



Report

Date: 10 December 2021 **Security Level:** BUDGET - SENSITIVE

To: Hon Grant Robertson, Minister of Finance
Hon Dr Megan Woods, Minister of Housing
Hon Carmel Sepuloni, Minister for Social Development and Employment
Hon David Parker, Minister of Revenue
Hon Meka Whaitiri, Minister for Veterans

Joint Ministers' Report 2021 Half Year Economic and Fiscal Update of Benefit Forecasts for Vote Social Development

Purpose of the report

- 1 The purpose of the report is to:
 - obtain legal authority, through Ministerial approval, for changes to the expected level of spending for demand driven Benefits or Related Expenses (BoREs) and Capital Expenditure appropriations within Vote Social Development, as part of the Half Year Economic and Fiscal Update (HYEFU) 2021
 - explain expected trends in benefit payments for HYEFU 2021 and the key changes since the Budget Economic and Fiscal Update (Budget) 2021.

Executive summary

- 2 We have revised forecast benefit expenditure down by a total of \$22 million (0.02%) over the next four years to June 2025. The revision is small because of two offsetting factors: lower numbers of people on benefit, and indexation to higher inflation and wages. Both factors are related to the economic environment, which has been stronger than expected at Budget 2021.
- 3 Stronger than expected economic conditions have led to fewer people than previously expected on main benefits at HYEFU 2021, primarily Jobseeker Support.
- 4 The number of people on Sole Parent Support is expected to fall over the next five years after an initial rise in November 2021 from the recent policy changes.
- 5 Fewer people are expected on Accommodation Supplement because of the lower number of people on main benefits.
- 6 New Zealand Superannuation spending has increased because of higher-than-expected wage growth and inflation since Budget 2021 and over the forecast period.
- 7 The forecast at HYEFU 2021 is subject to economic and COVID-19 related uncertainties within New Zealand.
- 8 Our next forecast update will be at the Budget Economic and Fiscal Update 2022, which will likely be finalised around April 2022 and published in May 2022.

Recommended actions

9 It is recommended that you:

- a. **note** that the forecasts are mid-point estimates of what we expect actual expenditure to be
- b. **note** that the forecasts in this report use benefit information available as at 15 November 2021 and Treasury's macroeconomic forecasts finalised on 10 November 2021
- c. **note** that Appendix 1 shows the amounts requiring approval by Joint Ministers since Budget 2021 by appropriation, Appendix 2 shows the total change in expenditure from Budget 2021, and Appendix 3 shows the annual forecast expenditure at HYEFU 2021
- d. **note** under the current fiscal management approach the net impact of changes to forecasts has a corresponding impact on the budget operating balance through the in-year revisions process
- e. **note** that the forecast will be published on the Ministry of Social Development website on 15 December 2021 on the same day as Treasury publish their HYEFU 2021 forecast for easy accessibility
- f. **approve** the changes to appropriations set out in Appendix 1 to give effect to the HYEFU 2021 forecast update for changes in demand-driven appropriations within Vote Social Development
- g. **agree** to send a copy of the report to the Associate Minister for Social Development and Employment


 Yes / No

Minister for Social Development and Employment

h. **agree** that the proposed changes to appropriations in Appendix 1 for 2021/22 be included in the 2021/22 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.

Yes / No	Yes / No	Yes / No	Yes / No	Yes / No
Hon Grant Robertson Minister of Finance	Hon Dr Megan Woods Minister of Housing	Hon Carmel Sepuloni Minister for Social Development and Employment	Hon David Parker Minister of Revenue	Hon Meka Whaitiri Minister for Veterans


 Fleur McLaren
 General Manager System Performance
 Ministry of Social Development


 Hon Grant Robertson
 Minister of Finance
 Approval for all appropriations

Date 8/12/2021

Date 

Hon Dr Megan Woods
 Minister of Housing
 Approval for Accommodation Assistance

Hon Carmel Sepuloni
 Minister for Social Development and Employment
 Approval for all appropriations except Accommodation Assistance, Veteran's Pension and Student Loans

12/12/21

Date

Date

Hon David Parker
 Minister of Revenue
 Approval for Student Loans

Hon Meka Whaitiri
 Minister for Veterans
 Approval for Veteran's Pension

Date

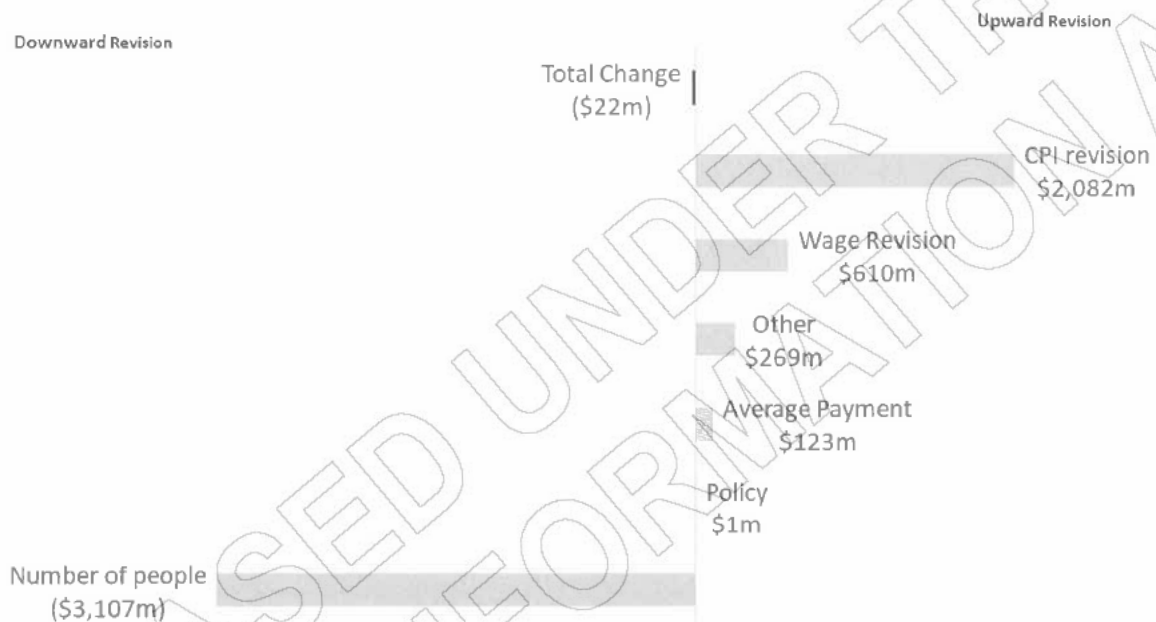
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We have revised benefit expenditure down by a total of \$22 million (0.02%) over the next four years

10 Forecast benefit expenditure is affected by two offsetting factors: lower numbers of people on benefit, and indexation to higher inflation and wages. The decrease in the number of people on benefit is greater than the effect of indexation, resulting in a decrease in benefit expenditure of \$22 million over the next four years (see Figure 1).

Figure 1: At HYEFU 2021 there has been a small downward revision to the expected level of spending over the next four years

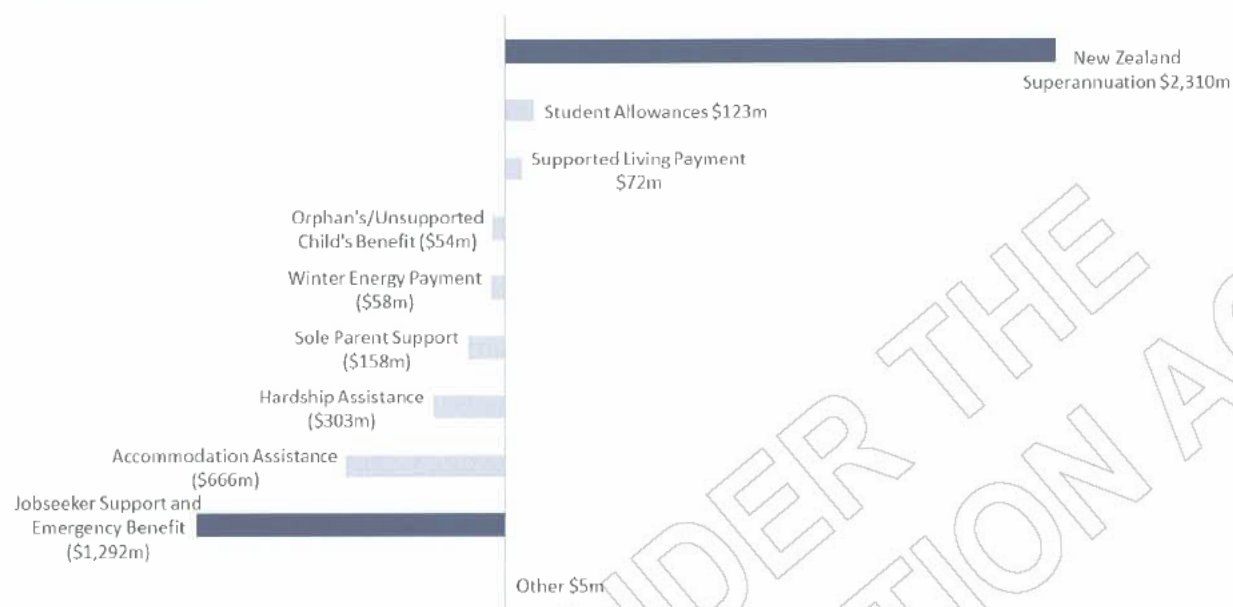
Vote Social Development - BoREs



11 A stronger than expected labour market and more job opportunities have led to about 27,000 (7.1%) fewer people on benefit than expected at Budget 2021. This has led to a downward revision in the number of people on benefit which reduces expenditure by approximately \$3.1 billion over the next four years. There have been downward revisions in Jobseeker Support and Emergency Benefit, and Accommodation Assistance (see Figure 1, Figure 2).

12 The stronger economic conditions have also seen Treasury's wage and CPI forecasts revised up from Budget 2021. As New Zealand Superannuation (NZS) and main benefits are indexed to inflation and wage growth, these factors combined raised expenditure by around \$2.7 billion over the next four years compared with Budget 2021 (see Figure 1).

Figure 2: Changes to JS and NZS have had offsetting effects to the total revision at HYEFU 2021



Stronger than expected economic conditions have led to fewer people than previously expected on main benefits at HYEFU 2021

13 At Budget 2021 it was expected that economic conditions would be soft, and the number of people on benefit would rise throughout 2021.

14 However, economic conditions have been stronger than expected, with better-than-expected GDP growth and a high level of employment over 2021. This has resulted in a lower starting point for our forecasts, with the number of working age beneficiaries being around 27,000 (7.1%) people below our last forecast at October 2021 (see Figure 3). This is because:

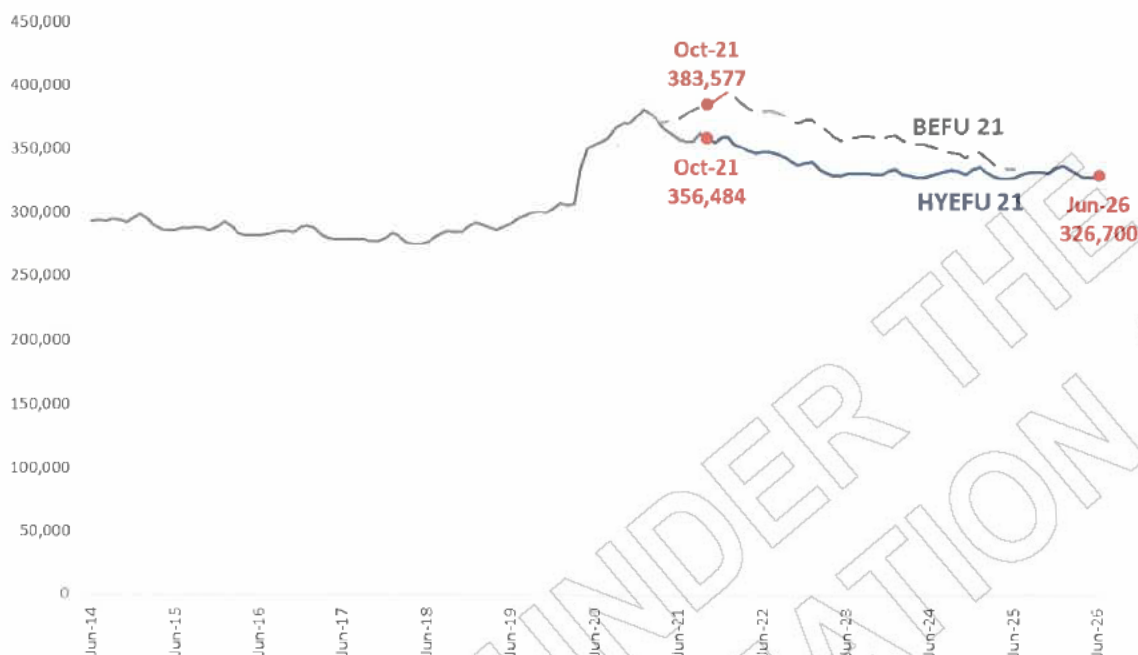
- recent economic data, including GDP growth¹ and labour market statistics², has been stronger than expected
- MSD has maintained a strong focus on supporting people into employment.

15 We use Treasury's macroeconomic outlook to directly inform our forecasts as economic and labour market conditions provide an indication of how easily people can find and retain work.

¹ GDP growth was 2.8% in the June 2021 quarter.

² Unemployment rate fell towards historic lows, reaching 3.4%.

Figure 3: The number of working age beneficiaries forecast at HYEFU 2021 is lower than forecast at Budget 2021



Strong economic conditions have led to fewer people than previously expected on Jobseeker Support at HYEFU 2021

16 Stronger than expected economic conditions have currently resulted in about 24,000 (11.1%) fewer people on Jobseeker Support (JS) than forecast at October 2021 (see Figure 4).

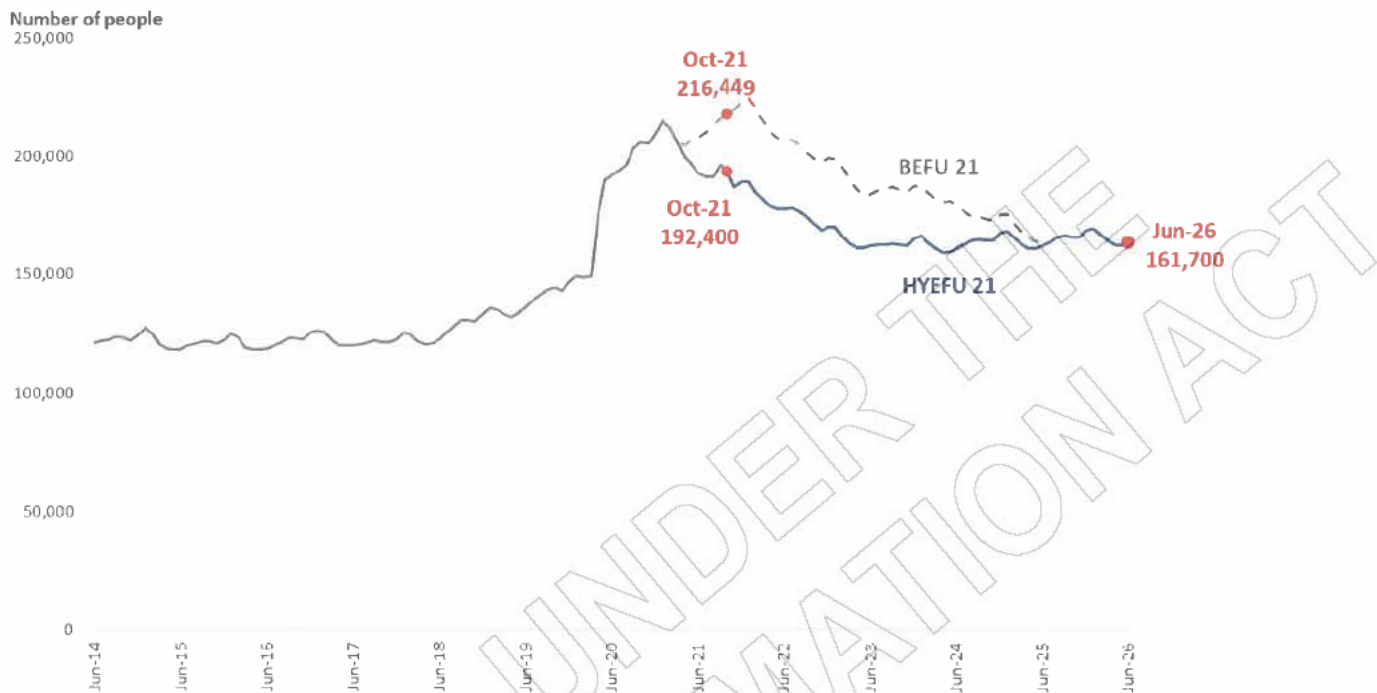
17 Economic growth is a key driver of JS and Treasury’s GDP forecast feeds into the JS outlook. Higher economic growth is associated with better labour market conditions, leading to more job opportunities.

18 Over the next four years, interest rates are expected to rise in response to the strong economic conditions and higher inflation. Inflation is expected to peak in early 2022, before declining towards the middle of the Reserve Bank’s target inflation band.

19 Treasury expects slower economic growth in the long term because higher interest rates will slow spending. Slower economic growth leads to fewer job opportunities, which will slow the decline in people receiving JS.

20 A rising number of JS recipients with three or more years of continuous duration will make it difficult for the number of people on JS to fall below pre-COVID levels.

Figure 4: The number of people on Jobseeker Support has declined faster than expected since January 2021, but is expected to slow



The number of people on Sole Parent Support is expected to fall over the next 5 years after an initial rise in November 2021

21 Higher than expected employment rates and fewer sole parent families have resulted in approximately 2,700 fewer people on Sole Parent Support (SPS) than forecast at Budget 2021 for October 2021 (see Figure 5).

22 The initial rise in the number of people on SPS reflects a policy effect from the Removal of the Subsequent Child Policy. Around 5,700 people were shifted from JS to SPS from this policy change in November 2021. At Budget 2021 this transfer was expected to be phased in over 12 months, however instead the transfer happened instantaneously on 8 November 2021³.

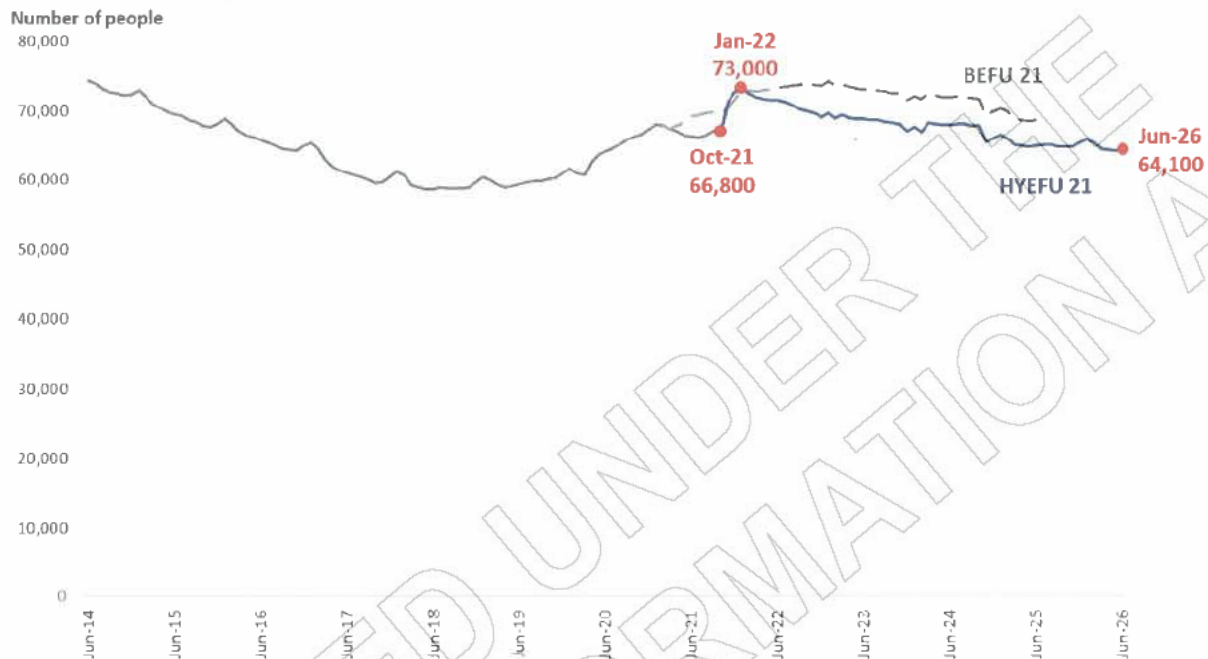
23 Following the increase from the transfer of sole parents on JS to SPS, we expect the number of people on SPS to decline over the next five years. This is because we expect:

- more sole parents will find employment through 2022, with the level of sole parent employment expected to remain high over the remaining forecast period
- the number of sole parent families to fall after 2022, of which fewer family breakdowns and more re-partnering are contributing factors

³ As November monthly data is not yet complete, this means November is still the first month of our forecast. However, prior to publishing we were aware that this transfer had occurred on 8 November 2021.

- in the long term we expect fewer people on SPS as the number of sole parent families falls, and fertility trends continue to fall across younger mothers (who are typically less financially secure)⁴.

Figure 5: Sole Parent Support has risen recently because of policy change, but is expected to fall over the next five years



Fewer people are expected on Accommodation Supplement because of the lower number of people on main benefits

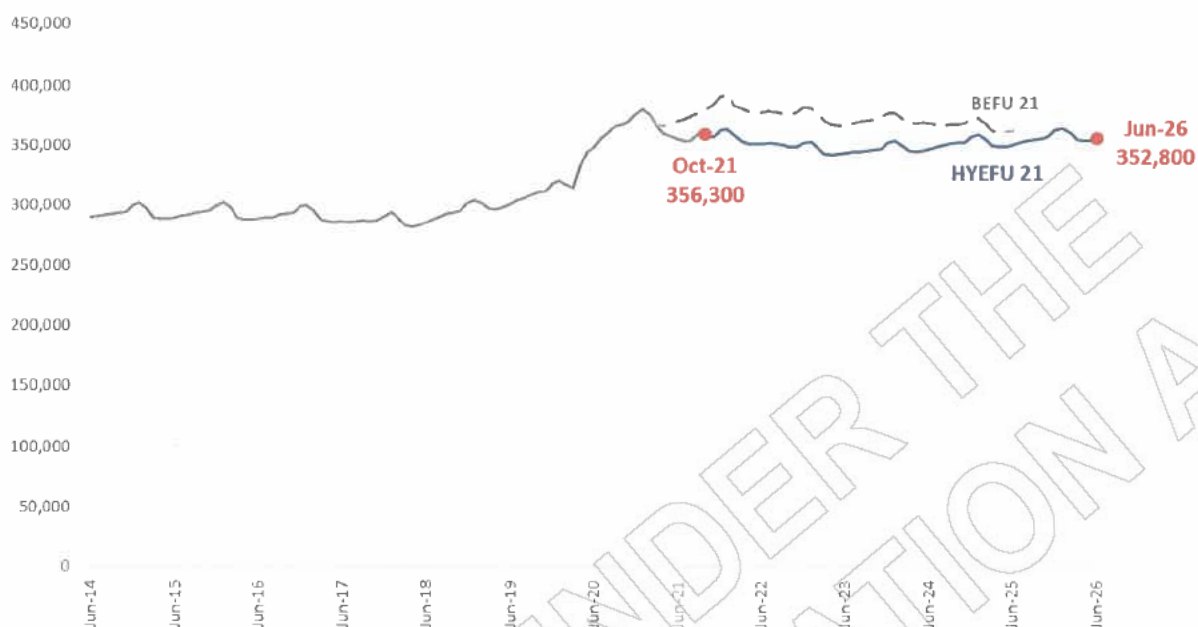
24 Stronger economic conditions have led to fewer working age beneficiaries than expected at Budget 2021, resulting in a downward revision in the number of people receiving Accommodation Supplement (AS) (see Figure 6).

25 Over the next five years, the number of people on AS is expected to decline until around mid-2023, but then rise to 352,800 by June 2026 (Figure 6). This is because of a combination of two factors:

- an ongoing rise in the number of NZS recipients taking up AS
- the decline in the number of people on JS flattens from mid-2023.

⁴ See 'Fact-sheet: what's happening to the number of sole parents on benefit?' at <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/covid-19/whats-happening-to-the-number-of-sole-parents-on-benefit.html>.

Figure 6: Fewer working age beneficiaries has seen a downward revision in Accommodation Supplement, with a slight increase in the long term



New Zealand Superannuation spending has increased because of higher-than-expected wage growth and inflation

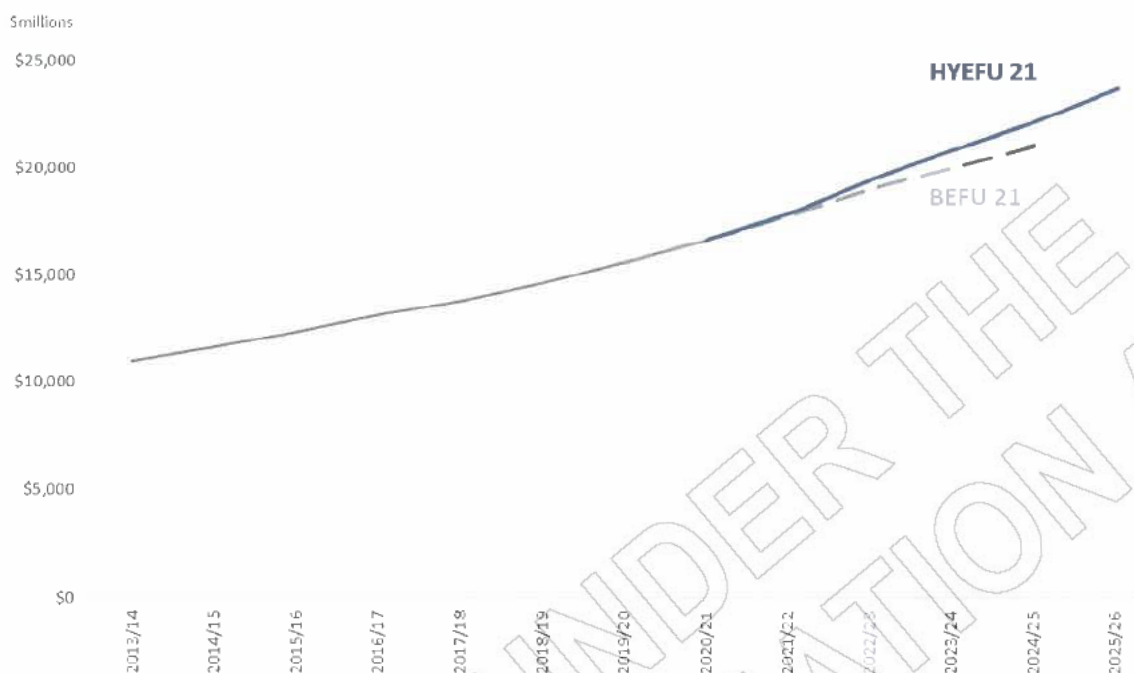
26 The largest revision in terms of expenditure comes from NZS. NZS expenditure is expected to be \$2.3 billion (3.0%) higher over the next four years than at Budget 2021. Most of this increase (\$1.9 billion) is due to higher inflation and wage adjustments.

27 We expect NZS payments will increase in line with inflation, rather than wages in April 2022 because inflation for the year to December 2021⁵ is expected to be higher than wage growth over the same period⁶.

⁵ Inflation for the year to December 2021 is used for the April 2022 NZS Annual General Adjustment.

⁶ NZS payments are first indexed to inflation, and then lifted to 66% of average wages (after tax) if necessary

Figure 7: Higher indexation has resulted in an upward revision to New Zealand Superannuation expenditure



The forecast at HYEFU 2021 is subject to economic and COVID-19 related uncertainties within New Zealand

28 There are some areas of uncertainty in the HYEFU 2021 forecasts surrounding the ongoing COVID-19 impacts. These are:

- the effect of the new vaccine mandates on benefit take-up
- the level of community transmission of COVID-19 within New Zealand and its impact on economic conditions
- uncertainties around people’s travel behaviour once border restrictions are lifted.

29 MSD uses Treasury’s macroeconomic forecasts as an input into the benefit numbers forecast. The Treasury forecasts overall employment levels and does not specifically separate the impact of vaccine mandates. They consider the impact of mandated vaccines on total employment is likely to be small over time.

30 Adding to the uncertainty is the impact of the vaccine mandate on benefit take-up, as a person losing a job may or may not result in take-up of a benefit payment. For example, a person who loses a job from the vaccine mandate may have a partner and if they earn over \$809 per week⁷ (\$42,068 per annum) will not qualify for JS.

31 The forecast number of people on JS and SPS face the most variability, as these benefits are directly affected by economic and labour market conditions.

⁷ Jobseeker Support cutout point as at 1 July 2021.

Appendix 1: Changes to appropriations requiring approval

32 All changes to Vote Social Development appropriations that require approval and any increases for 2021/22 at HYEFU 2021 will be met from Imprest Supply until the approval of the Supplementary Estimates.

33 The \$19.682 million change in debt write-downs over five years is mainly because of an expected increase from changes to the level of outstanding debt, interest rates and other factors. These factors are used to calculate the debt write-down provision for social benefit receivables and are in accordance with generally accepted accounting standards.

Vote Social Development - Changes in Benefits or Related Expenses	2021/22 (\$000)	2022/23 (\$000)	2023/24 (\$000)	2024/25 (\$000)	2025/26 and Outyears (\$000)	Five Year Total to 2025/26
Accommodation Assistance ¹	(157,704)	(156,935)	(189,514)	(147,772)	(90,554)	(742,479)
Childcare Assistance	(13,782)	(3,482)	3,249	4,898	6,832	(2,485)
Disability Assistance ²	(3,257)	2,188	7,661	13,533	22,403	42,528
Family Start/NGO Awards	-	-	-	-	-	-
Hardship Assistance ³	(90,761)	(84,597)	(77,860)	(55,009)	(4,572)	(312,499)
Jobseeker Support and Emergency Benefit	(516,726)	(476,666)	(323,085)	25,966	204,757	(1,085,754)
New Zealand Superannuation	103,306	409,882	766,408	1,024,215	2,566,494	4,870,305
NZ Beneficiaries Stranded Overseas	(5,786)	-	-	-	-	(5,786)
Orphan's/Unsupported Child's Benefit	(13,773)	(11,444)	(12,779)	(15,524)	1,017	(52,503)
Sole Parent Support	(21,524)	(74,747)	(52,113)	(9,820)	43,061	(115,143)
Special Circumstance Assistance	(487)	(423)	(408)	(423)	(99)	(1,840)
Student Allowances	(31,623)	21,124	57,267	76,371	109,774	232,913
Study Scholarships and Awards ⁴	-	-	-	-	-	-
Supported Living Payment	(20,401)	(13,737)	31,027	76,024	180,708	253,621
Training Incentive Allowance	(7,981)	-	-	-	-	(7,981)
Transitional Assistance	(95)	-	-	-	-	(95)
Veteran's Pension	363	2,403	4,330	5,231	1,460	13,787
Work Assistance	(34)	72	117	142	214	511
Winter Energy Payment	(16,738)	(17,452)	(15,750)	(8,095)	4,748	(53,287)
Youth Payment and Young Parent Payment	(3,423)	(1,889)	(663)	668	5,681	2,374
TOTAL BENEFITS	(798,426)	(405,703)	198,187	990,205	3,051,924	3,036,187
SUB-TOTAL excluding NZS and VP	(902,095)	(817,988)	(572,551)	(39,241)	483,970	(1,847,905)
1 This consists of Accommodation Supplement, Emergency Housing SNGs and Special Transfer Allowance						
2 This consists of Child Disability Allowance and Disability Allowance						
3 This consists of Special Benefit, Special Needs Grants, Temporary Additional Support, and Christchurch Response Payment						
4 This consists of Scholarship and NQF/NCEA Awards, and TeachNZ Scholarships						
5 The additional year is the change from 2025/26 HYEFU less 2024/25 BEFU						
Vote Social Development - Changes in Capital Expenditure	2021/22 (\$000)	2022/23 (\$000)	2023/24 (\$000)	2024/25 (\$000)	2025/26 and Outyears (\$000)	Five Year Total to 2025/26
Recoverable Assistance	(102,970)	(70,990)	(65,273)	(44,905)	(25,395)	(309,533)
Student Loans	(74,260)	35,710	77,681	112,750	167,982	319,863
TOTAL CAPITAL EXPENDITURE	(177,230)	(35,280)	12,408	67,845	142,587	10,330
Vote Social Development - Changes in Non-departmental other expense - Debt Write off Provision for Social Benefit Debt	2021/22 (\$000)	2022/23 (\$000)	2023/24 (\$000)	2024/25 (\$000)	2025/26 and Outyears (\$000)	Five Year Total to 2025/26
Debt Write-downs	3,359	4,080	4,082	4,081	4,080	19,682
Total Forecast Change	3,359	4,080	4,082	4,081	4,080	19,682

Appendix 2: Total change in expenditure

34 This table shows all changes since Budget 2021 and includes those decisions already made by Ministers or Cabinet

Vote Social Development - Changes In Benefits or Related Expenses	2021/22 (\$000)	2022/23 (\$000)	2023/24 (\$000)	2024/25 (\$000)	2025/26 (\$000)	Four Year Total to 2024/25	Five Year Total to 2025/26
Accommodation Assistance ¹	(172,264)	(156,935)	(189,514)	(147,772)	(90,554)	(666,485)	(757,039)
Childcare Assistance	(13,782)	(3,482)	3,249	4,698	6,832	(9,317)	(2,485)
Disability Assistance ²	(3,257)	2,188	7,661	13,533	22,403	20,125	42,528
Family Start/NGO Awards	-	-	-	-	-	-	-
Hardship Assistance ³	(86,234)	(84,577)	(77,560)	(55,009)	(4,572)	(303,380)	(307,952)
Jobseeker Support and Emergency Benefit	(516,726)	(476,823)	(323,407)	25,452	197,050	(1,291,504)	(1,094,454)
New Zealand Superannuation	103,306	410,836	768,380	1,027,382	2,570,987	2,309,904	4,880,891
NZ Beneficiaries Stranded Overseas	(5,786)	-	-	-	-	(5,786)	(5,786)
Orphan's/Unsupported Child's Benefit	(13,773)	(11,444)	(12,779)	(15,524)	1,017	(53,520)	(52,503)
Sole Parent Support	(21,524)	(74,747)	(52,113)	(9,820)	24,954	(158,204)	(133,250)
Special Circumstance Assistance	(487)	(423)	(408)	(423)	(99)	(1,741)	(1,840)
Student Allowances	(31,623)	21,124	57,267	76,371	135,002	123,139	258,141
Study Scholarships and Awards ⁴	-	-	-	-	-	-	-
Supported Living Payment	(20,401)	(13,931)	30,628	75,368	179,816	71,684	251,500
Training Incentive Allowance	(7,981)	-	-	-	(12,606)	(7,981)	(20,587)
Transitional Assistance	(95)	-	-	-	-	(95)	(95)
Veteran's Pension	363	2,409	4,341	5,248	1,481	12,361	13,842
Work Assistance	(34)	72	117	142	214	297	511
Winter Energy Payment	(16,738)	(17,452)	(15,750)	(8,095)	3,433	(58,035)	(54,602)
Youth Payment and Young Parent Payment	(1,423)	(1,889)	(663)	668	5,681	(3,307)	2,374
TOTAL BENEFITS	(808,459)	(405,074)	199,449	992,239	3,041,039	(21,845)	3,019,194
SUB-TOTAL excluding NZS and VP	(912,128)	(818,319)	(573,272)	(40,391)	468,571	(2,344,110)	(1,875,539)

1 This consists of Accommodation Supplement, Emergency Housing SNGs and Special Transfer Allowance

2 This consists of Child Disability Allowance and Disability Allowance

3 This consists of Special Benefit, Special Needs Grants, Temporary Additional Support, and Christchurch Response Payment

4 This consists of Scholarship and NQF/NCEA Awards, and TeachNZ Scholarships

Vote Social Development - Changes in Capital Expenditure	2021/22 (\$000)	2022/23 (\$000)	2023/24 (\$000)	2024/25 (\$000)	2025/26 (\$000)	Four Year Total to 2024/25	Five Year Total to 2025/26
Recoverable Assistance	(98,385)	(70,990)	(65,273)	(44,905)	(25,395)	(279,553)	(304,948)
Student Loans	(74,260)	35,710	77,681	112,750	168,466	151,881	320,347
TOTAL CAPITAL EXPENDITURE	(172,645)	(35,280)	12,408	67,845	143,071	(127,672)	15,399

Appendix 3: Total expenditure by appropriation

Vote Social Development - Benefits or Related Expenses	2021/22 (\$000)	2022/23 (\$000)	2023/24 (\$000)	2024/25 (\$000)	2025/26 and Outyears (\$000)	Five Year Total to 2025/26
Accommodation Assistance ¹	2,325,251	2,241,278	2,188,284	2,238,687	2,295,905	11,289,405
Childcare Assistance	149,090	165,150	171,682	178,528	180,662	845,112
Disability Assistance ²	413,913	424,004	434,330	442,630	451,500	2,166,377
Family Start/NGO Awards	100	0	0	0	0	100
Hardship Assistance ³	504,709	548,016	588,794	638,120	688,557	2,968,196
Jobseeker Support and Emergency Benefit	3,340,249	3,390,723	3,418,730	3,584,311	3,755,909	17,489,922
New Zealand Superannuation	17,794,382	19,341,746	20,744,903	22,049,604	23,593,209	103,523,844
NZ Beneficiaries Stranded Overseas	1,246	0	0	0	0	1,246
Orphan's/Unsupported Child's Benefit	318,706	366,060	387,918	405,547	422,088	1,900,319
Sole Parent Support	1,698,364	1,803,350	1,835,646	1,857,771	1,892,545	9,087,676
Special Circumstance Assistance	10,280	10,651	10,914	11,196	11,520	54,561
Student Allowances	624,751	687,865	693,354	743,026	801,657	3,550,653
Study Scholarships and Awards ⁴	23,167	20,426	20,426	20,426	20,426	104,871
Supported Living Payment	2,040,246	2,217,367	2,327,199	2,430,691	2,535,119	11,550,622
Training Incentive Allowance	26,867	37,893	37,659	13,566	960	116,945
Transitional Assistance	405	500	500	500	500	2,405
Veteran's Pension	133,946	130,566	126,032	120,861	117,094	628,499
Work Assistance	3,133	2,744	2,845	2,913	2,985	14,620
Winter Energy Payment	513,504	517,673	523,523	534,966	546,494	2,636,160
Youth Payment and Young Parent Payment	62,713	68,183	73,152	78,395	83,408	365,851
TOTAL BENEFITS	29,985,022	31,974,195	33,585,891	35,351,738	37,400,538	168,297,384
SUB-TOTAL excluding NZS and VP	12,056,694	12,501,883	12,714,956	13,181,273	13,690,235	64,145,041

1 This consists of Accommodation Supplement, Emergency Housing SNGs and Special Transfer Allowance

2 This consists of Child Disability Allowance and Disability Allowance

3 This consists of Special Benefit, Special Needs Grants, Temporary Additional Support, and Christchurch Response Payment

4 This consists of Scholarship and NQF/NCEA Awards, and TeachNZ Scholarships

Vote Social Development - Capital Expenditure	2021/22 (\$000)	2022/23 (\$000)	2023/24 (\$000)	2024/25 (\$000)	2025/26 and Outyears (\$000)	Five Year Total to 2025/26
Recoverable Assistance	342,875	397,325	413,352	437,763	457,273	2,048,588
Student Loans	1,599,693	1,742,428	1,773,497	1,836,981	1,892,697	8,845,296
TOTAL CAPITAL EXPENDITURE	1,942,568	2,139,753	2,186,849	2,274,744	2,349,970	10,893,884

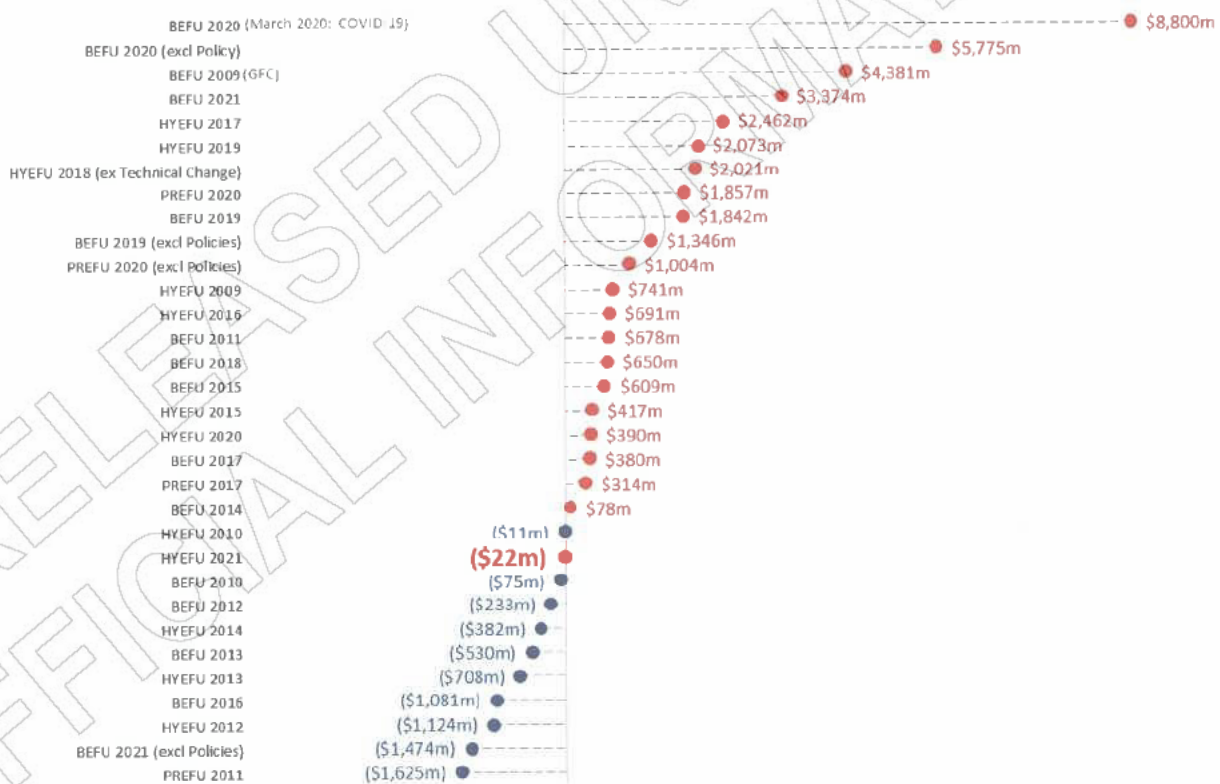
Appendix 4: Forecast Revisions

35 Forecasting and Costing minimise our forecasting risks by considering revisions from the previous forecasting round. At \$22 million the revision to the four-year forecast at HYEFU 2021 is relatively small compared with historical revisions (see Figure 8).

36 Robustness of our forecasts is ensured by undertaking both internal and external quality assurance. We work closely with MSD's policy teams, Service Delivery and the Treasury to incorporate any potential impacts on benefit trends as well as macroeconomic assumptions into the expenditure calculations.

37 MSD recently underwent an external audit of the forecasting process and model. The key findings of the review are that the forecasting methods and tools adopted, while relatively simple, are fit for purpose for key internal and external stakeholder requirements. The models' level of forecasting accuracy is appropriate. While improvements in process and controls are possible, these are incremental.

Figure 8: The forecast revision at HYEFU 2021 is relatively small compared to previous years



REP/21/11/1266

File ref: A13761250

Author: **Out of scope** Graduate Analyst, Forecasting and Costing– System Performance

Responsible manager: Nathan Young, Manager, Forecasting and Costing– System Performance