

Aide-mémoire



**MINISTRY OF SOCIAL
DEVELOPMENT**
TE MANATŪ WHAKAHIATO ORA

Meeting

Date: 23 November 2017 **Security Level:** IN CONFIDENCE

For: Hon Phil Twyford, Minister of Housing and Urban Development

Families Package

Cabinet Committee Cabinet

Date of meeting Monday 27 November 2017

Minister Hon Grant Robertson, Minister of Finance

Proposal This paper seeks Cabinet's agreement to the decisions required to draft and introduce the legislation to implement the Families Package. We recommend you support the proposals contained in the Cabinet Paper.

- Key issues**
- You are one of the Ministers responsible for the Families Package (the Package)
 - The Government's 100 day plan includes a commitment to legislate to pass the Families Package
 - A series of detailed design decisions on the components of the Package have already been made by Families Package Ministers, and Cabinet agreement to these key decisions is now being sought
 - Decisions are required so that legislation can be drafted and introduced into the House before Christmas, to enable implementation of the Package
 - The key component of the Package that relates to your portfolio as Minister of Housing and Urban Development is the Accommodation Supplement changes, on which MSD's advice is outlined below.

The decisions relevant to your portfolio are those on the Accommodation Supplement (AS) changes

The components of the package that you may be required to speak to are the changes to the Accommodation Supplement. These are the changes to the maxima, AS Area allocations, and AS Area boundaries.

Implement the AS maxima changes (as already legislated for)

The maxima changes increase the maximum payments available based on the 40th percentile of 2016 rents. These changes will help to ensure that the amount of AS available better reflects housing costs across New Zealand and help to alleviate the risk that AS recipients experience financial hardship as a result of rising housing costs and declining residual incomes:

- 130,000 households will receive more AS each week, with an average weekly gain of approximately \$33 per week
- 8,300 people will no longer be accessing Temporary Additional Support (TAS)¹ and 37,700 people will see a decrease in their TAS. This will result in a 12 percentage reduction in the number of TAS recipients and a saving of \$104 million from reduced TAS spend over 2018/19.

Update AS Area allocations (as already legislated for)

All locations in New Zealand are allocated to one of four AS Areas, according to their rental costs. Each AS Area has different maximum payments (maxima) reflecting these rental costs.

These allocations had not been updated since 2005. The previous Government's changes in Budget 2017 used 2016 rents to re-allocate locations to the most appropriate AS Area. AS Area 1 contains the locations with the highest rental costs, and therefore has the highest AS maxima, while Area 4 has the lowest rental costs, and the lowest maxima.

This means, for example, that on 1 April 2018 Tauranga will move from AS Area 2 to AS Area 1, reflecting strong rental cost growth since 2005.

Update AS Area boundaries (as already legislated for)

For AS, locations in New Zealand are defined using Statistics New Zealand's geographical boundaries, for example the Hamilton urban area. The boundaries used for AS had not been updated since 2005, and are currently based on 2001 Statistics boundaries. The previous Government's changes legislated to update these boundaries to the 2017 Statistics New Zealand boundaries, on 1 April 2018. The boundary changes primarily reflect population growth and this update means that communities should be appropriately included in their associated urban areas and area units, and eligible people should be able to access an appropriate level of AS.

Statistics New Zealand subsequently confirmed that it will be further updating geographical boundaries, effective from 1 January 2018. This will mean that the currently legislated boundary update will not be in line with the latest Statistics New Zealand boundaries, when it is introduced (as is currently

¹ TAS provides payments to meet the shortfall between a recipient's income and their essential living costs, up to a maximum amount. Approximately 98 percent of TAS recipients are also receiving AS.

required).

Officials considered updating AS Area boundaries using the 2018 Statistics New Zealand boundaries. Our analysis showed that, due to definitional changes by Statistics New Zealand, more AS recipients would lose financial support than would gain as a result of this update, unless significant AS Area expansion was undertaken (refer to REP/17/11/1081 for further detail). For this reason, officials recommended maintaining the 2017 statistical boundaries for the AS changes on 1 April 2018.

Further changes to AS

Agreement is being sought to two further changes related to AS Area boundaries²:

- to amend the definitions of AS Areas and section 611 of the Social Security Act 1964, to refer to the 2017 Statistics New Zealand boundaries, as defined by the Government Statistician at 26 June 2017. This will remove the requirement that AS Area boundaries be updated when Statistics New Zealand updates boundaries.
- to move the definitions of AS Areas from the Social Security Act 1964 into regulations. This will enable AS Areas to be defined in future without reference to statistical areas as defined by Statistics New Zealand.

Under the current legislation, MSD is required to update AS Area boundaries when Statistics New Zealand updates boundaries. The Statistics New Zealand updates are generally undertaken annually.

These updates are undertaken for a variety of reasons, but rental cost growth is not a factor that is considered. Annual updates would mean that some recipients would be likely to have their AS entitlement reduced, simply because a boundary had moved slightly, with no consideration of their actual housing costs.

Removing the requirement that AS Areas be updated when Statistics New Zealand updates boundaries, and moving the definitions into regulations, will provide Ministers with much greater flexibility to update AS Area boundaries at any time in the future, using methods that account for trends in housing data and changes in housing costs. MSD would likely still draw on Statistics New Zealand data in considering boundary definitions in the future.

Note that this does not mean that MSD intends to use the 2017 statistical boundaries to define AS Areas and boundaries forever. Rather, the 2017 boundaries are the best choice for now, and future reviews of AS can consider the most appropriate way to ensure that boundaries reflect population growth, without arbitrarily disadvantaging recipients and without MSD being

² Both of these changes are currently proposed in the Rewrite Bill and would be removed if Cabinet agree to the proposals contained in this Cabinet Paper.

required to align AS Area boundaries with Statistics New Zealand boundaries.

The following changes will be progressed through the Families Package Omnibus Bill to enable the changes above:

- amend Schedule 18 and section 611 of the Social Security Act 1964 to fix the AS Area boundaries to the 2017 Statistics New Zealand boundaries
- amend section 611 of the Social Security Act so that AS Area boundaries can be defined in regulations and to provide that the definitions of AS Area boundaries in Schedule 18 are repealed once regulations to define AS Areas have been passed and come into force.

The effect of these legislative changes is to fix the AS Area boundaries to the 2017 Statistics New Zealand boundaries, until Ministers pass regulations to make any desired updates to AS Areas in the future.

Other key components of the Families Package

- repeal the tax cuts and changes to Working for Families (WFF) tax credits announced in Budget 2017
- boost the incomes of low and middle income families by increasing the Family Tax Credit and raising the abatement threshold
- reinstate the Independent Earner Tax Credit
- introduce a Best Start payment to help families with costs in a child's early years
- introduce a Winter Energy Payment to help older New Zealanders and many of our poorest families heat their homes over winter
- implement the Accommodation Supplement and Accommodation Benefit changes as currently planned.

Advice on other components of the package

MSD's role in the Families Package

MSD will be administering the Accommodation Supplement, Accommodation Benefit (paid to students to help with their accommodation costs), Winter Energy Payment and Orphan's Benefit and Unsupported Child's Benefit components of the Families Package for all recipients

MSD will also be administering, on behalf of Inland Revenue, Best Start payments and the Family Tax Credit payment rates increases, for people receiving a main benefit.

Other key points to note

- The distributional analysis in the paper shows the impact of the Families Package as compared to the package developed by the previous government. This means it does not show the actual impact on people's incomes (i.e. what they will experience). This analysis will be provided by Treasury at a later date

-
- The Families Package will result in significant implementation costs to MSD, and will include on-going costs for administration of the two new payments (Winter Energy Payment and Best Start). Cabinet will be considering establishing a contingency for MSD for these costs
 - MSD has identified a number of one-off costs in 2017/18. This includes \$400,000 to update MSD's internal calculators (so that staff can estimate changes to clients entitlements) and external calculators for the public to use, for AS and Childcare Assistance.
 - This figure also includes funding for a more fundamental update of these calculators (which have not been updated since the mid-2000s).
-