving the MFTC.

We are seeking agreement to continue with the partial increase approach to the MFTC alignment if main benefit rates are increased

26. A partial increase to the MFTC threshold would still ensure that sole-parent families working at least 20 hours per week are guaranteed to be financially better off receiving the MFTC than they would be remaining on benefit. The MFTC threshold would be increased to $32,396 (after tax per year) from 1 July 2021 to 31 March 2022. This partial increase would have a fiscal cost of $32m over the forecast period (1 July 2021 to 30 June 2025). The fiscal cost may increase if any two-parent families move back onto an abated main benefit.

27. By comparison, under a full increase of the MFTC threshold, all eligible MFTC recipients (both sole parent and two-parent families) would be financially better off receiving the MFTC than they would be remaining on benefit. The MFTC threshold would be increased to $35,672 (after tax per year) for the same period. A full increase would cost $56m over the forecast period, with a small proportion of this cost offset by savings resulting from any two-parent families not going back onto the benefit.

28. As was the case in December 2020 when the benefit abatement thresholds were increased, the trade-offs between full and partial increases of the MFTC threshold are:

    - the fiscal cost of full alignment, and the impact full alignment would have on the upcoming review of the WFF; versus
    - the removal of the work incentives the MFTC provides to two-parent families.

29. In the present situation an additional issue arises under the full alignment approach. The size of the proposed benefit increase ($25 per adult) would mean that from 1 April 2023, a fully aligned MFTC threshold would (on a grossed-up basis) exceed the WFF abatement threshold ($42,700). This would not occur under the partial increase approach, at least not for the forecast period.

30. If the MFTC threshold were to exceed the WFF abatement threshold, MFTC recipients would see a reduction in their Family Tax Credit and In-Work Tax Credit entitlements they previously might have received. Therefore, officials consider the full increase approach is not an appropriate option at this time. The relationship between the MFTC threshold and the WFF abatement threshold will be considered as part of the review of WFF which will be in 2021 [REP/20/11/1047 refers].

The bid to increase main benefits will not include consequential increases to student support…

31. Officials understand that Ministers do not want to consider consequential increases to rates of student support as part of the Budget 2021 bid to increase rates of main benefits. This is on the basis that while the $25 weekly increase to main benefits earlier this year improved relativities between the two sets of rates, the base rates of main benefits generally remain around $25 per week lower than student support because of the $50 weekly increase to student allowance and student loan living cost rates in 2018.

32. [33]

… or financial assistance for caregivers

33. Officials understand that Ministers do not wish for increases to main benefit rates to flow through to the Orphan's Benefit (OB), Unsupported Child's Benefit (UCB), or Foster Care Allowance (FCA)[6].

34. Following the $25 increase to main benefits as part of the COVID-19 response, rates of OB/UCB/FCA were independently increased by $25 per week. Increases to OB/UCB/FCA are generally progressed separately or alongside FTC increases because these payments are considered more analogous to FTC than main benefits given they are designed to meet the cost of children.

35. Oranga Tamariki have advised that the Minister for Children has been invited to submit a Budget 2021 bid to increase financial assistance for caregivers. This bid has three components:

- removing the remaining disparities in standardised payments for caregivers receiving the OB, UCB, and FCA, by increasing the base rate of the OB and UCB by $30 for children aged 0-4 years, and $10 for children aged 5 years and over[7]
- a small increase to the nappy payment for OB, UCB and FCA caregivers, to more accurately reflect the cost of nappies
- [33]

[33]

36. [33]

[6] OB/UCB provide financial assistance to caregivers who care for children outside of the state care system. FCA provides financial assistance to caregivers of children in the state care system.

[7] This base rate increase accounts for the standard and nappy payments which are currently received by FCA caregivers but not OB/UCB caregivers.

[33]

[33]

37. [33]

38. [33]

39. [33]

[33]

40. [33]

[33]

41. [33]

42. [33]

[33]

[33]

Next steps

43. Subject to your agreement to the parameters of the bid to increase main benefits by $25 per week per adult, the Minister for Social Development and Employment will submit this bid for consideration as part of Budget 2021 next week.

44. [33]

Appendix One

Table 1: Financial implications

	2020/21	2021/22	2022/23	2023/24	2024/25	5-year total
Main benefit increases		$534.7m	$530.5m	$523.0m	$513.8m	$2,102.0m
Changes to TAS disability exception		$2.1m	$2.2m	$2.4m	$2.6m	$9.2m
Change to CCA income definition		$3.8m	$4.2m	$4.6m	$5.2m	$17.8m
MFTC		$8.0m	$8.0m	$8.0m	$8.0m	$32.0m
Project costs		$2.3m	-	-	-	-
Cost of package		**$550.9m**	**$544.9m**	**$538.0m**	**$529.6m**	**$2,161.3m**

45. Note that the costs and distributional analysis include interactions with the already agreed benefit abatement changes but do not include the direct impacts of this policy in these figures. Officials can provide further modelling on the combined impact of these changes as part of any communications material.

Table 2: Child Poverty impacts

Options	Child Poverty BHC50 (primary measure)	Child Poverty AHC50 (primary measure)
Main benefit increases	9,000 (±5,000)	14,000 (±5,000)
Youth rates	No impact	No impact

Table 3: Distributional impacts

	Average gains		Financially disadvantaged	
	Numbers who gain	Average gain	Numbers worse off	Average loss
Main benefit increases	436,000	$23	23,000	$6
Changes to TAS disability exception	1,600	$24	120	$15
Change to CCA income definition	2,200	$24	0	$0
Total package	437,000	$23	23,000	$6

[33]

Appendix Three: Further information on the TAS disability exception

Issue

1. The amount of TAS that can be paid is determined by a formula which assesses whether a client's costs are greater than their income. The amount of TAS available is generally equal to their income deficiency, up to a limit of 30 percent of their main benefit rate (the upper limit). The disability exception amount allows clients who are receiving the upper limit of TAS to receive additional support if their disability-related costs are greater than the available Disability Allowance.
2. The disability exception amount was intended to ensure that clients were not financially disadvantaged when TAS replaced the Special Benefit in 2006. The disability exception, and its design, was only meant to be a temporary arrangement until a long-term solution could be found.
3. Due to a technical anomaly in the TAS formula, a small number of people receiving the disability exception can receive more support for disability costs than both the level of disability costs claimed and the deficiency in income. Clients with high disability costs can therefore face a significant reduction in their income because of small changes to income support settings, or changes in circumstances, resulting in the complete loss of the disability exception.
4. Early last year, MSD estimated that around 70 people with high disability costs would lose an average of $13 from the Annual General Adjustment every year. This number increases when you include any income support policy changes or changes in circumstances from clients.

Example

5. The example below shows how a TAS recipient can have an income deficiency of $82.60 per week, yet receive a TAS payment of $112.32 per week due to qualifying for the disability exception. If this person has an income increase of 50 cents or more it can mean they lose the entire $30.21 disability exception as they no longer qualify for the TAS upper limit and therefore the disability exception.

	Hypothetical rates
Costs Accommodation Costs (minus accommodation loading) Disability Standard Costs (70% of Main Benefit)	 $134 $165 $191.59
Total Costs (A)	**$490.59**
Income Supported Living Payment AS DA	 $273.70 $70 $64.29
Total Income (B)	**$407.99**
Total Income Less Total Costs (deficiency) (=A-B)	-$82.60
Upper Limit for TAS (30% of Main Benefit) (C)	$82.11
Disability exception (D)	$30.21 (= ($165-$64.29) x 30%)
Total TAS (= C+ D)	**$112.32** ($82.11 upper limit plus $30.21 disability exception amount)
Total Financial Assistance	**$520.31**

Solution

6. To address this issue requires a change to the underlying TAS formula to ensure people are no longer entitled to a payment amount that is greater than the deficiency in their income. Because some people can currently receive more than their income deficiency, it means some people will be financially disadvantaged. In effect, this change increases the number

of people worse off in the short term but prevents any people from being worse off over the medium to long term. Those worse off in the short term will be compensated by a one-off TAP as described in the body of the report.

7. At the same time, it is proposed that the disability exception amount would be changed so that it meets the first $100 of excess disability costs in full (rather than a partial subsidy). The remaining costs would continue to be subsidised at the current co-payment rate of 30 percent. This helps mitigate the negative impacts from fixing the anomaly in the TAS formula and means 1,600 people benefit by $24 per week.