



Aide-mémoire

Meeting

Date: 8 March 2021 **Security Level:** BUDGET SENSITIVE

For: Hon Carmel Sepuloni, Minister for Social Development and
Employment

File Reference: REP/21/3/215

Budget 2021 – Main benefit increases and other income support initiatives

Meeting/visit details	12:15pm- 1:00pm, 9 March 2021, Prime Minister’s Boardroom
Expected attendees	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 Officials will be waiting outside the meeting and can attend if needed.
Purpose of meeting	This meeting is to discuss the Budget 2021 bid to increase main benefits, following recent advice [REP/21/3/175 refers], as well as other income support Budget initiatives. This meeting will also provide an opportunity to discuss the next steps on the review of Working for Families (WFF).
Background	You have been invited to submit a Budget 2021 bid to increase main benefits by \$25 per week per adult from 1 July 2021 and complementary income support changes to reduce the number of people financially disadvantaged by future benefit increases. The Minister for Child Poverty Reduction subsequently requested further information on a \$50 per week per adult increase to main benefits. On 4 March 2021, officials provided you, the Minister for Child Poverty Reduction, the Minister of Finance, and the Minister of

Revenue with further advice to respond to this request [REP/21/3/175 refers].

You are also progressing a number of other income support initiatives through Budget 2021 including:

- Improving the Subsequent Work Capacity Medical Certificate Process for Jobseeker Support – Health Condition and Disability.
- Improving Childcare Assistance for Low - and Middle-Income Families.
- § 9(2)(f)(iv) [REDACTED]
- § 9(2)(f)(iv) [REDACTED]

These income support initiatives are outlined in Appendix One. Your wider Budget 2021 package is attached as Appendix Two.

Our advice

Main benefit increases through Budget 2021

A \$50 per week main benefit increase would significantly reduce poverty but has large fiscal costs

Increases to main benefits are one of the most highly targeted and cost-effective income support levers to reduce poverty and child poverty.

A \$50 per week increase to main benefits would improve income adequacy and more than double the anticipated reduction in child poverty on the before-housing-cost primary measure compared to a \$25 per week increase.

To significantly contribute to the achievement of the second round of three-year child poverty targets, any initiatives will need to be fully implemented by July 2022.

However, a \$50 per week main benefit increase has a significant fiscal cost (a total of \$4.2 billion over the forecast period for a 1 July 2021 increase) which presents some key trade-offs with other spending priorities in Budget 2021, including your other Budget initiatives (outlined in the Appendix One and Two).

A \$50 per week main benefit increase would have implications for study and work incentives

If progressed in isolation to increases to student support, a \$50 per week main benefit increase would mean benefits would be around \$25 higher per week than equivalent student support rates. This difference may influence people’s decisions whether to study or look for work. MSD recommends that further consideration is given to consequential increases to student supports if main benefits are increased by \$50 per week.

Main benefit increases also reduce the financial incentives to work, particularly for sole parents and secondary earners in

couples with children who earn the minimum wage¹. This is because increases to out-of-work incomes without increasing in-work incomes and/or the minimum wage reduces the financial returns from work.

Any negative impacts on financial incentives for families with children could be mitigated through increases to in-work incomes (either through increases to WFF and/or minimum wage) or through increases in subsidies for in-work costs such as childcare. Increased employment support would also be complementary.

Your Budget 2021 bid to improve Childcare Assistance could help to mitigate the negative impact on financial incentives

You have been invited to submit a Budget 2021 bid on improving Childcare Assistance. This bid includes a suite of changes to help reduce the costs of childcare and improve work incentives for low to middle-income families.

There are also lower-cost options that could be considered, including re-instating the indexation of income thresholds for Childcare Assistance to average wage growth (as these have not increased since 2010), s 9(2)(f)(iv)

A fundamental review of childcare (across MSD and Ministry of Education) is on the long-term welfare overhaul work programme². This long-term work is currently planned to commence in 2023/24. The current Budget bid addresses key short-term issues with Childcare Assistance to improve financial incentives to work, s 9(2)(f)(iv)

These short-term changes are unlikely to limit the options in the fundamental review.

Negative impacts on work and study incentives could be mitigated by increasing support for families with children s 9(2)(f)(iv)

s 9(2)(f)(iv)

¹ Financial incentives to work are only one factor that affects work decisions, with other factors including the availability of suitable employment and childcare, macroeconomic conditions, attitudes to risk and whether there are any caregiving responsibilities or health conditions and disabilities within the household.

² SWC-19-MIN-0168: Welfare Overhaul: Update on Progress and Long-Term Plan

s 9(2)(f)(iv)

Update on the Working for Families review

Joint agencies are undertaking a review of WFF, as part of the welfare overhaul work programme, and intend to brief Ministers late March 2021.

This report will test some key questions and preferences with Ministers in terms of the relative emphasis of the objectives, and key principles (such as the desired balance between income adequacy versus financial incentives to work / making work pay, targeted support versus universalism). It will then also lay out the potential options for reform that would flow from these key design choices.

The report will provide initial advice on the high-level considerations and trade-offs, potential timeframes for consideration, and the contribution that the various options can make towards achieving the child poverty targets. It will seek direction from Ministers on the preferred approach and option/s to progress detailed work on.

Next steps

Officials can, if requested, provide further advice on \$50 increases to main benefits through Budget 2021 or across Budget 2021 and Budget 2022, including further advice on increases to student support with support from the Ministry of Education.

Officials will provide further advice on the WFF review in late March 2021.

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³ s 9(2)(f)(iv)