[BUDGET SENSITIVE]

Office of the Minister for Social Development and Employment

Cabinet Social Wellbeing Committee

Welfare assistance package to help low-income people meet the increasing cost of living

Proposal

1 This paper seeks Cabinet's approval for:

1.1 a one-off increase to main benefit rates on 1 April 2023, after wage indexation, so that the total increase is equivalent to the increase in the Consumers Price Index (CPI); and

1.2 an additional $3 million in funding to Building Financial Capability services from Community Support Services underspends.

Relation to Government priorities

2 This proposal relates to this Government's priority to help families with the increasing cost of living.

One-off increase to main benefit rates

Background

3 As part of the 2019 Wellbeing Budget, and the Government's welfare overhaul in line with recommendation 21 from the Welfare Expert Advisory Group (WEAG), Cabinet agreed to index main benefit rates using net average wage growth from 1 April 2020 [CAB-19-MIN-0174.36]. Main benefit rates have been indexed to net average wage growth since 1 April 2020 on an annual basis, and are set to increase on 1 April 2023 as part of this process.

4 Prior to this change, main benefit rates were indexed to increases in the Consumers Price Index (CPI), which has historically been lower than growth in net average wages. This change was intended to deliver additional support to beneficiaries following roughly three decades of higher wage growth than inflation, and in doing so reduce the gap in living standards between beneficiaries and wage-earners.

The upcoming increase to main benefit rates on 1 April 2023 will not be enough to meet the rising cost of living

5 Inflation has increased sharply since 2021, and outstripped wage growth for the last two years. There are multiple factors that affect inflation, such as disrupted supply chain issues due to COVID-19 and the situation in Ukraine. Recent flooding events across the country have further contributed to the financial pressure on families trying to meet increases to their cost of living.

6 In the long-term it is expected that wages will generally rise faster than inflation, leading to rising living standards for New Zealanders. Therefore, the status quo of indexation to wage growth is likely to achieve the objectives of maintaining living standards of beneficiaries relative to the general population in the long-term, and also in relation to prices.

7 However, for the year to December 2022, CPI rose by 7.22 percent while net average wage growth was 6.24 percent. This means that main benefit rates will not rise by enough on 1 April 2023 to meet the increasing cost of living.

A further increase to main benefit rates would help families meet the cost of living

8 I propose a further increase to main benefit rates[1] by an additional 0.98 percentage points so that the overall increase is equivalent to the increase to CPI at 7.22 percent.

9 Approximately 354,000 people receiving a main benefit and their whānau would be better supported through these changes, as rates would rise between $2.29 and $6.26 per week compared to the status quo adjustment. The following table shows the differences between CPI- and wage-adjusted rates for selected Jobseeker Support, Supported Living Payment (SLP) and Sole Parent Support rates, which are collectively received by 93 percent of main beneficiaries.

Table one: examples of wage- and CPI-adjusted rates for people on Jobseeker Support, Supported Living Payment and Sole Parent Support for 1 April 2023

Main benefit	Current net rate	Wage-adjusted net rate	CPI-adjusted net rate	Difference between wage- and CPI-adjusted net rates
Jobseeker Support				
- Single 25+ years	$315.00	$334.66	$337.74	$3.08
- Couple with children	$566.00	$601.32	$606.86	$5.54
Supported Living Payment				
- Single 18+ years	$359.00	$381.41	$384.92	$3.51
- Couple with children	$640.00	$679.94	$686.20	$6.26
Sole Parent Support	$440.96	$468.48	$472.79	$4.31

10 There are flow-on impacts to other rates of assistance from increasing main benefit rates, which are intended and occur every time they are increased. For instance,

[1] Main benefits include Jobseeker Support, Youth Payment, Young Parent Payment, Sole Parent Support, Supported Living Payment, and the grandparented Widows and Domestic Purposes Benefit. Indexation settings for New Zealand Superannuation and Veteran's Pension will mean that these rates will increase in line with CPI on 1 April 2023, so no change is required.

increasing main benefit rates will slightly reduce the amount of Accommodation Supplement that many beneficiaries receive. In all cases the reduction in Accommodation Supplement will be significantly smaller than the increase in the rate of main benefit, leaving beneficiaries better off overall.

11 Approximately 354,000 working-age people[2] receiving main benefits, and their whānau, would be better supported through these changes. This change will have a particular benefit for those with children. Beneficiary families will gain on average $3.42 per week from the discretionary top-up, and those with children will gain $4.11 per week.

12 The current period of high inflation has drawn into question the adequacy of current indexation settings. s 9(2)(f)(iv) [redacted]

Complementary changes to the Blind Subsidy threshold

13 The Blind Subsidy thresholds represent the maximum weekly income a client can earn from all sources to get the full subsidy. The current Blind Subsidy couple threshold is $492.00 gross per week (per person), and the Blind Subsidy single threshold is $556.27 gross per week. The single threshold is made up of the couple threshold and the single supplement, which is $64.27 per week.

14 Indexation for the couple threshold was originally linked to changes to the rate of SLP. However, in 2022, this was found to be inconsistent with Section 452A of the Social Security Act 2018, which requires annual indexation of this threshold by net average wage growth. Indexation for this threshold has since been linked to net average wage growth.

15 The policy rationale for the original method of indexation is unclear and further work is required. In the meantime, I propose a discretionary increase to the Blind Subsidy couple threshold in line with the percentage increase to SLP.

16 A discretionary top-up to the couple threshold was also applied last year to ensure the policy increases to SLP rates were passed on, in line with the original method of indexation. The single supplement was increased by the net wage growth. This is because the original method of indexation for the single supplement would see a decrease to the supplement, inconsistent with legislative requirements.

The Minimum Family Tax Credit

17 The Minimum Family Tax Credit is generally adjusted when rates of main benefits are increased, to meet the current formula of ensuring sole parents are better-off receiving the MFTC on an annual basis when the hours test is met. The MFTC has already been increased for implementation on 1 April 2023, from $32,864 to $34,216 per year, which is done every year ahead of final benefit rates being available.

18 I do not recommend increasing the MFTC further, as the additional increase to benefit rates is small and the MFTC is currently being reviewed as part of the Working for Families Review.

[2] This figure is as of the end of January 2023.

Additional funding for Building Financial Capability services to provide advice to families with cost of living pressures

Background

19 Building Financial Capability (BFC) services are an integral part of the overall response to financial hardship. BFC providers deliver a range of services to support individuals and families experiencing hardship or financial pressure, including one-on-one and group financial mentoring, and phone and online support through MoneyTalks. BFC services are available for anyone who needs them. BFC services help to increase financial knowledge and skills, reduce or write off problem debt, and empower people to take control of their finances. Evidence shows BFC services make a positive difference for clients. They reduce problematic levels of debt, increase clients' financial skills and improve their mental wellbeing.

20 The economic impact of COVID-19, cost of living increases and the increasingly complex nature of financial hardship and debt have driven demand for BFC services. BFC services are already under pressure to manage existing demand within current funding levels and the economic impact of recent weather events will likely exacerbate this.

21 Providers typically report peak demand in the March quarter, as families face both Christmas and back-to-school costs. Based on the first two quarters of FY2023 data, 41 core providers in areas affected by flooding are projected to overdeliver on their contracts by 30 June 2023. Demand is expected to further increase in affected areas, due to the number of people who have been displaced, lost their homes and/or livelihoods.

Additional funding would allow BFC services to meet expected demand

22 I therefore propose an additional $3 million in funding to increase availability of BFC services to meet expected demand for support following recent severe weather events. The funding will increase capacity for national support through MoneyTalks and additional financial mentoring sessions, focusing on flood-affected areas as a priority. It will also increase support for debt solutions and microfinance initiatives. The $3 million in funding is available from underspends within the existing Community Support Services multi-category appropriation (MCA).

Financial Implications

23 The increase to main benefit rates will have an additional net cost of $311.267 million (after tax) over the forecast period and will require a pre-commitment against Budget 2023. Although this is a one-off increase, there will be 'tailing costs' because this additional amount will be indexed over the course of the forecast period.

24 The additional funding for BFC is available from underspends within the existing Community Support Services MCA.

Legislative Implications

25 The proposal to increase main benefit rates will be given effect through the Social Security (Rates of Benefits and Allowances) Order 2023. This will be progressed

alongside other regulatory changes as part of the Annual General Adjustment, and come into force on 1 April 2023. There are no legislative implications for the additional funding to BFC.

Regulatory Impact Statement

26 Cabinet's impact analysis requirements apply to the proposal to increase main benefit rates, but there is no accompanying Regulatory Impact Statement and the Treasury has not exempted this proposal from the impact analysis requirements. Therefore, it does not meet Cabinet's requirements for regulatory proposals. s 9(2)(f)(iv) [redacted]

Climate Impact Statement

27 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal as the threshold for significance is not met.

Population Implications

28 Māori are overrepresented among recipients of main benefits. Approximately 17 percent of Aotearoa New Zealand's population are Māori, while they comprise 39 percent of main benefit recipients. The proposed increase to main benefit rates will therefore disproportionately benefit Māori. Women and Pacific Peoples are modestly overrepresented among recipients of main benefits. Women make up approximately half of the population and 56 percent of recipients, while Pacific Peoples make up approximately 8 percent of the population and 11 percent of recipients.

29 48 percent of main benefit recipients receive a benefit on the grounds of a health condition, disability or because they were caring for a disabled person. Disabled people are more likely to earn less income than non-disabled people. The proposed increase to main benefit rates will therefore disproportionately impact disabled people. At the end of June 2022 quarter, disabled people aged 15–64 years earned a median of $960, compared to $1,200 for their non-disabled peers. The proposal to increase funding to BFC services will help support disabled people and their families who are experiencing financial hardship.

Proactive Release

30 This paper will be proactively released within 30 business days of decision being confirmed by Cabinet, in accordance with Cabinet Office Circular CO (18)4, with any appropriate redactions.

Consultation

31 In regard to the proposal to increase main benefit rates, the following agencies were consulted: Oranga Tamariki, Inland Revenue, the Treasury, and the Department of the Prime Minister and Cabinet – Child Wellbeing and Poverty Reduction Unit. The Department of the Prime Minister and Cabinet – Policy Advisory Group were informed.

32 In regard to the proposal to increase funding for Building Financial Capability, the following agencies were informed: Oranga Tamariki, Inland Revenue, the Treasury, the Department of the Prime Minister and Cabinet – Child Poverty Reduction Unit and the Department of the Prime Minister and Cabinet – Policy Advisory Group.

Recommendations:

The Minister for Social Development and Employment recommends that the Committee:

Increase to main benefit rates and complementary changes

1 **note** that through Budget 2019, Cabinet agreed to index main benefit rates to the growth in net average wages [CAB-19-MIN-0174.36], which are legally required to increase on 1 April 2023 as part of the Annual General Adjustment;

2 **note** that the Consumers Price Index has increased by 0.98 percentage points more than net average wages for the year December 2022;

3 **agree** to a one-off increase to the following main benefit rates on 1 April 2023, to ensure the overall increase is equivalent to the increase in the Consumers Price Index of 7.22 percent:

3.1 Jobseeker Support

3.2 Youth Payment

3.3 Young Parent Payment

3.4 Sole Parent Support

3.5 Supported Living Payment

3.6 Grandparented Widow and Domestic Purposes Benefit;

4 **agree** to an increase to the Blind Subsidy couples threshold in line with the percentage increase to the Supported Living Payment;

5 **agree** to increase spending to provide for the costs associated with the policy decisions agreed in recommendations 3 and 4 above, with the following impacts on the operating balance and net debt:

Vote Social Development	$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/256	2026/27 & Outyears
Operating Balance and Net Debt Impact	15.760	68.136	73.566	76.486	77.319
Operating Balance Impact Only	-	-	-	-	-
Net Debt Impact Only	-	-	-	-	-
No Impact	3.561	15.449	16.739	17.001	17.225
Total	**19.321**	**83.585**	**90.305**	**93.487**	**94.544**

6 **approve** the following changes to appropriations to give effect to the policy decisions in recommendations 3 and 4 above:

	$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears
Vote Social Development					
Minister for Social Development and Employment					
Benefits or Related Expenses:					
Hardship Assistance	(0.308)	(1.236)	(0.839)	(0.616)	(0.294)
Jobseeker Support and Emergency Benefit	9.277	42.612	47.402	47 259	47.915
Sole Parent Support	5.107	21.429	22.896	23.462	23.366
Supported Living Payment	6.058	24.628	25.675	26.628	27.431
Youth Payment and Young Parent Payment	0.164	0.695	0.740	0.783	0.822
Minister of Housing					
Benefits or Related Expenses:					
Accommodation Assistance	(0.283)	(1.742)	(2.895)	(0.964)	(1.846)
Vote Housing and Urban Development					
Public Housing MCA					
Non-Departmental Output Expenses:					
Purchase of Public Housing Provision	(0.694)	(2.801)	(2.674)	(3.065)	(2.850)
Total Operating	**19.321**	**83.585**	**90.305**	**93.487**	**94.544**

7 **agree** that the proposed changes to appropriations for 2022/23 above be included in the 2022/23 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

8 **agree** that the operating balance and net debt impact in recommendation 5 above be charged as a pre-commitment against the Budget 2023 operating allowance;

Increased funding for Building Financial Capability services

9 **note** the demand for budgeting services is increasing due cost of living pressures;

10 **note** that $3 million of underspend is forecast for 2022/23 for the Community Support Services MCA, and is available to provide additional funding for Building Financial Capability Services;

11 **agree** to provide $3 million for Building Financial Capability Services, including debt solutions and microfinance, to help people provide advice for families in response to cost of living pressures, from within the Community Support Services MCA as noted in recommendation 10, with no impact on the appropriation.

Authorised for lodgement

Hon Carmel Sepuloni

Minister for Social Development and Employment