



15 SEP 2016

Dear

On 26 May 2016 you emailed the Ministry requesting, under the Official Information Act 1982, information relating to the Accommodation Supplement.

As you are aware, in 2005 substantial changes were made to the Accommodation Supplement, including increasing the number of Accommodation Supplement areas in New Zealand from three to four, and increasing the maximum level of supplement available in some areas.

For clarity, I will address each of your questions in turn.

- *Copies of any and all reviews of the accommodation supplement completed in 2005.*

Please find enclosed the following six documents in response to your request for reviews of the Accommodation Supplement completed in 2005:

1. *Future directions – Working for Families impacts*, dated 15 March 2004.
2. *Reform of social assistance: Working for Families package – revised recommendations*, dated 19 April 2004.
3. *Cabinet Minute – Reform of Social Assistance: Working for Families Package: Revised Recommendations*, dated 26 April 2004.
4. *Review of Accommodation Supplement Maxima*, dated 26 November 2004.
5. *Review of Accommodation Supplement Maxima*, 20 January 2005.
6. *Review of Accommodation Supplement Maxima*, dated 3 February 2005.

You will note that a number of these documents are dated 2004, which is because the key documents surrounding the 2005 changes were produced in both 2004 and 2005. The documents also contain information outside the scope of your request; this information is being released to you in order to provide you with helpful context about the Accommodation Supplement's place within the wider policy changes in 2005.

Some information has been withheld from these documents under section 9(2)(a) of the Official Information Act in order to protect the privacy of natural persons. The

need to protect the privacy of these individuals outweighs any public interest in this information.

- *Any and all information which went to the executive leadership team of MSD in 2005 regarding the accommodation supplement.*

Please find enclosed two documents in response to your request for information which went to the executive leadership team in 2005 regarding the Accommodation Supplement:

7. *Leadership Team Meeting (presentation slides), dated 22 March 2005.*
 8. *Leadership Team Meeting (presentation slides), dated 13 December 2005.*
- *The titles of any other reports or reviews done into the accommodation supplement since 2005.*

Enclosed is a full list of reports on and reviews into the Accommodation Supplement since 2005.

- *A breakdown of the age of those receiving accommodation supplements from 2005 until now, and the amount of money paid out each year in accommodation supplements since 2005.*

Please find enclosed two tables in response to this request. Table one shows the number of clients in receipt of the Accommodation Supplement broken down by age group, as at the end of 30 June 2006 to 2015. Table Two shows the total amount spent by the Ministry on the Accommodation Supplement for the 2005/06 to 2014/15 financial years.

- *Copies of any guidance or information held by the Ministry media team which assist staff as to when requests for assistance are to be treated as Official Information Act requests.*

Each request for information whether from the media or a member of the public is assessed on its own merits and as such the Ministry does not have a written policy of when a request for assistance is treated as Official Information Act request.

There are a number of factors to be considered before the Ministry takes the decision to provide an Official Information Act response to a request for assistance.

Requests for copies of reports and correspondence that have not been released before are typically provided with an Official Information Act response as these documents require consultation with the business group to identify any information that needs to be withheld. Requests for non-standard data also require an Official Information Act response as detailed fact checking is required before the release of this information.

Other factors such as people's privacy, the time taken to identify the information requested, and accounting for the time taken to adhere to the 'no surprises' policy the Ministry has in place with Ministers' offices are also considered when responding to a request. If the information requested has already been released, typically the National Media Team will respond directly to the reporter.

The Ministry is also publishing responses to requests for Official Information on the Ministry's website which can be accessed here: <http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/official-information-responses/responses-to-official-information-act-requests.html>

Therefore your request for a copy of policy held by the Media team concerning whether a request for assistance is treated as an Official Information Act request is refused under section 18(e) of the Act, as this policy does not exist.

I hope you find this information regarding the Accommodation Supplement and Official Information Act processes helpful. You have the right to seek an investigation and review of my response by the Ombudsman, whose address for contact purposes is:

The Ombudsman
Office of the Ombudsman
PO Box 10-152
WELLINGTON 6143

Yours sincerely



Hayley Hamilton
General Manager, Housing

Reports on and reviews into the Accommodation Supplement since 2005
REP/2003/03/00109 - Statistics on Pacific peoples receiving an accommodation supplement
REP/2005/02/00110 - Briefing note on the Accommodation Supplement and the Queenstown lake district
REP/2005/07/00506 - Review of the Accommodation Supplement Terms of Reference
REP/2006/03/00190 - Review of the Accommodation Supplement: Project Update and Plan for Public Engagement
REP/06/12/906 - Review of the Accommodation Supplement
REP/07/01/032 - The Review of the Accommodation Supplement: Preliminary Costing of High Priority Issues
REP/07/03/172 - The Review of the Accommodation Supplement: Confirmation of the Work Programme
REP/07/07/567 - Stage Two review of the Accommodation Supplement: Proposed adjustments
REP/07/08/645 - Review of the Accommodation Supplement Annotated Agenda
REP/07/10/760 - Accommodation Supplement: Recommendations Arising from the Review
REP/08/08/556 - Work Programme: Options to improve Hardship Assistance and the Accommodation Supplement
REP/09/12/657 - Implications of High Court Decision - Codre Case Concerning Accommodation Supplement
REP/11/09/464 - Boundaries for Accommodation Supplement areas
REP/12/2/077 - Cabinet paper: Canterbury Earthquakes - income and cash asset exemptions and extension of definition of premises for Accommodation Supplement purposes
REP/12/2/115 - Aide-memoire: Canterbury Earthquakes: income and cash assets exemptions and definition of premises for Accommodation Supplement purposes
REP/12/3/163 - Accommodation Supplement area boundaries and asset exemption
REP/12/3/190 - Cabinet paper: Amendment Regulations and Amendment Order in Council - Canterbury earthquakes income and cash asset exemptions and definition of premises for Accommodation Supplement purposes
REP/12/3/220 - Amendment Regulations and Amendment Order in Council - Canterbury earthquakes income and cash assets exemptions and definition of premises for Accommodation Supplement purposes
REP/12/8/795 - Aide-Memoire: Review of Accommodation Supplement and Income-Related Rent Subsidy
REP/12/9/939 - Aide Memoire - Review of Accommodation Supplement and Income-Related Rent Subsidy
REP/13/5/379 - Work on Accommodation Supplement
REP/13/11/946 - Accommodation Supplement Update
REP/13/12/1120 - Update on the Accommodation Supplement - options for Budget 2014
REP/14/2/063 - Accommodation Supplement - three options to relieve housing stress
REP/14/3/170 - Definition of "premises" for Accommodation Supplement purposes - submission to Cabinet Committee on Canterbury Earthquake Recovery
REP/14/3/182 - Aide Memoire Canterbury earthquakes: Definition of "premises" for accommodation supplement purposes.
REP/14/6/570 - Agency Meeting: Housing Assistance Subsidies
REP/15/2/171 - Extending Access to Accommodation Supplement to market renters in Housing New Zealand Properties

REP/15/3/185 - HNZN properties in low demand areas: renting on the private market with Accommodation Supplement
REP/15/4/408 - Accommodation Supplement - clarification of eligibility for students
REP/15/6/611 - Order in Council regarding the definition of 'premises' for Accommodation Supplement purposes
REP/15/6/698 - Forthcoming Publication: Literature review on the impact of demand-side housing subsidies on the housing market
REP/16/4/324 - Addressing an IT issue that affected the payment rates of Accommodation Supplement for some clients
Expert Consultants Group Report on AS IRRS Review (no report number allocated)
Fletcher Paper (no report number allocated)

Table One: The number of clients in receipt of the Accommodation Supplement broken down by age group, as at 30 June 2006 to 2015

Year	16 and under	17	18-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65 plus	Total
2005	788	1,799	9,088	28,025	29,655	32,011	30,910	27,412	19,982	14,677	13,034	12,299	22,932	242,612
2006	721	1,721	8,710	28,031	30,298	31,522	32,140	28,309	21,551	15,634	13,617	12,442	24,682	249,378
2007	607	1,514	7,572	26,648	29,096	29,855	31,294	27,559	21,900	15,700	13,308	12,479	25,901	243,433
2008	675	1,524	8,137	27,085	29,020	28,764	31,021	27,198	22,745	16,145	13,383	12,758	27,055	245,510
2009	734	1,940	13,498	37,538	35,232	32,922	35,102	31,304	26,823	19,406	15,616	14,386	28,887	293,388
2010	672	1,846	14,474	41,964	38,385	34,949	36,274	33,852	29,009	22,007	17,118	15,737	30,772	317,059
2011	472	1,305	11,770	39,901	36,744	33,748	34,108	33,366	28,632	22,632	17,789	16,339	31,745	308,551
2012	394	1,154	10,130	37,883	35,549	33,043	32,260	32,977	28,207	23,671	18,652	16,665	33,532	304,117
2013	410	1,166	9,287	36,938	34,681	31,951	30,188	31,765	27,361	24,090	18,853	17,066	35,386	299,142
2014	477	1,324	8,731	34,691	33,628	30,000	28,197	29,939	26,225	23,515	19,132	17,318	36,932	290,109
2015	524	1,318	8,229	33,170	34,076	29,803	27,547	28,674	26,370	23,445	19,642	17,732	39,005	289,535

Table Two: Total amount spent by the Ministry of Social Development on the Accommodation Supplement as at 30 June 2006 to 2015

Year	\$million
2005/06	843.2
2006/07	877.0
2007/08	891.1
2008/09	989.3
2009/10	1,153.5
2010/11	1,196.6
2011/12	1,194.7
2012/13	1,177.3
2013/14	1,145.8
2014/15	1,128.8



MINISTRY OF
SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora

Date: 15 March 2004

Security Level: Sensitive - Budget Secret

Report to: Minister of Finance
Minister for Social Development and Employment

FUTURE DIRECTIONS - WORKING FOR FAMILIES IMPACTS

Executive Summary

Outcomes Sought

- 1 This paper looks at the overall impacts of the Future Directions - Working for Families package, in relation to the key outcomes sought by Ministers and Cabinet.
- 2 In December 2002 the Cabinet Social Development Committee agreed that outcomes from Future Directions - Working for Families work would include:
 - supporting labour market participation for families with dependent children
 - reducing child poverty
 - improving take-up of assistance and improving understanding of and access to family income assistance [SDC Min (02) 8/2 of 11 December 2002 refers].
- 3 Since then the brief for this work was broadened to include accommodation assistance, childcare assistance and hardship assistance, with the key objectives for this work being:
 - income adequacy - ensuring that there is effective social protection
 - making work pay - supporting labour market participation, and helping people to move into and remain in employment
 - improving access - ensuring that assistance reaches the right people (this covers issues of simplification, take-up, and delivery effectiveness).
- 4 Officials were also asked to develop limited proposals for the Invalids Benefit, for early implementation while further policy work continues on issues for those with sickness or disability.
- 5 At the same time it was agreed by Ministers that work on simplifying the basic categorical benefit system would be part of further work, rather than being a focus for the 2004 Budget.
- 6 While this paper attempts to assess the impacts against the outcomes identified above, there are constraints on how far that assessment can be taken, given the fact that there are many unknowns. While we have out-year forecasts for economic and employment activity, these are best estimates. In addition, we have imperfect information on low-income families in New Zealand and the costs they face and it is not possible to be absolutely certain about how individuals will change their behaviour in response to policy changes. However, even within these limits, we are able to estimate the general direction of the impacts.

- 7 The package developed represents a sizable investment in improving the effectiveness of the social assistance system, being the largest single injection of expenditure targeted at low-income working families since at least the mid 1980s.

Key Income Effects

- 8 There are income adequacy problems within the current social assistance system, highlighted in livings standards work carried out by the Ministry of Social Development in 2000-2001 and in the growth in demand for hardship assistance. The income issues affect both people on benefit as well as low-income workers, especially those with children. There are particular issues of housing affordability in high-costs areas.
- 9 The package will deliver very significant income improvements which will address these problems:
- By 2007/08 around 61% of families with children will get more family assistance, meaning that approximately 43% of two parent families and nearly all sole-parent families gain. Couple families, on average, gain significantly more than sole-parent families
 - The changes will result in around 290,000 families getting family assistance by 2007/2008 - around 48,000 more than currently receive family assistance
 - Approximately 104,000 Accommodation Supplement recipients will get an increase in housing assistance
 - Using a 60% of median household income used poverty measures, by 2007/2008 there will be a 30% reduction in child poverty under these changes - using a 50% measure the reduction will be 70%
 - Most of the income gains occur in April 2005 and April 2007
 - There will be a reduction in the need for Special Benefit, given the improvements in the levels of family assistance, childcare assistance and accommodation supplement, as the package represents a re-balancing of social programme expenditure towards the second tier of assistance, reducing the role of third tier assistance
 - No family will lose as a result of the changes in the Future Directions: Working for Families package.

Key Employment Effects

- 10 The Future Directions - Working for Families package provides better income assistance for families who are in low and moderately paid employment, thereby ensuring that people will be better off in employment than on benefit.
- 11 It complements other initiatives including active case management, Jobs Jolt initiatives, improvements to paid parental leave, and early childhood education developments.
- 12 The employment effects from the package are expected to be modest, given the priority given to addressing income adequacy objectives. The greatest employment incentive effect will be with respect to sole parents, where New Zealand has a particular problem.
- 13 The changes will reduce benefit wage replacement rates after April 2006 (with the introduction of the In-Work Payment (IWP) and the changes to Family Support abatement), thereby increasing the returns from moving from benefit to employment. Effective Marginal Tax Rates will be improved for families with incomes below \$27,5000 per annum, but will be increased for families with incomes above around \$34,000 (one child) or more (e.g.

\$42,000 for 2 children, \$53,900 for 3 children). This will have a negative impact on secondary earners (who are likely to be women).

- 14 This should be off-set by the childcare changes which will help working women by reducing childcare costs as a barrier to employment. The changes will provide an increase in childcare assistance by an average of \$23 per week to around 28,000 families and 33,000 children.
- 15 The eventual impact of these changes will depend very much on prevailing economic and employment conditions over time. Most of the employment incentive gains will occur in April 2006, with some occurring earlier, from October 2004.

Key Economic Impacts

- 16 The modest employment effects of Future Directions - Working for Families may have a small positive impact on GDP per capita in New Zealand over a period of time.
- 17 As it stands, the package accounts for a large proportion of the government's planned future expenditure. The spending amounts in the December Economic and Fiscal Update (DEFU) are close to the limit of what can be considered appropriate from a macroeconomic perspective. At the broadest level, the size of the package will limit future fiscal flexibility and constrain the range of future policy options without revenue increases.
- 18 Introducing a package of the scale of Future Directions - Working for Families could lead to knock-on fiscal pressures in the future that have not yet been explicitly accounted for. These include demands for spending in other areas and pressure to extend the IWP to those without children. Indexation and/or periodic reviews of Family Income Assistance would lead to increasing fiscal costs in out years.

Key Delivery Improvement and Related Effects

- 19 The package does not deal with issues of complexity in basic benefit structures (this will be dealt with in subsequent work), although the change which moves the child component out of the benefit rate structure will assist with future standardisation of benefits. However, it does include a number of delivery enhancements which will smooth the interface between assistance delivered to those on benefit and assistance delivered to those in paid employment, especially at the point of transition.
- 20 Some of the policy changes will make it easier for clients to know how any employment income will effect their total income (e.g. aligning the AS threshold to the benefit threshold). The reduction in the need for Special Benefit will also reduce the numbers of people having to face the complex assessment this programme requires. In addition the changes will reduce the incidence of Crown debt, especially to Inland Revenue.

Other Possible Impacts

- 21 The paper does not attempt to estimate some of the less direct impacts from the package. While we have estimated the effects on poverty, we have not attempted to estimate the effects on the likes of family formation or fertility rates. Nor have we attempted to estimate the child development or health effects of the package. However, note that there is some evidence that children raised in poor families are more likely to be poor themselves, and

that there are strong positive outcomes for child development from participation in quality childcare. The package both reduces poverty and increases the affordability of formal childcare.

The various Phases of the 2004 Package

22 The Future Directions - Working for Families package will be implemented over four financial years, with the first changes occurring on 1 October 2004 with changes to the Accommodation Supplement and to the Childcare Subsidy. The final stage of the Future Directions - Working for Families changes will be implemented on 1 April 2007 when Family Support rates are further increased. The full impacts therefore also accrue over this period, with the final impacts not occurring until 1 April 2007. At a high level, it is reasonable to characterise the main thrust of the changes by year as follows:

- October 2004 • *strengthening the returns from work* (addressing childcare costs, removal of Accommodation Supplement abatement for beneficiaries)
- April 2005 • *improving income adequacy* (family assistance, AS maxima, Special Benefit)
- October 2005 • *addressing childcare costs*
- April 2006 • *strengthening the returns from work* – (family assistance income thresholds, introducing in-work payment)
- April 2007 • *improving income adequacy* – (further increase to family income assistance)

Feedback from Reviewers

23 Ministers agreed that selected external experts be asked to review the Future Directions – Working for Families papers in order to provide an assessment of the proposals, and to identify any major problems or gaps. The extent of the exercise was limited by time, however comments were received in the first week in March. In general the reviewers saw the package as positive.

24 The reviewers noted that the package needs to be considered in the context of broader government policy, including the likes of current early childhood education developments, recent social policy initiatives (including the 2002 changes to DPB policy and the 2003 the Jobs-Jolt package), as well as government's economic policies (including the growth and innovation work and the focus on skills development). They also noted the tension across the three main objectives from the package – making the point that some options for addressing income adequacy issues can worsen work incentives, while benefit simplification can work against targeting to those with most need. The trade-offs in this policy area are noted in paragraph 15-17 of this report.

25 They noted that the package will make a contribution towards addressing child poverty. The reviewers agreed that there would be modest employment effects. One reviewer pointed out the possibility that such a package might dampen wage growth, and that people without children would therefore be impacted. They noted the significant impact the programme will

have on government's fiscal position, which is already factored into government's fiscal strategy.

26 Further points, which are elaborated in part F of this paper, include:

- The impact of the shape of the family assistance on the relative value of assistance to adults and children, with its potential implications for partnering
- The impact on the share of income that low-income families get from their wage, meaning that wages were relatively less important
- The possible price impact on childcare and on rental housing, from the increases to childcare and accommodation assistance respectively, and
- The possible impact on fertility.

Recommended Actions

We recommend that you:

- 1 **Note** the key impacts arising from the Future Directions – Working for Families package identified in this report.

AGREE / DISAGREE

s 9(2)(a) OIA 1982, Privacy of Natural Persons

Manager
Social Assistance Policy

Date 16/03/04

for Secretary to the
Treasury

Manager
Inland Revenue
Department

Hon Dr Michael Cullen
Minister of Finance
Minister of Revenue
Date

Steve Maharey
Minister for Social Development
and Employment
Date

Purpose of the Report

- 1 This paper reports on the expected impacts from the Future Directions – Working for Families package. It shows how the package contributes to addressing income adequacy issues and how it contributes to making work pay.
- 2 The paper also reports on the main issues raised through the quality assurance review of the proposals carried out by selected reviewers, external to MSD.
- 3 The report is divided in to the following parts:
 - Part A: Background and Objectives (pages 6 to 12)
 - Part B: Income issues and Effects (pages 13 to 20)
 - Part C: Employment Issues and Effects (pages 21 to 30)
 - Part D: Economic Impacts (pages 31 to 32)
 - Part E: Ensuring that assistance reaches the right people (pages 33 to 35)
 - Part F: Issues raised in reviewers feedback (pages 36 to 40)

Part A: Background and Objectives

The Policy Changes

- 4 The policy changes which are covered in this assessment are the following:
 - Family Income Assistance and In-Work Payment initiatives
 - Childcare Assistance changes
 - Accommodation Supplement enhancements
 - Consequential changes to Special Benefit
 - Other consequential flow-on changes.
- 5 The changes themselves are detailed in Appendix One.
- 6 The package involves progressive implementation over four years, so that various components impact at different times. The full impact of the changes will not be felt until the third phase of the family assistance changes are introduced from 1 April 2007. The proposals have the costs set out in Table 1.
- 7 Officials have worked with Ministers in developing the options which form the basis of this package of initiatives. Each policy proposal can be described in terms of rationale and fit with the overall package, but clients will experience the combined effect of the changes, so it is important to be able assess the aggregate impacts.

Table 1: Summary of Fiscal Costs of the Future Directions - Working for Families Package*

\$ millions	2004/2005	2005/2006	2006/2007	2007/2008
Programme costs				
Family Income Assistance	89.75	474.33	749.98	992.23
Accommodation Supplement	60.71	117.28	122.44	125.03
Childcare Assistance	18.76	30.57	33.14	33.41
Hardship	-7.05	-45.09	-77.14	-95.97
Other flow-ons	1.35	5.39	5.61	5.68
Invalids Benefit Changes	0	0	0	0
Decisions pending**	0	4.52	11.26	11.42
Programme costs sub-total	163.5	587.4	845.3	1075.5
Departmental Operating Costs				
Delivery costs	46.4	38.8	26.9	23.7
Funding already approved***	1.56	0.78	0.78	0.78
Contingency	10.0	10.0	10.0	10.0
D.O.C. sub-total	57.96	49.58	37.68	34.48
Total	221.5	637.0	883.0	1109.9

* as at 12 march 2004, subject to revision.

**Decisions are pending on the treatment of IWP for OB/UCB/FCA and NZ Super recipients, and for ring-fencing FS while on benefit.

***EXG Min (03)14/2, which also allows for \$100,000 in 2003/04, and capital of \$1.49m in 2003/04 and \$1m in 2004/05.

- 8 The Future Directions - Working for Families package will be implemented over four financial years, with the first changes occurring on 1 October 2004 with changes to the Accommodation Supplement and to the Childcare Subsidy. The final stage of the Future Directions - Working for Families changes will be implemented on 1 April 2007 when Family Support rates are further increased. The full impacts therefore also accrue over this period, with the final impacts not occurring until 1 April 2007. At a high level, it is reasonable to characterise the main thrust of the changes by year as follows:

- October 2004
 - *strengthening the returns from work* (addressing childcare costs, removal of Accommodation Supplement abatement for beneficiaries)
- April 2005
 - *improving income adequacy* (family assistance, AS maxima, Special Benefit)
- October 2005
 - *addressing childcare costs*
- April 2006
 - *strengthening the returns from work¹* – (family assistance income thresholds, introducing in-work payment)
- April 2007
 - *Improving income adequacy* – (further increase to family income assistance).

¹ Changes to the income abatement of family assistance and the new in-work payment also have important income effects, especially for low and middle income working families.

- 9 It is important to note that should the package not progress beyond any one date, the impacts would be different. For example, if the April 2006 elements were not introduced, the impacts from the key elements which aim to strengthen the returns from work would not occur.

The Objectives Sought

- 10 In December 2002 the Cabinet Social Development Committee agreed that outcomes from Future Directions - Working for Families work would include:
- supporting labour market participation for families with dependent children
 - reducing child poverty
 - improving take-up of assistance and improving understanding of and access to family income assistance. [SDC Min (02) 8/2 of 11 December 2002 refers].
- 11 Since then the Minister of Finance and Revenue and the Minister for Social Development and Employment agreed to broaden the brief for this work to include accommodation assistance, childcare assistance and hardship assistance. They also confirmed that the 3 key objectives for this work would be:
- income adequacy – ensuring that there is effective social protection
 - making work pay – supporting labour market participation, and helping people to move into and remain in employment
 - improving access - ensuring that assistance reaches the right people (this covers issues of simplification, take-up, and delivery effectiveness).
- 12 Earlier in the policy development phase Ministers indicated that their priority for the 2004 Budget was to address issues for families with dependent children, and to make progress on housing affordability for low-income people. They also indicated that the primary concern was for families in the low-middle income range (\$25,000 to \$45,000) and then for families with children with incomes below this.
- 13 Officials were also asked to develop limited proposals for the Invalids Benefit, for early implementation while further policy work continues on issues for those with sickness or disability.
- 14 There are approximately 480,000 families with dependent children in New Zealand, collectively caring for just under 1 million children. 140,000 or 29% of these are sole parent families. Sole parent families have much lower average and median incomes than two parent families with dependent children. These differences between sole and two parent households' incomes reflect a number of factors including the former group's much greater reliance on benefits and other government transfers (on average, government transfers make up half of all sole parent families' incomes), the smaller number of hours available for paid work in a one adult household, and lower average wages received by sole parents. The income distributions for one and two parent families are as follows:

Total incomes by family type*		
Percent with total annual income under:	Two parent families	One parent families
\$20,000	6%	35%
\$40,000	30%	86%
\$60,000	58%	97%

*Source: MSD, from NZ Income Survey

Trade-offs across objectives

15 It is important to recognise that there are tensions across the three head-line objectives of the exercise. For example, various options available to address income adequacy could detract from the "making work pay" objective. Similarly, there are limits to which income programmes can be made simple, if their primary objective is to target income need. The package has been developed in order to balance these objectives as far as possible. Some of the major tensions are:

- *Level of income v returns from work:* increasing income assistance for low-income people to address income adequacy objectives can risk reducing the returns from lower paid work, and the urgency to look for work (or look for more or higher paying work)
- *Targeting to couples v incentives for second earners:* targeting assistance to families on the basis of couple income (where there is a couple) directs greater assistance to low-income families, but it implicitly makes it more difficult for second income earners (usually women) to have a strong incentive to work (or to work more). The alternative of targeting on individual income rather than couple income, however, would result in assistance going to partners who had no income of their own but who were part of a high income couple
- *Assistance to couples v sole parents:* similarly, determining the level of assistance on the basis of a couple, when set alongside the assistance available to sole parents, can attract criticism about the relative assistance by family type. However, if the full costs faced by sole parents were not taken into account (and they received only half of the assistance available to couples), they would risk experiencing even more poverty. Furthermore, sole parents are concentrated on benefits and have lower incomes on average than families. The trade-off here is one of actual costs as against signals as to the value of being in a couple
- *Targeting v effective marginal tax rates:* targeting financial assistance to low-income families requires abatement regimes which inherently generate higher effective marginal tax rates (EMTRs) as assistance is withdrawn. These can mute the rewards from employment
- *Income margins for those in work v income levels for those not in work:* conversely, an emphasis on increasing the margins from work could imply reducing the income support levels for people not in employment. This would run totally counter to poverty alleviation and income adequacy objectives
- *Targeting to circumstance v a simple system:* targeting income assistance to greatest need (such as greater assistance with higher housing or childcare costs) or to specific circumstances (such as limiting an in-work payment to people who are off-benefit and who also work a minimum amount of paid employment) requires more information to be collected and more rules to be developed and administered. Simpler systems are less responsive to

need. The greater the targeting or conditionality, the greater the complexity in the system. The trade-off here is targeting versus simplicity

- *Simplification and no losers*: changes to programmes involve changing what recipients receive. Where there are net gains to recipients, it is easy to make changes which might also bring greater simplicity. However, where changes could result in losses² to current recipients, there is also the issue of protecting those recipients. Ministers made it clear that no current recipients are to experience a reduction in income as a result of the changes. Where ensuring that there will be no losers has involved grand-parenting, it adds to the complexity of the system, rather than reducing it. In some instances grand-parenting can be relatively short term, but in other instances it needs to be longer term. IT and procedural systems changes can mitigate some of the complexity which this brings.
- 16 While there are tensions across the various objectives, they are not always in conflict – so that some options for improving income adequacy can also improve the returns from being in work. As far as possible, the proposals in this package have sought such balances. Priority has been given to improving the income position of low and middle income families, in a manner which promotes better “making work pay” settings.
 - 17 The following analysis is constructed around the three key objectives, and touches on the sub-objectives which flow from them.

Context

- 18 The issues and the proposals need to be seen in a context which is broader than the design of income support programmes. They also need to be considered alongside other government policy developments.
- 19 The package has focused on the nature of the income transfer system, especially as it relates to families. It has not considered some issues of benefit design, which remain to be examined, such as the optimal design of the basic benefit for people of working age, and the nature and balance of expectations and obligations attaching to those benefits.
- 20 The changes build on and are consistent with the Domestic Purposes Benefit changes introduced in 2003, and the Jobs Jolt initiatives which focus on promoting better employment outcomes. The changes also need to be seen alongside government's economic policies, for example promoting growth and innovation, and improving human capital development.
- 21 The childcare changes explicitly take into consideration the Early Childhood Education developments being progressed by the Minister of Education, and support the outcomes of the Investing in Child and Youth Development component of the Sustainable Development programme.

² Losers in a static sense, meaning that a person receiving a benefit or tax credit the day before the change would have a reduction in their net income position the day of the change, where no other changes in their circumstances had taken place.

Assessment of Impacts

Scenarios

- 22 The exact effects of the package will depend on a family's individual circumstances. The following scenarios illustrate how the package would affect the incomes and work incentives of three made-up families of differing family type and size. The examples assume they live in different towns (and therefore different AS areas), and have typical accommodation and childcare costs. We have assumed wage rates of \$11 and \$12 per hour as representative low-end wages. Most MSD clients are placed into jobs in the \$10 - \$12 per hour wage bracket. These scenarios will be used throughout this paper, to indicate the various effects.
- 23 The actual impacts on any individual or family will depend on a range of factors:
- Family size and status (sole parent or couple)
 - Age and number of children
 - Employment status, income from employment and hours in employment (and for couples, the share of employment between the partners)
 - Housing costs
 - Use of childcare and costs of childcare, and
 - Extent of other costs that could attract hardship assistance.

Table 2: Scenario 1: Sole Parent with 1 child

Sole parent with a 4 year-old child, living in North Auckland paying \$255pw rent
In work, earning \$11 per hour gross

		1 April 2005	1 April 2005	1 April 2006	1 April 2007
		Pre-reform			
On Benefit	Gain compared to same year without changes		\$34.00	\$33.00	\$41.00
	Net Weekly Income	\$402.53	\$436.53	\$441.31	\$454.97
Part Time work (15 hrs at \$11/hr)	Gain compared to same year without changes		\$54.00	\$66.05	\$69.34
	Net Weekly Income	\$479.67	\$533.67	\$544.18	\$557.84
Full time low wage work (30 hours at \$11/hr)	Gain compared to same year without changes		\$54.00	\$121.79	\$136.35
	Net Weekly Income	\$492.99	\$546.99	\$584.79	\$599.35
	Increase in return from moving into work (30 hours at \$11/hr)		\$0	\$88.79	\$95.35
			(on DPB)	(off DPB, on FTC)	

Table 3: Scenario 2: Couple with 2 children

Married with two children aged 16 and 4, living in Wairoa paying \$120pw rent
in work, each can earn \$12 per hour

		1 April 2005	1 April 2005	1 April 2006	1 April 2007
		Pre-reform			
On Benefit	Gain compared to same year without changes		\$21.46	\$21.04	\$39.63
	Net Weekly Income	\$413.41	\$434.87	\$439.59	\$464.19
Part Time work (20 hrs at \$12/hr)	Gain compared to same year without changes		\$45.66	\$55.15	\$75.34
	Net Weekly Income	\$455.65	\$501.30	\$514.31	\$538.91
Full time low wage work (40 hours at \$12/hr)	Gain compared to same year without changes		\$56.00	\$98.94	\$115.94
	Net Weekly Income	\$497.46	\$553.46	\$597.40	\$615.40
	Increase in return from moving into work		\$34.54	\$77.90	\$76.31
Both parents working (60 hours combined at \$12/hr)	Gain compared to same year without changes		\$40.00	\$94.77	\$114.77
	Net Weekly Income	\$621.96	\$661.96	\$716.73	\$736.73
	Increase in return from moving into work		\$18.54	\$73.73	\$75.14

Table 4: Scenario 3: Couple with 4 children

Married with four children aged 12, 8, 5 and 3 years, living in Manukau paying \$350pw rent.
In work, each can earn \$12 per hour gross.

		1 April 2005	1 April 2005	1 April 2006	1 April 2007
		Pre-reform			
On Benefit	Gain compared to same year without changes		\$67.46	\$67.04	\$106.63
	Net Weekly Income	\$590.41	\$657.87	\$664.59	\$711.19
Part Time work (20 hrs at \$12/hr)	Gain compared to same year without changes		\$91.66	\$101.15	\$142.34
	Net Weekly Income	\$632.65	\$724.30	\$739.31	\$785.91
Full time low wage work (40 hours at \$12/hr)	Gain compared to same year without changes		\$93.00	\$120.94	\$158.94
	Net Weekly Income	\$713.46	\$806.46	\$837.40	\$877.40
	Increase in return from moving into work		\$25.54	\$53.90	\$52.31
Both parents working (60 hours combined at \$12/hr)	Gain compared to same year without changes		\$93.00	\$132.77	\$172.77
	Net Weekly Income	\$784.96	\$877.96	\$920.73	\$962.73
	Increase in return from moving into work		\$25.54	\$65.73	\$66.14

Part B: Income Issues and Effects

Highlights

The package will deliver very significant income improvements:

By 2007/08 around 61% of families with children will get more family assistance, meaning that approximately 43% of two parent families and nearly all sole parent families gain. Couple families, on average, gain significantly more than sole parent families

Using a 60% of median household income used poverty measures, by 2007/2008 there will be a 30% reduction in child poverty under these changes - using a 50% measure the reduction will be 70%

Most of the income gains occur in April 2005 and April 2007

No family will lose as a result of the changes in the Future Directions: Working for Families package.

The Problem

- 24 The Ministry of Social Development's 2000 New Zealand Living Standards survey (released in November 2002)³ showed that in 2000 there was a higher likelihood of having restricted living standards for sole parent families (53%) and two parent families (19%) than for single people living alone (18%) and couples without children (9%).
- 25 For some families, the total income they can access (including income from employment as well as social assistance) is too low to meet their basic everyday needs and support an adequate standard of living. This has impacted significantly on the incidence of child poverty. A key contributing factor to income inadequacy is the declining real value of key parts of social assistance, in particular family assistance. Non-indexation has led to a fall in the real value of assistance for families as costs of living have increased.
- 26 In addition, a significant number of AS recipients experience housing affordability problems due to uneven geographic differences in rents, relatively blunt groupings of localities within three AS areas and the lack of adjustment to AS maxima.
- 27 The decline in the real value of social assistance has contributed to the increasing use of third-tier hardship assistance, especially the Special Benefit, by people in recent years.

³ The Living Standards Survey focuses on the standard of living achieved as the result: not only of current income, but also as the result of income in the past, stability of relationships and employment, savings history, and special demands on expenditure such as disability.

The Impacts from the Changes

Key points

- 28 The various components of the package interact to give a final impact for each family. Given the number of variables (family status, number and age of dependent children, employment status, income from employment, location and housing costs, childcare costs, and any other special costs which might attract hardship assistance) it is difficult to represent the impacts simply. However the following points are worth noting:
- While the package is targeted, assistance goes beyond very low-income families to provide assistance to middle income families as well
 - Around 61% of families with children will get more family assistance, around 290,000 families will gain on average \$66 per week (and an average of around \$95pw for families with annual incomes in the range \$25,000 to \$35,000) from the cumulative family assistance and IWP changes from 2007. (However, around 7% of families currently receive Special Benefit due to hardship. Their family assistance increases will reduce their net gains from this package)
 - By 2007/08, approximately 43% of two parent families and nearly all sole-parent families gain. Couple families, on average, gain significantly more than sole-parent families because most couple families work, while most sole parents are on benefit
 - The greatest gains are for families with net incomes of \$25,000 - \$45,000. These families gain an average of \$40pw in 2005/06 and around \$95pw - \$100pw in 2007/08 from the FIA part of the package
 - Around 104,000 AS recipients will get an increase in accommodation assistance
 - Using a 60% of median household income used poverty measures, by 2007/2008 there will be a 30% reduction in child poverty under these changes - using a 50% measure the reduction will be 70% (see paragraphs 43-53 below)
 - Most of the income gains occur in April 2005 and April 2007, when Family Support rate increases occur
 - No family will lose as a result of the changes in the Future Directions: Working for Families package.
- 29 Table 5 shows the pattern of increases in net income applying to the family and work situations outlined in the Scenarios in Tables 2 to 4. It shows that the income gains are phased in over three years. It also shows that while those on benefit get a real increase, the largest gains go to those people in full time employment. In addition, because Family Support remains a per child payment, larger families gain relatively more than smaller families.

Table 5: Indicative increase in net income by selected family types

	% Increase in net income – between current and new policy settings		
	April 2005	April 2006	April 2006
Family type:			
Sole parent with one child aged 4, renting for \$255pw in North Auckland. Wage of \$11ph			
On benefit – no earnings	8.4%	9.6%	13.0%
Working 20 hours	11.3%	13.4%	16.3%
Working 30 hours	11.0%	18.6%	21.6%
Family type:			
Couple with 2 children, aged 4 and 16, renting for \$120pw in Wairoa. Wage of \$12ph			
On benefit – no earnings	5.2%	6.2%	12.3%
Part time work – 20 hours	10.0%	12.9%	18.3%
Full time work – 40 hours	11.3%	20.1%	23.7%
Full time work – 60 hours between 2 parents	6.4%	15.2%	18.5%
Family type:			
Couple with 4 children, aged 3, 5, 8 and 12, renting for \$350pw in Manukau. Wage of \$12ph			
On benefit – no earnings	11.4%	12.6%	20.5%
Part time work – 20 hours	14.5%	16.9%	24.2%
Full time work – 40 hours	13.0%	17.4%	23.0%
Full time work – 60 hours between 2 parents	11.8%	17.3%	22.6%

Note: does not factor in childcare costs or increases in childcare assistance. The pattern of income gain would also differ if any of the families were currently receiving Special Benefit.

Further Income Impact Details

30 The largest impact on net income for families with dependent children will come from the increases in per child rates of Family Support. The rate increase occurs in two stages: from April 2005, and from April 2007. The 2005 increase means that an estimated 260,000 families will get an increase in FS averaging \$32.50 per week. Around 24,000 families will newly qualify for FS on account of these changes. Tables 6, 7 and 8 show the gains from these increases across the three years of change, by income range and by family type. Table 8 shows the impact once the increases have been fully implemented (that is, the impact by the 2007/2008 tax year).

31 The increase in FS rates in 2007 (after taking into account abatement and IWP changes) takes the number of families gaining to over 290,000, and the average gain to \$66.00 per week. This means that around 61% of all families with children will be eligible for family income assistance, compared with just over 50% now. After full implementation in 2007, 48,000 more families will receive Family Support than would have been the case without the Future Directions - Working for Families package.

32 Low-income non-beneficiaries will gain relatively more from the FS increases than beneficiaries, because the latter have some of the increase off-set by having the child component of the benefit rate removed.

Table 6: 2005/06 Family Income Assistance Impacts (tax year)

Net Family Income	Sole parent families			Couple families			All families with dep. children		
	Number gaining*	Average weekly gain	Percent that gain	Number gaining*	Average weekly gain	Percent that gain	Number gaining*	Average weekly gain	Percent that gain
Under \$15,000	6,000	\$34.17	100%	8,000	\$42.94	100%	14,000	\$39.18	100%
\$15 - 25,000	134,000	\$26.65	100%	34,000	\$38.23	100%	168,000	\$29.00	100%
\$25 - 35,000	8,000	\$42.27	100%	26,000	\$39.56	100%	34,000	\$40.20	100%
\$35 - 45,000	4,000	\$33.04	100%	24,000	\$41.33	86%	28,000	\$40.74	88%
\$45 - 60,000	0	-	-	14,000	\$29.21	32%	14,000	\$29.21	30%
\$60 - 80,000	0	-	-	-	-	-	-	-	-
Over \$80,000	0	-	-	-	-	-	-	-	-
Total	152,000	\$27.90	97%	110,000	\$38.87	34%	262,000	\$32.51	55%

* Numbers gaining includes both current recipients who get an increase, as well as newly eligible.

Source for Tables 6, 7 and 8: Treasury; Taxmod estimates (based on the 2001 Household Economic Survey).

Does not include Housing Assistance, Childcare or Hardship Assistance component.

Table 7: 2006/07 Family Income Assistance Impacts (tax year)

Net Family Income	Sole parent families			Couple families			All families with dep. children		
	Number gaining*	Average weekly gain	Percent that gain	Number gaining*	Average weekly gain	Percent that gain	Number gaining*	Average weekly gain	Percent that gain
Under \$15,000	6,000	\$25.10	100%	8,000	\$56.75	100%	14,000	\$43.18	100%
\$15 - 25,000	134,000	\$30.29	100%	34,000	\$54.71	100%	168,000	\$35.23	100%
\$25 - 35,000	8,000	\$88.54	100%	26,000	\$83.21	100%	34,000	\$84.46	100%
\$35 - 45,000	4,000	\$72.67	100%	26,000	\$78.15	100%	32,000	\$77.49	100%
\$45 - 60,000	2,000	\$58.00	100%	34,000	\$52.02	74%	36,000	\$52.35	75%
\$60 - 80,000	0	\$0.00	0%	8,000	\$51.00	12%	8,000	\$51.00	12%
Over \$80,000	0	\$0.00	0%	0	\$0.00	0%	0	\$0.00	0%
Total	152,000	\$34.21	97%	136,000	\$63.85	42%	288,000	\$48.21	60%

* Numbers gaining includes both current recipients who get an increase, as well as newly eligible.

Table 8: 2007/08 Family Income Assistance Impacts (tax year)

Net Family Income	Sole parent families			Couple families			All families with dep. children		
	Number gaining*	Average weekly gain	Percent that gain	Number gaining*	Average weekly gain	Percent that gain	Number gaining*	Average weekly gain	Percent that gain
Under \$15,000	6,000	\$46.67	100%	6,000	\$77.12	100%	12,000	\$61.89	100%
\$15 - 25,000	130,000	\$47.54	100%	34,000	\$78.53	100%	164,000	\$53.99	100%
\$25 - 35,000	12,000	\$100.83	100%	24,000	\$101.04	100%	36,000	\$100.97	100%
\$35 - 45,000	4,000	\$88.63	100%	26,000	\$97.10	100%	30,000	\$95.97	100%
\$45 - 60,000	2,000	\$69.94	100%	36,000	\$67.58	86%	38,000	\$67.70	86%
\$60 - 80,000	0	-	0%	12,000	\$57.00	19%	12,000	\$57.00	18%
Over \$80,000	0	-	0%	-	-	-	-	-	-
Total	154,000	\$52.87	97%	138,000	\$80.71	43%	292,000	\$66.03	61%

* Numbers gaining includes both current recipients who get an increase, as well as newly eligible.

- 33 The simplification of abatement and increase in the family income assistance (FIA) threshold which will take place from 1 April 2006 will enable more families to qualify and other working families to keep more assistance than is currently the case. Together with the

introduction of the In-Work Payment, the changes will further improve the income position of low-income working families. These will increase the number of families gaining to over 280,000 and the average increase to around \$48pw in the second year. Beneficiary families do not benefit from the abatement threshold changes unless they have other income (such as from employment) that currently means their total income exceeds the FS abatement threshold. However they do gain from the threshold changes if they move into employment.

- 34 Approximately 136,000 families will receive the IWP compared to 118,000 who currently receive the Child Tax Credit which it will replace in April 2006.
- 35 The enhancements to Childcare Assistance will have an income effect, by reducing the net cost of childcare to low and middle income families. However the main outcome sought relates to employment participation. For this reason the impact analysis of childcare assistance changes is dealt with in the next section⁴.
- 36 The maximum rate increases to Accommodation Supplement from April 2005 will also provide more assistance to around 104,000 low and moderate income families and individuals who have higher housing costs, especially those in Auckland (refer Table 9). The average income gain is around \$20 per week, with the largest number of gainers having incomes in the range \$25,000 to \$35,000 (they will gain an average of around \$23 per week).
- 37 The AS changes extend beyond families with dependent children: about 34,000 single people and about 7,700 couples without children gain from the changes (by an average of about \$18pw and \$21pw respectively).

Table 9: Accommodation Supplement Impacts (2005/2006)

Income Range	AS recipients			
	Number ⁵	% gaining ⁶	Average gain per week	% of expenditure
< \$15,000	19,400	16.2	\$16.34	14.16
\$15,000 - \$25,000	45,400	44.7	\$18.64	39.56
\$25,000 - \$35,000	31,100	85.8	\$23.33	34.10
\$35,000 - \$45,000	6,800	98.3	\$30.85	9.94
\$45,000 - \$60,000	1,300	92.7	\$33.36	2.22
\$60,000 - \$80,000	-	-	-	-
\$80,000+	-	-	-	-
Total	104,000	39.8%	\$19.91	100%

Note: - indicates sample size is too small to report

- 38 For about 31,000 families with children who will be receiving Special Benefit on account of financial hardship at 1 April 2005, the enhancements to family income assistance will be partially off-set by reductions in their Special Benefit. These families will receive an average reduction in their Special Benefit of \$13.80 a week compared with the average increase for beneficiaries from the Future Directions - Working for Families initiatives, of \$27.51 a week.

⁴ For both CCA and AS changes, the actual pattern of gains will depend on respective childcare and housing costs, as well as income. People already facing lower costs will gain less than those facing higher costs.

⁵ Figures have been rounded to nearest hundred.

⁶ Percentage of AS recipients better off.

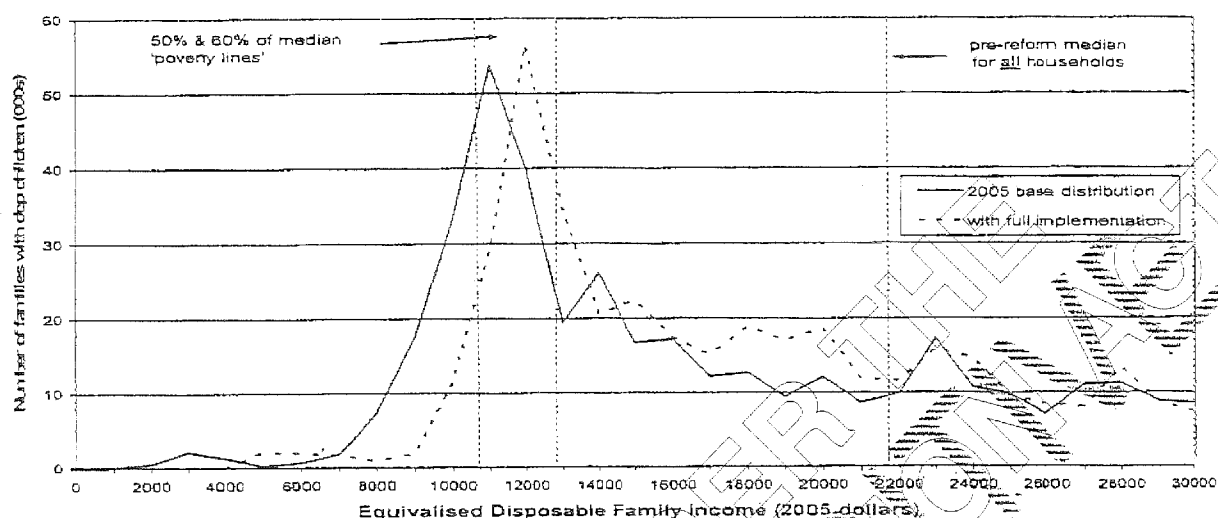
- 39 In no case will the amount of the reduction in Special Benefit exceed the increase the household will receive in their family income assistance from 1 April 2005. In a small minority of cases (1,200) individual case management using discretion will be required to ensure that they are not disadvantaged by the reforms. This will be managed by separately identifying the cases involved and limiting the reduction in their Special Benefit to the amount of increase in family income assistance.
- 40 Special Benefit is a discretionary programme, governed by a Ministerial Direction which guides decision making. The Direction will be amended to take account of Future Directions - Working for Families policy changes. Discretion will remain a part of Special Benefit administration.
- 41 The increases in income to low-income families could also be expected to have a flow-on to indebtedness, including debts to crown agencies. (Separate work is underway on the issue of multiple debts to state agencies).
- 42 Once the full package is implemented (in 2007/08) around 60% of the additional expenditure will be directed to low-income working families not receiving a benefit, with around 40% going to beneficiary families (in the first year the share going to beneficiary families is greater because of the Family Support rate increases, while in the second year the share going to working families is larger with the introduction of the In-Work Payment).

Impact on standards of living and poverty

- 43 Income support is one of the most effective instruments readily available to government to alleviate relative poverty⁷ and to achieve improvements in standards of living. Given the significant new expenditure through the Future Directions - Working for Families package, we would expect a significant impact on measured poverty.
- 44 The estimates below are limited in that the actual impact will depend on factors such as how the economy performs over the period. There are also limitations with the estimates based on constraints with the various data sources and models used to carry out the analysis.
- 45 We have used two internationally recognised poverty measures – 50% and 60% of median household equivalised income to assess the impact of the proposal on poverty levels. The analysis shows that the changes when fully implemented will mean that 7 out of 10 children living below the 50% line before the reforms are lifted above it. Using the less stringent 60% measure the effect is lower but still significant at just under one third. Figure 1 below shows the expected shift in the income distribution in real terms for families with children.
- 46 Given that the focus of Future Directions - Working for Families is families with children, the impact of the package on the population as a whole is less than the impact for children, however, the impact on the whole population remains substantial: around 40% will be lifted above the lower threshold poverty line and 20% for the higher one (see Figure 1 below).
- 47 All these results are consistent with targeting assistance to those in need based on income, but in a way which also allows some real assistance to those further up the income range as well.

⁷ The poverty measures used here relate to relative poverty, in line with the approach taken in other OECD countries.

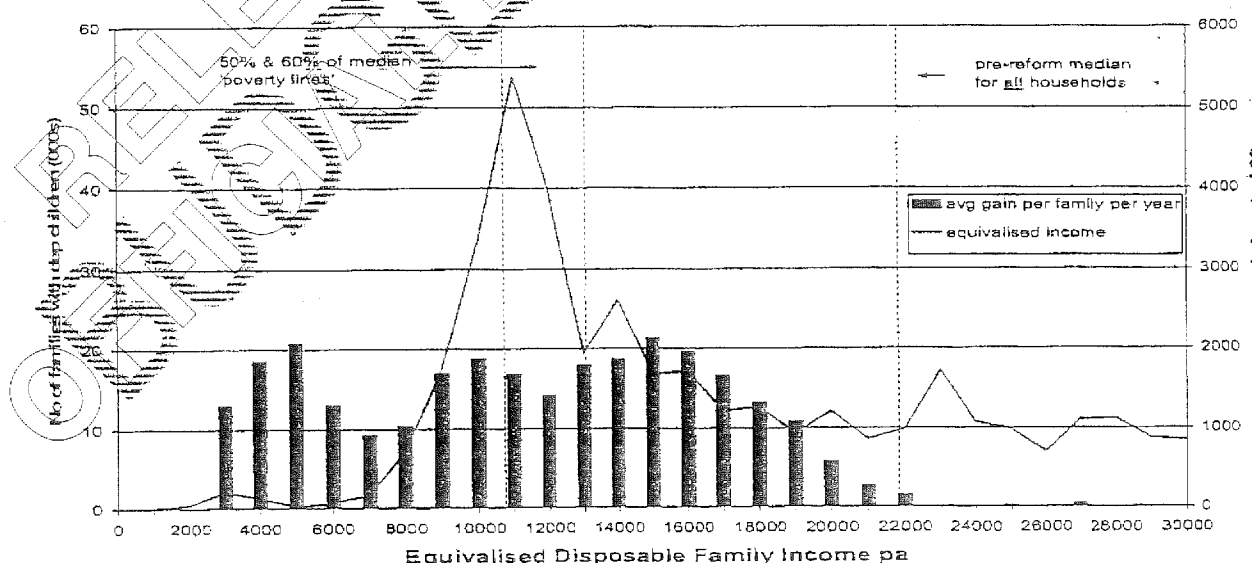
Figure 1: Income distribution for families with dependent children before and after full implementation in 2007 of the Family Assistance Reforms



48 Any measure of poverty derived from counting the number of people below a set income line needs to be augmented by an analysis of how far below that line people are. This is demonstrated in Figure 1, by the general movement of the income distribution up the income ranges at all points. While some families remain below the poverty lines, both the numbers and their distance below these lines is reduced.

49 As the Future Directions - Working for Families package is planned to be implemented in stages, the impact on measured poverty correspondingly occurs in stages, with the cumulative impact occurring from April 2007 with the second increase in Family Support.

Figure 2 : Average annual net gain in actual income for families with dependent children Phase One (05-06)

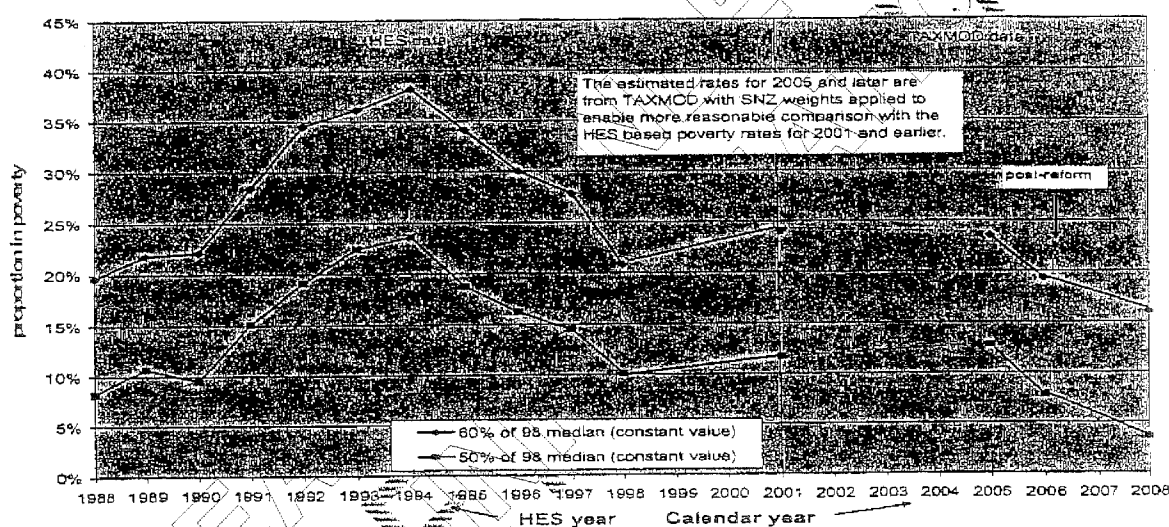


Note on Figure 2: Read the equivalised income line against the left-hand axis, and the average gain in actual income against the right-hand axis.

50 Figure 2 shows where across the income range (for the first year of reform) the gains from the package fall. The pattern of average gains in the lower income ranges is affected by the fact that beneficiary families get a smaller net, after the effect of the benefit rate off-set is taken into account. Further up the income range the gains depend on the amount of abatement on account of other income. The pattern across all income ranges is also influenced by numbers of children per family. It shows a significant share of the gains go to families below the poverty lines, but that a share also goes to families in the income ranges above those points.

51 Figure 3 shows the impact of the package on the incidence of child poverty compared to trends since 1988. It shows that the increases to assistance will have a dramatic effect, and is anticipated to reduce child poverty to levels considerably lower than levels experienced in the late 1980s.

Figure 3: Headcount poverty rates for children across time
(based on HES and TAXMOD data using constant value thresholds)



52 One effect on poverty rates which has not been built into this analysis is the employment effect. The package will improve the returns for sole parents from increasing their employment, and this is likely to further reduce the incidence of poverty measured at the 60% level.

53 Improving the standards of living to address child poverty is one of the 5 key objectives for the Investing in Child Youth and Development work under the wider Sustainable Development programme. The changes in this package will make a major contribution to this objective. Avoiding child poverty is a major contributor to improved life and inter-generational outcomes.

Highlights

The Future Directions – Working for Families package provides better income assistance for families who are in low and moderately paid employment, thereby ensuring that people will be better off in employment than on benefit.

It complements other initiatives including active case management, Jobs Jolt initiatives, improvements to paid parental leave, and early childhood education developments.

The employment effects from the package are expected to be modest, given the priority given to addressing income adequacy objectives. Delivery enhancements which improve the accessibility of in-work support (including family income assistance and accommodation supplement) will support employment outcomes. The greatest incentive effect will be with respect to sole parents, where New Zealand has a particular problem.

Effective Marginal Tax Rates will be improved for families with incomes below \$27,500 per annum, but will be increased for families with incomes above around \$34,000 (one child) or more (e.g. \$42,000 for 2 children, \$53,900 for 3 children). This will have a negative impact on secondary earners (who are likely to be women).

This should be off-set by the childcare changes which will help working women reduce childcare costs as a barrier to employment. They will provide an increase in Childcare Assistance by an average of \$23 per week to around 28,000 families and 33,000 children.

The eventual impact of these changes will depend very much on prevailing economic and employment conditions over time.

Most of the employment incentive gains will occur in April 2006, with some from October 2004.

The Problems

55 One of the key objectives for the Future Directions - Working for Families package is to support people to move into and remain in employment by helping make work pay. Currently for many people, work does not pay. Once work-related costs, benefit abatement and tax are taken into account many beneficiaries would be little or no better off from moving into work at the available wage rates. This problem is most acute for families with children because the benefit rate for those with children is higher, meaning the gap between benefits and wages is smaller. Further, those with children who have childcare costs can be even worse off.

56 While employers can not offer different wages based on family status to enable people to support their families though paid work, the government can provide support which takes family status into account. For example, the sole parent illustrated in Table 2 would face a replacement rate of 82% in full-time work of 30 hours a week – i.e., she would replace 82% of her net income from work with benefit income (i.e. a combination of main benefit, Family Support and AS). The couple with 2 children illustrated in Table 3 would face a similarly high replacement rate of 83% for one partner entering full-time work of 40 hours a week.

- 57 In general terms, families with children are currently better off staying on a benefit and working a few hours within the abatement-free zone, unless they can move into a full-time job paying considerably more than the minimum wage or, in the case of couples, if both partners are in work.
- 58 New Zealand also has a relatively low labour force participation rate for women. While our female participation rates at around 65% are above the OECD average, and have grown in recent years, they are some 10% below the best performing OECD economies⁵. Significantly, while we have a larger sole parent population than most, we also have the lowest sole parent employment participation rate. Increasing sole parent participation rates would have multiple effects: reduced poverty rates amongst this group, increase life-time income prospects, and increased economic activity generally.
- 59 Specific issues include:
- In-work family assistance not being enough to make work pay
 - high Effective Marginal Tax Rates (EMTRs, the combined effects of abatement of benefits and other assistance and income tax) reducing incentives for people to increase their income
 - the Accommodation Supplement (AS) abating differently from benefits so people incur innocent overpayments when working in the benefit-free zone
 - the costs of childcare even with the Childcare Assistance (CCA) are a barrier to employment
 - debt recovery policies when people move off benefit into employment, and
 - there are problems with take-up of CCA and AS for non beneficiaries and there are problems with how family assistance is administered when a person moves from benefit to work.
- 60 Ineffective collaboration between key delivery agencies can create time delays in payment of social assistance at the time of transfer from benefit to work.
- 61 As noted in paragraph 15-17 above (trade-offs), there is a tension between having an income level that ensures a modest but adequate standard of living (which in part is reflected in the poverty measures discussed above (paragraphs 43-53), and ensuring that there is a reasonable return from employment. Initiatives which ensure a higher minimum basic income for those out of work are likely to make low paid work less attractive, unless there are countervailing measures for low-income workers.
- 62 In addition, where that in-work support is available, it can raise issues of the balance between employment-generated income and income from the state, the impact on wage setting itself, and the impact of targeted in-work assistance on (EMTRs).

⁵ OECD, (2003), *Economic Survey of New Zealand*

Increasing the labour participation by making work pay

- 63 A recent Department of Labour paper⁹ observed that the current labour market environment offers an opportunity to lift labour force participation and employment levels overall, especially for disadvantaged groups, with positive results for economic and social wellbeing. The paper commented that increasing participation means moving more people into a position where they are available and can look for jobs, and that among other things (such as improving the availability of suitable jobs and lifting the skills of all) this could involve addressing the barriers to paid work that some people face (such as childcare) and improving the gains from working and conditions of work.
- 64 The Department of Labour report noted the influence of social assistance policy settings – in relation to rates, abatement, delivery and job search requirements, in influencing labour participation. The Future Directions – Working for Families package contains policy changes, which work on most of these policy levers, with the aim of promoting greater employment participation, especially for families with children. It does not venture into issues related to job search requirements. Nor does this phase look at the potential for specific in-work assistance targeted at specific groups, such as sole parents. The 2003 OECD Economic Survey of New Zealand suggested consideration might be given to such initiatives, and cited the success of the Canadian Self-Sufficiency project which involved a time limited (three years) in-work payment for sole parents¹⁰. However, the current proposals do not stand in the way of further developments being undertaken on these and other potential levers.
- 65 In the current debate on the employment effects from various tax and welfare proposals in Australia, the Melbourne Institute of Applied Economic and Social Research has commented that proposals which target expenditure through the likes of a tax credit at low-income households, are more likely to improve work incentives than either across the board tax reductions or across the board changes to benefit income test regimes¹¹. This is because the former deliver the greatest gains further up the income range, while there is limited scope in the latter to deliver anything of real value to low-income workers. The model developed for Future Directions – Working for Families relies very heavily on a tax credit type instrument.

The Impacts from the Changes

Key Points

- 66 The employment effect of the Future Directions – Working for Families package largely relates to improving the labour supply by making it more viable and attractive for people to participate in the labour force. It does this by providing better income assistance for families who are in low and moderately paid employment, by ensuring that families will be better off

⁹ Department of Labour, 5 February 2004, Report to Minister for Social Development and Employment, "Labour Utilisation and Economic Growth"

¹⁰ The in-work payment was substantial and aimed to provide a significant one-off chance for sole parents to make the changes needed to "break out" of the low-income and benefit cycle. The project was a federal pilot programme which, despite its apparent success, the provinces (which are responsible for funding on-going welfare programmes) have been slow to pick up.

¹¹ Melbourne Institute of Applied Economic and Social Research, as quoted in "Closing the bracket" the Inquirer, February 28-29, 2004

in employment than on benefit, and by reducing effective marginal tax rates (so that people get to keep more of each additional dollar they earn). The changes complement the active case management approach being taken by MSD, as well as the Jobs Jolt initiatives. They also complement broader government policies including the paid parental leave initiatives and early childhood education developments.

- 67 The eventual impact of these changes will depend very much on prevailing economic and employment conditions over time. The greatest employment effects will occur in periods of high demand. In a situation of falling labour demand and a soft labour market there will be little employment effect, given that those currently on benefits are generally the low-skilled.
- 68 The balance between income adequacy on the one hand, and making work pay on the other, will always be a difficult one, and international experience suggests that while there are real gains to be had from reducing work disincentives and promoting improved returns from work, these are rarely more than marginal at any one point in time¹². Nevertheless the effect over time is real and removing barriers to employment, especially for those in otherwise low-income work is important.
- 69 The package represents a mixed model relying on the shape of family assistance policy, augmented by the In Work Payment, together with assistance which people can carry with them from benefit to work. This differs from the type of approach used in Australia, which relies primarily on a single instrument – the Family Tax Benefit, which integrates family income assistance and in-work support. This approach was considered but not progressed, mainly because removing the existing in-work provision (CTC) without introducing assistance directed specifically to low-income workers would mean a relatively higher increase for families not in work over those in-work, making work less attractive. The approach also differs from the pure Working Tax Credit approach in the United Kingdom. An important part of the model developed here is promoting take-up of accommodation assistance and childcare assistance to low-income people in work, so that there is greater continuity of assistance.
- 70 While the OECD supports the development of an in-work payment, and comments that it needs to be sufficiently large to produce the desired effects, it is a matter for judgement as to just how large the amount should be. The IWP developed as part of this package is significantly greater than the CTC, especially for smaller families. However, it is not as generous as the Canadian payment (which was targeted to a smaller population; long-term sole parents).
- 71 The key points to note in this package are:
 - the changes will help make work pay for low-income families in employment: 60% of the expenditure will be directed to families in work, with 40% going to families receiving a benefit
 - effective marginal tax rates (EMTRs) are improved for low-income working families (though these will be higher for some middle and higher income families)
 - the In-Work Payment will provide particularly strong work incentives for sole-parents
 - most of the employment incentive gains will occur in April 2006, with some from October 2004

¹² OECD, (2003). Employment Outlook

- the childcare changes will help working parents reduce childcare costs as a barrier to employment.
- 72 Using the scenarios in Tables 2 to 4, an analysis of the employment effects is shown in Table 10, by examining the replacement rates. Replacement rates look at the benefit wage relativity, i.e. the income on benefit as a share of income from full time employment. The closer the two, the lesser the return from being in full-time paid employment. The real replacement rate will be determined by the actual market wage.
- 73 Table 10 shows that current replacement rates for the scenarios chosen are all above 80%. The changes in replacement rates reduce slightly in 2005 with the differential increases in family assistance (where some of the benefit rate is "moved" into FS, resulting in a lesser net increase – but still a real increase – for those on benefit). The biggest gains in replacement rates come from the changes in April 2006, with the introduction of the IWP and the improvements in the FS abatement, which both assist people in low-paid employment (rather than those on benefit). The further increase in FS rates in 2007 increases replacement rates again slightly.
- 74 The table also shows that the improvements are lower for the larger family type. This in part reflects the addition of the per child supplement IWP for larger families, which is designed to avoid losers from replacing the CTC with the IWP, but also to recognise greater costs faced by larger families.

Table 10: Indicative replacement rates by selected family types

Replacement rates faced under current and new policy settings				
	Current	April 2005	April 2006	April 2006
Family type:				
Sole parent with one child aged 4, renting for \$255pw in North Auckland. Wage of \$11ph				
Working 30 hours	81.7%	79.8%	75.5%	75.9%
Family type:				
Couple with 2 children, aged 4 and 16, renting for \$120pw in Wairoa. Wage of \$12ph				
Full time work – 40 hours	83.1%	78.6%	73.5%	75.4%
Family type:				
Couple with 4 children, aged 3, 5, 8 and 12, renting for \$350pw in Manukau. Wage of \$12ph				
Full time work – 40 hours	82.8%	81.6%	79.4%	81.1%

Note: does not factor in childcare costs or increases in Childcare Assistance. The pattern of income gain would also differ if any of the families were currently receiving Special Benefit.

- 75 Another way of looking at the rewards from employment is to consider the share of extra income that families gain from work. Looking at the average tax rates (as opposed to EMTRs) across a range of income (to take account of the benefits of working full time or not at all) shows that families get a significantly better share of their income from employment under the new arrangements, when compared with current policy. For example, a sole parent working full time currently as in Scenario 1, gets to keep just under 30% of the net income now, compared with being able to keep around 45% in 2007. For the couple in Scenario 2, the situation improves from around 17% to over 30%, while in Scenario 3, the improvement is from 25% to 35%.

- 76 Even so, the average tax rates remain relatively high. This is a function of receiving assistance that protects the net income position. Low average tax rates could be achieved by either providing no income assistance or by providing universal income assistance – the former has major adequacy ramifications, the latter, large costs and work incentive implications. Neither of these are acceptable alternatives.

Further Employment Impact Details

Family Income Assistance and In-Work Payment

- 77 The Family Income Assistance changes contain several elements which directly help make work pay:

- The In-Work Payment strongly impacts on replacement ratios, being only available to families in work and not on benefit. The rate of the payment is a significant increase over the current mechanism which helps with in-work expenses – the Child Tax Credit. The IWP also provides a strong signal that supports labour market participation.
- The increase to the Family Tax Credit level will - together with FS and IWP - ensure that people moving from benefit into low paid employment of at least 30 hours (for couples) or 20 hours (for sole parents) will be better off by doing so, than they would be by remaining on benefit. The increase in FTC rate fulfils this role where families have net income up to \$17,149 in April 2006 and \$17,490 net per annum in April 2007 (increases of \$2,069pa and \$341pa). The downside of the FTC is that it results in an EMTR of 100% across that range. However, this impact is minimised given the minimum wage (which – using the April 2004 rate – at \$9 per hour and for 30 hours a week for a couple, provides an income of \$14,040 gross or \$11,493 net per annum¹³). It is estimated that the FTC will help around 10,000 families (as against 4,000 currently).
- Transferring the child component of the benefit rate out of the benefit system into the Family Support system enables the rate of increase to Family Support to be higher for families in work, thereby reducing the replacement rate for beneficiaries with children. It will therefore increase the relative attractiveness of employment.
- Increasing the income thresholds for FIA mean that low-income working people will have greater family assistance to help with living costs, so that work is more viable. The change will also reduce their effective marginal tax rates (EMTRs) so that they are able to keep more of each extra dollar of income they receive.

- 78 As noted above, the changes to the abatement regime for FIA will lift the income threshold from \$20,356 to \$27,500pa, at which stage recipient families will face a 30% abatement until entitlement (for the combined amount of FS, IWP and parental tax credit (PTC)) is fully abated out. While these changes reduce EMTRs for those on incomes below \$27,500 per annum, they also push them up for people on incomes between the current FIA cut-out points and the post-reform cut-out points. The range over which there are higher EMTRs is also driven by the increased value of assistance itself, as the cut-out point is a function of

¹³ Couples qualify for FTC if they work for 30 hours per week (and are not on benefit). The income range attracting 100% EMTRs is greater for sole parents however, because they can receive FTC if they have 20 hours employment (and are not on benefit).

the rate by the abatement rules. Table 11 below shows the income ranges over which there will be increased EMTRs.

Table 11: Comparison of income ranges attracting FIA abatement¹⁴

	Income ranges facing 30% FIA abatement		Income range facing higher abatement
	Under current policy	Under new policy (at full implementation)	
One child family	\$27,481 - 33,953	\$27,500 - 52,113	\$33,953 - 52,113
Two child family	\$27,481 - 42,099	\$27,500 - 61,993	\$42,099 - 61,993
Three child family	\$27,481 - 53,886	\$27,500 - 75,513	\$53,886 - 75,513
Four child family	\$27,481 - 62,033	\$27,500 - 87,993	\$62,033 - 87,993

- 79 It is estimated that there are around 48,000 families who will face higher EMTRs by virtue of now being eligible for FIA. For these people, the current return from an extra dollar of employment income after tax will be reduced by an extra 30 cents. It is desirable to limit how high EMTRs are, and the range over which higher EMTRs extend. However, given the income ranges affected, it is unlikely that there will be a reduction in labour market participation. The effect of the higher EMTR also has to be set against the fact that they will be better off income-wise by the value of the FIA they will receive.

Accommodation Supplement

- 80 While the Accommodation Supplement changes are primarily aimed at improving housing affordability, they will contribute to an employment effect
- The introduction of an income abatement-free zone for the Accommodation Supplement, which is aligned to the benefit-free zone, will make part-time employment more attractive for beneficiaries
 - Currently it is possible for a person to face a reduced AS rate when they move from being a beneficiary to being a non-beneficiary, which is disproportionate to their increase in employment income, because of mis-alignment of AS rules. Aligning the AS rules for beneficiaries and non-beneficiaries therefore further smoothes the transition for people moving from part-time to full-time work
 - The higher AS maxima in higher cost areas will also improve the relative attractiveness of people to move to or remain in those areas to take up employment opportunities, because they can access greater assistance with housing costs. The high cost accommodation areas also largely reflect where the greatest labour demand is.

Childcare Assistance

- 81 The CCA proposals will make a significant contribution to reducing the employment-related costs of low and middle income families and are tailored primarily to supporting young families who are using childcare. The enhancements to Childcare Assistance will assist

¹⁴ These are indicative, as the actual income range attracting 30% FIA abatement will depend on age as well as number of children. Under the examples here: 1 child family has a under 16 rate; 2 child family has 1 under 16, 1 under 13; 3 child family has 1 16-18, 1 13 - 15, 1 under 13; 4 child family same as 3 child family but with 2 under 13 years. All take account of FS and CTC or IWP.

around 28,000 families and 33,000 children, who will gain on average around \$23pw. The largest gains will go to people with income in the \$35,000 to \$45,000 range, who use childcare services while working:

- The increased rates for the childcare and out-of-school care (OSCAR) subsidy will reduce the cost to low and middle-income parents using formal childcare services, thereby reducing a major employment related cost
 - Aligning the subsidy rates for OSCAR services with pre-school childcare will improve the affordability of OSCAR services for low and middle-income families with children aged between 5 and 13 years. This will facilitate both part-time and full-time employment
 - The increase in thresholds will ensure that more families are eligible for CCA. Currently the cut-out point for assistance constrains the assistance mainly to sole parents. While improving employment outcomes for this group is crucial, addressing childcare costs for low and middle-income couple families is also important. The increased thresholds will help improve the affordability of childcare for second earners in these families.
- 82 Around 90% of sole parent families and 30% of couple families could qualify under current policy settings for a childcare subsidy. The increases to the income thresholds will increase this to over 90% of sole parents and around 50% of couples with children. The actual numbers who will access the assistance will depend on how many parents choose to use childcare services, and their hours of employment.
- 83 The impact of the childcare changes on employment may be constrained by the supply of childcare places. We know from on-going work on childcare, that some parents have difficulty in accessing the childcare services they want. Some resort to arranging childcare in other locations than they would prefer (which can extend travel time). Others choose to use less childcare than they prefer, some find other solutions (such as informal care) while others find this an insurmountable barrier. An increase in the value of the childcare subsidy is likely to see some supply response, but this is likely to be gradual. It is likely that there may also be some substitution to formal childcare from informal childcare, reducing the employment gains somewhat but increasing the childcare participation rate.
- 84 The final impact will also very much depend on the parallel changes arising from the Early Childhood Education Strategic Plan already agreed, as well as further proposed changes to education funded services.
- 85 Access to affordable, quality childcare, is a major issue impacting on the labour force participation rates of women with young children. The changes to CCA will play an important role in lifting women's labour force participation rates over time.

The combined effect

- 86 In aggregate the Future Directions – Working for Families package will have the following employment effects:
- it will make it easier for people to move from benefit into employment because they will have greater continuity of family assistance, childcare assistance and housing assistance. This continuity of assistance will result from both policy changes and delivery enhancements

- it will reduce the risk of low-income families leaving employment because their employment income is insufficient to cover basic needs including work related costs. It will make it more attractive for non-beneficiary families with low employment income to increase their employment income because they will have lower effective marginal tax rates.
- 87 While the IWP and FTC changes are directed at supporting families in full-time employment, some of the changes also support part-time employment. The AS abatement free zone change primarily supports part-time employment, while the childcare changes and the FS rates changes support both full-time and part-time employment.
- 88 Delivery enhancements will also ensure that people in fluctuating employment arrangements are better supported. As such they will help people in seasonal work. Currently people who move between work and benefit have difficulties getting their correct family assistance when they need it, often ending up with debts. They also have difficulty getting childcare and accommodation assistance when they need it. The policy and delivery improvements in the package go a long way to addressing these issues.

Labour Market Impacts

- 89 The package offers a moderate improvement in financial work incentives for families with children. As a result of the reforms there may be a small increase in labour market participation, amongst both beneficiaries and non-beneficiaries who decide to enter the labour force¹⁵. Depending on the skills of these new entrants and general economic conditions this may lead to a small increase in employment. Needless to say, the package has been developed against the background of strong economic growth. In the event of an economic downturn, employers are less likely to absorb any increase in labour supply generated as a result of improved work incentives.
- 90 International evidence (see Kalb G. *The impact of social policy initiatives on labour supply incentives: A review of the literature*) indicates that, on the whole, financial incentives to work may lead to some increase in labour force participation amongst sole parents and jobless coupled households. However, the order of magnitude of these increases is, at best, small. For example, studies in the UK have found that only 1-2% of sole parents previously not participating in the workforce moved into either part-time or full-time employment due to the financial incentives implied by the Working Family Tax Credit. Families already engaged in work are not generally responsive to financial work incentives and may, depending on the structure of assistance, reduce the work effort of second earners in dual income households. These findings are confirmed by preliminary micro-simulations applied to the labour market in NZ.

¹⁵ An assessment of the aggregate labour market effects of the family income assistance component of the package was undertaken by the Melbourne Institute of Applied Economic and Social Research, which concluded that the package will provide a positive impact on the participation rate for sole parents, and that sole parents already in work are likely to increase the number of hours they work. The assessment for couple families is more ambiguous. As the package increases income for any given number of hours worked many low and middle income couples will choose to take the income gain (in the same way that most accept the income gains from a wage increase). But it is possible that some parents in couple families might choose to reduce their hours of work, substituting FIA income for market income. However, many low-income earners are likely to prefer the extra income rather than reduced work hours. The Melbourne Institute's assessment did not take account of the additional childcare support, which will be significant in helping second earners.

- 91 The Future Directions - Working for Families initiatives will improve financial work incentives for the vast majority of sole parents and jobless households with dependent children. For second earners in low-income households, the combination of increased childcare assistance and the increase in the income threshold before FIA starts to abate will improve work incentives. Potential second earners in middle-income families will have the positive impact of increases in childcare assistance ameliorated by abatement of increased FIA extending further along the family income distribution. Some of the increase in participation will be a measurement effect as paid formal childcare is substitute for informal arrangements.
- 92 On balance, we expect the increase in labour market participation as a direct result of Future Directions - Working for Families reform to be modest. Should there be an increase in labour supply, any downward pressure on wages would reduce the returns to work for people without children and make these workers increasingly reliant on minimum wage provisions.
- 93 Depending on the flow-through of any new participants into employment, Future Directions - Working for Families may impact upon the unemployment rate and/or average labour productivity. The unemployment rate will increase if any rise in labour force participation is not matched by a proportional increase in employment. Furthermore, those entering employment will not have had workforce attachment immediately prior and are more likely to be relatively unskilled. Consequently, their entry into employment may reduce average labour productivity in the short term. This effect will be exacerbated to the extent that increases in employment are not matched by a commensurate increase in capital investment. Overall the package is likely to worsen the capital/labour ratio. Taking a dynamic perspective, it could be asserted that increased workforce attachment amongst the population will lead to human capital formation that boosts productivity in the longer term. On the flipside there is also an argument that the abatement of in-work assistance may create an incentive for recipients to remain in relatively low-paying jobs to retain their entitlement.

Part D: Economic Impacts

Highlights

The modest employment effects of Future Directions – Working for Families may have a small positive impact on GDP per capita in New Zealand over a period of time.

As it stands, the package accounts for a large proportion of the government's planned future expenditure. The spending amounts in the December Economic and Fiscal Update (DEFU) are close to the limit of what can be considered appropriate from a macroeconomic perspective. At the broadest level, the size of the package will limit future fiscal flexibility and constrain the range of future policy options without revenue increases.

Introducing a package of the scale of Future Directions - Working for Families could lead to knock on fiscal pressures in the future that have not yet been explicitly accounted for. These include demands for spending in other areas and pressure to extend the IWP to those without children. Indexation and/or periodic reviews of Family Income Assistance would lead to increasing fiscal costs in out-years.

Growth impact of Future Directions

- 94 Should the boost in financial assistance to working families result in an increase in labour market participation and employment, this would have a small positive impact on GDP per capita in New Zealand over a period of time. More generally, Future Directions - Working for Families is an investment in families with children. Combined with government initiatives in other areas (e.g. Jobs Jolt, Growth and Innovation Framework, infrastructure investment etc.), it is hoped that this reform will lead to the sustained workforce attachment of more New Zealanders and economic growth into the future.

Macroeconomic impacts

- 95 As it stands, Future Directions - Working for Families accounts for a large proportion of the government's planned future expenditure. The spending amounts in the December Economic and Fiscal Update (DEFU) were consistent with the Government's short-term fiscal intentions signalled in the 2003 Fiscal Strategy Report (i.e., altering the operating balance and debt tracks by under ½% of GDP in each of the 2004, 2005 and 2006 Budgets). The spending amounts were also close to the limit of what can be considered appropriate from a macroeconomic perspective – in terms of putting pressure on the economy and consequently on monetary policy and the exchange rate. Since that assessment, the exchange rate has continued to appreciate, and the pressures on the export sector have continued to increase.

Fiscal risks

- 98 Introducing a package of the scale of Future Directions - Working for Families could lead to knock-on fiscal pressures in the future that have not yet been explicitly accounted for. At the broadest level, the size of the package will limit future fiscal flexibility and constrain the range of future policy options without revenue increases.
- 99 **The pressure for annual indexation of Family Income Assistance payments:** The Future Directions - Working for Families package will extend social assistance to a significantly larger proportion of NZ families - by 2007/08 61% of families with dependent children are expected to be in receipt of government-provided social assistance. Officials are providing a separate report on the options and costs of indexing or regularly adjusting aspects of family income assistance.
- 100 **Demands for spending in other areas:** The \$4 billion addition to social assistance may give rise to demands from other sectors for increased government funding.
- 101 **Pressure to extend the IWP to those without children:** Should the package, in combination with other government initiatives, be effective at increasing labour supply, there may be some downward pressure on wages. This would dampen the returns from work for people without children. As was the case with the Working Family Tax Credit in the UK, there may be increasing pressure to extend the proposed In-Work Payment to those without dependent children, at additional cost to the government.

Part E: Ensuring that assistance reaches the right people

Highlights

The package does not deal with issues of complexity in basic benefit structures (this will be dealt with in subsequent work), although the rate structure changes will assist future developments.

The package includes a number of delivery enhancements which will smooth the interface between assistance delivered to those on benefit and assistance delivered to those in paid employment, especially at the point of transition.

Some of the policy changes will make it easier for clients to know how any employment income will affect their total income (e.g. aligning the AS threshold to the benefit threshold).

The reduction in the need for Special Benefit will reduce the numbers of people having to face the complex assessment this programme requires.

The changes will reduce the incidence of Crown debt, especially to Inland Revenue.

The Problem

102 Many people who are in low-income work are not accessing all of the social assistance to which they are entitled, particularly in-work assistance. Low take-up of in-work assistance contributes to hardship and real or perceived disincentives to take up employment, particularly low paid, short term or casual employment. This is partly due to the complexity of the system and difficulties with accessing assistance. For example, under delivery arrangements, families are required to reapply for family income assistance each time they take up employment or return to a benefit.

103 Our social assistance system is a complex one, which has become more complicated over the years. One of the objectives of changes in this area is to improve delivery so that it better supports the achievement of social assistance outcomes. Improving the ability to get the right support to people at the right time also brings the potential to redirect effort within the system towards providing more active employment assistance (as opposed to benefit administration).

The Impact of the Changes

104 The package includes a number of delivery enhancements which will smooth the interface between assistance delivered to those on benefit and assistance delivered to those in paid employment, especially at the point of transition.

105 Improving the value of the three main second tier income support provisions: Family Support, Accommodation Supplement and the Childcare Assistance will all reduce the call on third tier assistance, especially Special Benefit. Third tier assistance by its nature requires applicants to provide more information and greater details about their living circumstances and living costs, and can therefore be seen to be more invasive to privacy.

Delivery Improvements

110 Some Future Directions - Working for Families delivery enhancements for Family Support have already been agreed by Cabinet, in order to reduce the risk of overpayments (and therefore end-of-year debt) and enhance the transition of people from benefit to work. The changes¹⁶ will simplify the actions required of claimants throughout the year.

111 Other delivery enhancements are being developed to improve the accessibility to AS and CCA, especially for non-beneficiaries, so that they can indeed make work pay. These include:

- facilitating applications from target groups eligible but not accessing support, through the likes of online application and the introduction of an out-bound call centre (which would contact people exiting the benefit system to see if they qualified for assistance as low-income employees)
- centralising processing of certain programmes in order to speed up response times as well as accuracy and consistency
- introducing a childcare broker role, to assist low-income families to access the childcare and CCA they need in order to stay in employment

¹⁶ The changes agreed include improving the exchanges of information between IRD and MSD. This will involve IRD pro-actively commencing the application process for FIA when a person moves from benefit to employment; introducing weekly payments from IRD, removing the current problems faced by people moving from weekly benefit to two-weekly IRD pay cycles when they move off benefit; and IRD actively monitoring claimants' changing circumstances and income, and pro-actively contacting them in order to reassess their entitlement, so as to avoid under or over payments.

- establishing dedicated resources within MSD to provide services to low-income working families.

Reducing Debts

112 A further outcome worth noting is that several aspects of the Future Directions - Working for Families package will reduce the risk of tax and benefit debts. Within the FS system changes which will reduce debt to the Crown are:

- the FS threshold increase, by reducing the number of low-income recipients facing FS abatement
- "protecting" the FS entitlement for beneficiaries while they are on benefit¹⁷, and
- the enhanced FS delivery.

113 Within the benefit system, removing the confusion over allowable earnings rules by introducing the AS abatement free zone, will reduce the chances of a person incurring an unexpected debt on account of income they earn within the \$80 benefit abatement free zone.

114 The net impact of these delivery improvements will be that it is easier for low-income people to access income assistance that makes the difference between whether a low-income job is sustainable or not. The end result is that take-up of assistance to non-beneficiary low-income people should increase, thereby reducing the likelihood of those people falling out of low paid work.

¹⁷ Currently people moving from work to benefit can have previous higher earnings (in the same tax year) reduce the FS they get while they are on benefit. The issue arises because the tax system uses annual income while the benefit system uses current income to determine entitlement. As well as raising income adequacy issues, current policy can result in overpayments. There is also an issue for people moving from benefit to work.

Part F: Issues raised in the Review feedback

- 116 With Ministers' approval, the proposals which form the Future Directions - Working for Families package were provided on a confidential basis to a small number of people external to the policy development, in order to get their assessment of how well the proposals meet the original objectives. The review group included the Strategic Social Policy Reference Group, whose main comments related to the need to index family assistance (see paragraphs 140-141 below). The main points arising from that exercise are summarised in this section.
- 117 The reviewers observed that there are clear trade-offs between the main objectives sought from this package, and most of those trade-offs are summarised in paragraphs 15-17 earlier in the paper. In general the reviewers observed that the package of changes would make a significant impact on income distributions, going a long way towards meeting the income adequacy objectives of government. They suggested that the package would have a more modest impact on employment outcomes. They also noted that the package would not per se result in a simpler system. The reviewers provided a range of comments, with their overall assessment of the package being positive.
- 118 Reviewers did note that the documentation available to them concentrated on the details of the proposals and did not assess the overall contribution of the package to the objectives of the reforms: an issue that this report addresses.
- 119 The following summary identifies the main specific issues raised by the reviewers.

Objectives sought from package

- 120 **Context:** The reviewers noted that these changes need to be seen in the broader context of government's social and economic policies, including growth and innovation, early childhood education developments, other changes in social assistance (especially case management initiatives, the recent DPB changes, and the Jobs Jolt package).
- 121 **Tensions across objectives:** there is potential tension within the objectives being sought, which will require decisions on which objective should be given priority.
- 122 The tensions and balance across the various objectives are identified in paragraphs 15-17. Some tensions are inherent in this policy area, and Ministers provided guidance on the balance and priority across these objectives as the package was being developed.

Social considerations

- 123 **Target group:** given that the package extends considerable assistance well up the income range, it needs to be seen and assessed as a package for families, rather than a package primarily for vulnerable families. At the same time, the high incidence of child poverty was noted.
- 124 The package will allow significant real progress to be made in addressing child poverty (see assessment of poverty section above – paragraphs 43-53).

- 125 At the same time it consciously also assists families further up the income range. Among the OECD New Zealand is one of the few countries which, to date, has targeted its family assistance as tightly, giving priority to vertical equity (the needs of the poor) as against horizontal equity (the fact that all families with children face costs that those without children do not face).
- 126 **Sole parent/couple relativities:** The package is less favourable to couples on benefit relative to sole parents. The marginal additional assistance available for a couple on benefit, over a single person is relatively small, and one could argue that it may lead to families splitting up in order to gain eligibility as single parents.
- 127 The issue of the margin of assistance available to low-income families for an additional family member (whether an adult or a child) is problematic. It is important to recognise that there are additional costs to a household irrespective of whether the additional person is an adult or a child, where the family unit changes from being "single adult" to being "two-person". International and New Zealand studies of equivalent incomes for different family sizes have not resolved this. The issue is not new to our social security system, nor is it exclusive to New Zealand. The changes included in this package do alter relativities around the margins, however, they do not create new distinctions between sole parents and couples.
- 128 Proposals which are available to change relativities in the treatment of adults would either result in further costs (and could worsen benefit wage relativities at the same time) or would require real income levels for sole parents to be reduced. Poverty incidence studies would not support this outcome.
- 129 It was also observed that the package has not taken the opportunity to re-weight the various family income assistance rates (across age of child). This was considered but we currently lack research on the relative costs of children by age. This will be commissioned so consideration can be given to this issue in the future.
- 130 **Impact on fertility:** the increases in family assistance are substantial. One reviewer suggested that there may be a resulting fertility effect, which would have further benefits given New Zealand's demographic trends.
- 131 No assessment of a potential fertility effect has been made. However, clearly increased financial assistance to low and middle income families could enable some to have larger families if this was their preference. There is research in a number of OECD countries which suggests that families (and particularly women) can defer having children – including having fewer children or even no children – for economic reasons, when they would actually prefer to have children.¹⁸ The work-life balance exercise currently underway in New Zealand has also identified this. However, the scale of the issue, and whether people would act differently in reality are difficult to access. It is clear that 'pro-natalist' policies tried in various OECD countries have not met with much success. However, it is true that the changes could result in some marginal fertility effect.

¹⁸ OECD (2002) *Babies and Bosses*, Vol. 1.

Economic considerations

- 132 **Impact on wages:** the increases in in-work payments could have an effect on low wages, by reducing pressure on employers to pass on wage increases. To the extent that this could occur, it would have a detrimental income effect on employees who do not have children. At the same time it was observed that the increases will reduce the reliance that low-income workers have on their wage. For example, in the pre-reform situation a couple working 40 hours a week at 60% of the average wage gets two-thirds of their income from employment and one third from the state. By 2007, the mix changes so that they get around 54% from their employment and the rest from the state.
- 133 To some extent the balance of income sources is a function of the extent of redistribution the state engages in, including both the levels of assistance available, and how they are directed to priority groups. There is not necessarily one right mix. The key issues relate to whether the income transfer policies balance social objectives with other objectives (such as economic growth and productivity growth).
- 134 The potential effect on wage setting, including the possibility that more people might rely on the minimum wage, will also be influenced by the state of the labour market. We are currently in a buoyant economy, where there are both labour and skills shortages. These circumstances may have possible wage dampening effects. However, in the longer term, the keys to increasing productivity and wages rest more with human capital development policies (skills training, life-long learning, on so forth) than with the levels of benefits or in-work support. This does not mean that the issue is unimportant, and it does bear monitoring.
- 135 **EMTR effect:** the changes to the abatement rate for FIA was noted, including the increase in EMTRs further up the income scale. On balance, the reviewers considered that while increasing EMTRs is not desirable, the impact of this part of the change would be unlikely to be significant, and that any downsides were outweighed by the increase in value of FIA. This is dealt with in more detail in paragraphs 75-77 above.
- 136 **Price impacts:** The increase in AS and the increase in rates for CCA raised the question about any possible price effects from the changes. The question of price effects caused by the AS has been the subject of recent econometric modelling, which looked at changes in accommodation costs (specifically rents) over a number of years, and tracked these against past increases to AS rates and expenditure. The modelling concluded that there was a very minor effect (8 cents increase in lower quartile rents for every \$7.00 in AS).¹⁵ While the increase in AS will have important effects in terms of making housing more affordable for low-income families, the changes continue to involve a price discipline on renters – they continue to have to meet a share of extra costs themselves. The price impact on housing is therefore unlikely to be significant.
- 137 The situation is different for childcare, in that there is constrained supply in some areas, and it is possible that an increase in demand following an increase in assistance could have an upward price effect. However, the reality is that only a small share of parents choose to apply for CCA and it generally makes up only a small proportion of providers' revenue, alongside ECE bulk funding and fees from parents. As well, while the additional expenditure

¹⁵ MSD (2003) Report to Minister for Social Development and Employment: *Accommodation Supplement Effects on Market Rents*. The report also looked at the effects in the Auckland regions, to see if they held up under a regional analysis (as against national). The comparative effects were small here as well: \$0.13 for an \$11 weekly increase).

on childcare is significant, the price effects of the ECE Strategic Plan, arising from the policy to improve quality and improve the training and qualifications of childcare staff, is likely to be much more significant in influencing prices. This is an area which will, however, require monitoring.

Fiscal considerations

- 138 **Scale of expenditure:** the scale of the increase in expenditure is significant and should therefore be expected to achieve substantial improvements in social outcomes. The reviewers noted that the package is central to government's current fiscal strategy (as discussed in paragraphs 92-94 above). The following table shows how much expenditure is being directed into the various main programmes, compared to the current level of expenditure.
- 139 The expenditure represents both a "catch-up", given the fall in the real value of assistance, especially since the early-1990s, together with real increases in key areas. The increase in childcare assistance is significant. While it is the smaller of the three main streams of the package in absolute terms, the very significant relative increase represents a conscious priority being accorded to childcare participation.
- 140 **Indexation issue:** the point was made strongly by most of the reviewers that the social and economic gains from the package would be at risk of attrition if there was no commitment to indexation.
- 141 As earlier analysis has shown, some of the problems being confronted today arise from non-indexation since the early or mid-1990s. Even in a low inflation environment, the cumulative impact on real values of assistance can be important. At the same time we have a situation where some parts of the social assistance system are indexed (benefit rates) but others are not, resulting in a constant skewing of the system. A separate paper is being considered on this issue.

Other considerations

- 142 **Timing – what if it stops in 2005:** As the Future Directions - Working for Families package is a phased set of reforms, it was noted that there could be risk that any subsequent phase could be delayed or stopped altogether.
- 143 There is always some risk that the government might change its priorities into the future. However, the fact that the funding for the full package is being confirmed in the 2004 Budget, and that it is planned to legislate for the full package (rather than legislate year by year) reduces this risk.
- 144 It is important, however, to note that if only the 2005 changes take place, while there will be real gains in income adequacy, there will be no employment related gains, as these come in 2006.

File Reference : FD

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OFFICIAL INFORMATION ACT

Appendix A: Summary of Future Directions - Working for Families Changes

1. Family Income Assistance and In-Work Payment

April 2005

- Increase Family Support (FS) rates by \$25pw (1st child) and \$15pw (each subsequent child)
- Remove the child component from benefits and Student Allowances
- Increase the rates of Orphans and Unsupported Childs Benefits and Foster Care Allowances by \$15 per child per week
- Delivery enhancements

April 2006

- Abolish Child Tax Credit, introduce In-Work Payment of \$60pw per family + \$15pw per child for 4th and subsequent children
- Introduce a simplified and more generous abatement regime for Family Income Assistance
- Increase the level of Family Tax Credit to ensure that families are always better off from working

April 2007

- Increase Family Support by a further \$10pw per child

Childcare Assistance

October 2004

- Increase income thresholds for Childcare Assistance (childcare subsidy (CCS) and out-of-school care subsidy (OSCAR))
- Increase OSCAR rates to align with CCS rates
- Increase CCA rates by 10%

October 2005

- Increase CCA rates by a further 10%

Accommodation Supplement

October 2004

- Remove abatement of Accommodation Supplement (AS) for beneficiaries
- Adjust AS income and entry thresholds for non beneficiaries

April 2005

- Split Auckland into two AS areas to recognise higher costs in north and central Auckland
- Increase AS maxima in higher cost areas (especially Auckland)

Invalids Benefit

November 2004

- Amend the current "15 hour rule" to enable people who qualify for an Invalids Benefit (IB) to try out work of 15 hours or more, for up to 6 months without losing their benefit
- Aligning Invalids Benefit stand-down rules for people who re-apply for the same condition, to those applying to Sickness Benefit

Special Benefit changes and consequential changes to Future Directions - Working for Families- Working for Families

April 2005

- Make changes to Special Benefit to take account of reconfigured main benefit rates and increases in FS and AS, and to rationalise some elements of the Special Benefit formula
- Make consequential changes to Community Service Card thresholds, Student Loans repayment thresholds, and Child Support Living Allowance

April 2006

- Legislate a rules based approach to Special Benefit, with residual discretion to be exercised above the level of case manager, and introduce the following new rules:
 - A \$20 per week accommodation loading
 - A tighter monetary limit on the amount of Special Benefit
 - A standardised allowance for basic living costs (food, power etc) for applicants without children
 - A limit to the amount that is allowed for care repayments, at \$50 per week



MINISTRY OF
SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora



Inland Revenue
Te Tari Taake

Date: 19 April 2004

Security Level: Budget Sensitive

Report to: Minister of Finance and Revenue
Minister for Social Development and Employment

REFORM OF SOCIAL ASSISTANCE: WORKING FOR FAMILIES PACKAGE – REVISED RECOMMENDATIONS

Purpose of the Report

- 1 We attach to this report a supplementary Cabinet paper that sets out revised recommendations for the "Reform of Social Assistance: Working for Families" (Working for Families) paper that was considered by the Cabinet Policy Committee (POL) on 8 April 2004 [POL Min (04) 8/2 refers].
- 2 The revisions to the original recommendations arise from several issues that officials have identified, and comprise minor corrections, additions and clarifications. The revised full set of recommendations in the attached supplementary paper should be substituted for the recommendations in the Working for Families paper.

The Revised Recommendations

General revisions

- 3 Recommendation 9 of the Working for Families paper, considered by POL on 8 April 2004, asks Ministers to note that the package "results in a number of minor impacts on other social assistance programmes (most of which are incorporated into the package), and that officials are currently working through a few remaining adjustments".
- 4 Recommendation 10 asks Ministers to note that "officials will provide updated financial recommendations, that include the costs referred to in paragraph 9 above, before this paper is submitted to Cabinet".
- 5 We have now completed this work, identifying several issues that require minor revision of the recommendations contained in the Working for Families paper. These revisions, detailed in the attached supplementary paper, comprise minor corrections, additions and clarifications.

Information matching

- 6 An issue concerning information matching between the Inland Revenue Department (IRD) and the Ministry of Social Development (MSD), identified through the legislative drafting process, has also resulted in additional recommendations (again detailed in the attached paper).

Regular adjustment of Family Income Assistance

- 7 Recommendation 30 of the attached supplementary paper asks Ministers to agree that the legislation provide for the Minister of Revenue, in consultation with the Minister for Social Development and Employment, to review the rates of the In-Work Payment and the Parental Tax Credit every three years. You originally agreed to a "periodic review" of these rates. We have now clarified that this review period should be every three years.

Process

- 8 The Working for Families paper is scheduled to be discussed at Cabinet on Monday 26 April 2004. To meet this deadline, the attached paper will need to be forwarded to the Cabinet Office by 10am Wednesday 21 April 2004.

Recommended Actions

We recommend that you:

- 1 **sign** and **refer** the attached paper, "Reform of Social Assistance: Working for Families Package – Revised Recommendations", to Cabinet for consideration at its meeting on Monday 26 April 2004

AGREE/DISAGREE

- 2 **note** that to meet the deadline for the Cabinet meeting on Monday 26 April 2004, the attached paper will need to be forwarded to the Cabinet Office by 10am Wednesday 21 April 2004.

s 9(2)(a) OIA 1982, Privacy of Natural Persons

For Secretary of the Treasury

Date

19/04/04

s 9(2)(a) OIA 1982, Privacy of Natural Persons

Programme Manager
Ministry of Social Development

Date

19/04/04

s 9(2)(a) OIA 1982, Privacy of Natural Persons

Manager, Policy
Inland Revenue

Date

19/04/04


Hon Dr Michael Cullen
Minister of Finance and Revenue

Date

20/4/4


Steve Maharey
Minister for Social Development and
Employment

Date

20/4/04

File Reference : REP/04/04/280

Chair
Cabinet

REFORM OF SOCIAL ASSISTANCE: WORKING FOR FAMILIES PACKAGE – REVISED RECOMMENDATIONS

Proposal

- 1 This paper provides revised recommendations for the paper "Reform of Social Assistance: Working for Families" (the Working for Families paper) that was considered by the Cabinet Policy Committee (POL) on 8 April 2004 [POL Min (04) 8/2 refers]. The revisions arise from several issues that officials have identified, and comprise minor corrections, additions and clarifications. These revised recommendations should be substituted for the recommendations in the Working for Families paper.

Background

- 2 The Working for Families paper, considered by POL on 8 April 2004, presents the Working for Families package – the centrepiece of the 2004 Budget. Working for Families will provide more than \$1.1 billion a year in extra financial assistance and in-work support to New Zealanders and their families by 2007.
- 3 In the Working for Families paper Ministers are asked to approve the package for announcement in the 2004 Budget. Implementation of the proposals will span from 2004 to 2007, beginning from 1 October 2004.
- 4 Recommendation 9 of the Working for Families paper asks Ministers to note that the package "results in a number of minor impacts on other social assistance programmes (most of which are incorporated into the package), and that officials are currently working through a few remaining adjustments".
- 5 Recommendation 10 of the Working for Families paper asks Ministers to note that "officials will provide updated financial recommendations, that include the costs referred to in paragraph 9 above, before this paper is submitted to Cabinet".
- 6 Officials have now completed this work, identifying several issues that require minor revision of the recommendations contained in the Working for Families paper. These revisions, detailed below, comprise minor corrections, additions and clarifications.
- 7 An issue concerning information matching between the Inland Revenue Department (IRD) and the Ministry of Social Development (MSD), identified through the legislative drafting process, has also resulted in additional recommendations (detailed below).

The Revisions

- 8 Several areas require revisions, and these are summarised below.

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Regular adjustment of Family Income Assistance

- 9 The wording of these recommendations has been revised to allow the intent of the proposals for adjustment of Family Support rates and thresholds, Childcare Assistance thresholds and review of In-Work Payment and Parental Tax Credit to be accurately reflected in the Future Directions (Working for Families) Bill. There are no financial implications. Recommendations 26 to 32 refer.

Childcare Assistance

- 10 Current limitations of the Childcare Assistance IT system mean that implementation dates for increasing Childcare Assistance thresholds and rates are unworkable, because adjustments to payments can only be made on Mondays, at the beginning of the weekly pay cycle. The implementation dates have been changed, to the nearest Mondays, to reflect this. Recommendations 49 to 51 refer.
- 11 New recommendations have been added to reflect further policy development that identified that there could be potential financially disadvantaged people among Childcare Assistance recipients from the implementation of Accommodation Supplement changes on 1 April 2005, because Accommodation Supplement is treated as income for Childcare Assistance purposes. Recommendations 55 and 56 refer.
- 12 A recommendation has been revised to reflect Cabinet's decision on the 'Early Childhood Education Funding: Proposed New System' [Cab Min (04) 11/4A refers]. Recommendation 58 refers.

Grandparenting of Special Benefit

- 13 The proposal to include In-Work Payment as income in the assessment of grandparented Special Benefits after 1 April 2006 has been dropped. This will avoid up to 1,500 families on Special Benefit being financially disadvantaged by the changes. Also, grandparented Child Tax Credit payments have been included as income for the assessment of Temporary Additional Support applications, to ensure consistency of treatment with the In-Work Payment. Recommendation 88 refers.

Accommodation Supplement and Income Related Rents

- 14 Recommendations concerning Accommodation Supplement and Income Related Rents have been split and replaced, to reflect differences in terms of flow-on effects and an adjustment in related costings. Recommendations 90 and 91, and 98 and 99, refer.

Top-up provision

- 15 New recommendations have been added to enable MSD to pay a top-up to assist Accommodation Supplement recipients and other people, not yet identified, who would otherwise be financially disadvantaged as a result of the Working for Families changes. A "Transitional Working for Families Supplement" has been created for this purpose, with capped funding of \$0.500 million in each of the 2004/05, 2005/06, 2006/07 and 2007/08 years. Recommendations 92 to 97 refer.

Treatment of Family Income Assistance as income

- 16 This issue was still being worked on when POL considered the paper on 8 April 2004. The recommendation is to continue the current policy of not charging Family Income Assistance as income when assessing entitlement for social assistance. A validating clause is also

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needed in the Bill to retrospectively confirm current practice, as it is not presently supported by legislation. There are no financial implications. Recommendations 101 to 105 refer.

Use of Invalid's Benefit rate structure for determining eligibility for some social assistance payments

- 17 This issue was still being worked on when POL considered the paper on 8 April 2004. Removal of the child component from some Invalid's Benefit rates has a flow-on effect on entitlement to specific second and third tier social assistance. The recommendations are to retain the status quo by continuing to use the current (as opposed to new) Invalid's Benefit rate structure to determine entitlement to these assistance measures, and to annually adjust these rates in line with Consumers Price Index (CPI) movements. There are no financial implications. Recommendations 106 to 108 refer.

Information matching between IRD and MSD

- 18 New recommendations have been added to facilitate better exchange of information between IRD and MSD, for the purposes of identifying entitlement to Family Income Assistance and to avoid double payment. The Office of the Privacy Commissioner has indicated that it will object to the proposal, on the basis that it would override a prior notice requirement contained in section 103 of the Privacy Act 1993. There are no financial implications. Recommendations 126 to 129 refer.

Monitoring and evaluation

- 19 The contingency allowances for monitoring and evaluation have been revised slightly in the 2005/06 and 2007/08 years to correct an error. The effect is to increase the contingency by \$0.225 million in each of these two years. Recommendations 9, and 131 and 132 refer.

Vote Child Youth and Family Services appropriation

- 20 The numbers for the Vote Child Youth and Family Services appropriation have been revised slightly, to correct an error in the Working for Families paper. The effect is to reduce the appropriation by \$0.032m. Recommendation 138 refers.

Drawdown of delivery strategy funding

- 21 Recommendations have been added concerning the drawdown of the Vote Revenue and Vote Social Development delivery strategy costs. Recommendations 145 to 152 refer.

Child poverty impact assessment

- 22 The Working for Families paper did not make explicit that the measures referred to in paragraph 51 of that paper use constant value thresholds, based on the 50% and 60% of median household incomes in 1998 Household Economic Survey. These thresholds are real dollar amounts that are adjusted for inflation through time. Recommendation 6.9 refers.

Labelling of Appendix Tables

- 23 The Appendix tables in the Working for Families paper showing the impacts of the Family Income Assistance changes (Table 5) and the Childcare Assistance initiatives (Table 8) have wrongly labelled income bands showing "net family income." They should be labelled as taxable family income bands. The average weekly gains per family are net increases in family income.

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Allowance for minor impacts

- 24 Policy work around outstanding known minor impacts has been completed. These impacts have now been resolved, costed and incorporated into the financial recommendations. The remaining "allowance for minor impacts on other programmes" has been removed from the fiscal impacts of the package. Overall, this had the effect of reducing the total amount appropriated by \$4.643 million in 2004/05, \$4.143 million in 2005/06, \$3.941 million in 2006/07 and \$4.503 million in outyears (see the table in paragraph 28 for further information).

Consultation

- 25 The Working for Families paper was developed by MSD, in consultation with the Treasury, IRD and Housing New Zealand Corporation (HNZC). The preparation of the paper was overseen by a steering group of senior officials comprising MSD, Department of the Prime Minister and Cabinet, Treasury, IRD and HNZC.
- 26 Consultation was also undertaken with the Department of Child Youth and Family Services (CYF), Office for Disability Issues, Ministry of Education, Ministry of Health, Ministry of Justice, Department of Labour, Ministry of Pacific Island Affairs, Office for Senior Citizens, Te Puni Kokiri, Ministry of Women's Affairs and Ministry of Youth Development.
- 27 The revisions that are set out in this paper have been discussed with the affected agencies – CYF and HNZC.

Financial implications

- 28 The fiscal impact of the revisions outlined in this paper is set out in the table below:

Fiscal impact of the revisions to the Working for Families paper recommendations

	All figures are \$m, GST inclusive where applicable				
	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
Grandparenting of Childcare Assistance recipients affected by Accommodation Supplement changes	-	0.040	0.056	0.011	0.003
Exclusion of In-Work Payment as income for grandparented Special Benefit	-	-	0.689	1.285	0.635
Correction to costings for flow-on to income related rents	-	-	(0.006)	(0.120)	(0.183)
Correction to Vote Child Youth and Family Services appropriation	-	(0.037)	(0.001)	0.006	-
Transitional Working for Families Supplement	-	0.500	0.500	0.500	0.500
Total impact of changes	-	0.503	1.238	1.676	0.955
<i>Less Allowance for minor impacts on other programmes</i>	-	(5.146)	(5.581)	(5.617)	(5.658)
Net impact on programme costs	-	(4.643)	(4.343)	(3.941)	(4.703)
Monitoring and evaluation: correction to contingency	-	-	0.200	-	0.200
Impact on total operating cost of the package	-	(4.643)	(4.143)	(3.941)	(4.503)

- 29 The total estimated cost of the Working for Families package is presented in the tables below. These tables comprise a revision of the estimates that appear in the Working for Families paper immediately following paragraph 61. They are based on current forecasts of demographic change, beneficiary numbers and price movements. They include costs/savings due to interactions between programmes, costs due to previously ineligible families becoming eligible for assistance, assumptions about behavioural responses to the package itself and assumptions about the changes in the rate of take-up of specific programmes.

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Total operating cost of the Working for Families package

All figures are \$m, GST inclusive where applicable					
	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
Family Income Assistance	-	96.301	502.761	763.993	1,006.564
Accommodation Supplement	-	62.996	128.741	141.701	146.219
Childcare Assistance	-	18.801	31.030	34.239	34.552
Special Benefit changes	-	(7.364)	(44.943)	(75.760)	(91.177)
Sub-Total - Programme costs	-	170.735	617.590	864.173	1,096.158
Delivery Package*	0.100	50.131	45.752	34.854	27.714
Contingency	-	5.833	8.562	8.056	8.506
Total	0.100	226.699	671.904	907.083	1,132.378

* Note that delivery costs include operating expenditure of \$0.100 million in 2003/04, \$1.560 million in 2004/05, \$0.780 million in 2005/06 and outyears, which has already been agreed by Cabinet [EXG Min (03) 14/2 refers]

Total capital cost of the Working for Families package

All figures are \$m, GST inclusive where applicable					
	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
Delivery Package*	1.490	4.570	2.171	-	-
Total	1.490	4.570	2.171	-	-

* Note that delivery costs include capital expenditure of \$1.490 million in 2003/04 and \$0.990 million in 2004/05, which has already been agreed by Cabinet [EXG Min (03) 14/2 refers]

Human rights implications

30 See paragraphs 77 to 79 of the Working for Families paper.

Legislative implications

31 See paragraph 76 of the Working for Families paper.

Regulatory impact and compliance cost statement

32 See Appendix 9 to the Working for Families paper.

Gender implications

33 See paragraphs 81 and 82 of the Working for Families paper.

Disability perspective

34 See paragraphs 83 and 84 of the Working for Families paper.

Publicity

35 See paragraphs 85 and 86 of the Working for Families paper.

Recommendations

36 We recommend that Cabinet:

- 1 **note** that officials have identified several issues that require minor revision of the recommendations contained in the paper "Reform of Social Assistance: Working for Families" that was considered by the Cabinet Policy Committee on 8 April 2004;
- 2 **agree** that these recommendations, set out below in Sections 1 to 12, be substituted for the recommendations in the Working for Families paper;

SECTION 1: OVERVIEW

Context

- 3 **note** that the Working for Families package will assist working people, especially low and middle income families, to make the most of economic opportunities and share in our growing prosperity by improving the returns from paid work;
- 4 **note** that the Working for Families package complements current government strategies to improve growth and innovation, invest in skills development, and maintain prudent macro-economic and fiscal management;

Objectives

- 5 **note** that the key objectives of the Working for Families package are to:
 - 5.1 make work pay by supporting families with dependent children, so that they are rewarded for their work effort;
 - 5.2 ensure income adequacy, with a focus on low and middle income families with dependent children to address issues of poverty, especially child poverty;
 - 5.3 achieve a social assistance system that supports people into work, by making sure that people get the assistance they are entitled to, when they should, and with delivery that supports them into, and to remain in, employment;

Key Impacts

- 6 **note** that the Working for Families package will have the following key impacts:

Impact on employment

- 6.1 the changes will help make work pay for low and middle-income families with dependent children in employment: about 60% of the new expenditure will be directed to families in work;
- 6.2 the In-Work Payment and the increases in the Family Tax Credit will provide improvements in work incentives, especially for sole-parents;
- 6.3 the Childcare Assistance changes will help reduce childcare costs, which can act as an important barrier to employment, particularly for women;
- 6.4 effective marginal tax rates (EMTRs) will be improved for low income working families earning between \$20,000 and \$27,500 a year, thereby improving work incentives. EMTRs will be higher for some middle and higher income families not previously eligible for assistance;

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- 6.5 most of the employment incentive gains will occur in April 2006, with some from October 2004 and October 2005;

Impact on incomes

- 6.6 from 2007, around 61% of families with dependent children will get more Family Income Assistance – around 290,000 families will gain on average \$66 a week (with an estimated average of \$95 a week for families with annual incomes in the range \$25,000 to \$45,000) from the cumulative Family Income Assistance changes (ie excluding the Childcare Assistance, Accommodation Supplement and Special Benefit changes);
- 6.7 around 28,000 families (and 33,000 children) will gain from increases to Childcare Assistance with average gains of \$23 a week per child from 2005;
- 6.8 around 99,500 Accommodation Supplement recipients will get an average increase in accommodation assistance of \$19 a week from 2005/06;
- 6.9 using a constant value poverty measure of 60% of the median household income, there is expected to be a 30% reduction in child poverty by 2007/08, and using a 50% measure, the expected reduction is 70%;

Summary Financial Tables

- 7 note that the tables below present the total financial impact of the Working for Families package on the Crown's operating balance and debt:

Operating Initiatives (Impact on Operating Balance)

Vote Revenue		All figures are \$m, GST inclusive where applicable				
Ref	Initiative	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
	Family Income Assistance	-	114.400	582.670	878.672	1,127.433
	Departmental changes	0.100	10.330	13.529	11.700	7.700
Total Vote Revenue		0.100	124.730	596.199	890.372	1,135.133

Vote Social Development		All figures are \$m, GST inclusive where applicable				
Ref	Initiative	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
	Family Income Assistance	-	(19.172)	(80.266)	(113.219)	(116.274)
	Housing Assistance	-	62.996	128.741	141.701	146.219
	Childcare Assistance	-	18.801	31.030	34.239	34.552
	Hardship Assistance	-	(7.364)	(44.943)	(75.760)	(91.177)
	Departmental changes	-	39.801	32.223	23.154	20.014
Total Vote Social Development		-	95.063	66.786	10.115	(6.666)

Vote Housing		All figures are \$m, GST inclusive where applicable				
Ref	Initiative	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
	Family Income Assistance	-	(0.240)	(5.035)	(7.078)	(10.271)
Total Vote Housing		-	(0.240)	(5.035)	(7.078)	(10.271)

Vote Child Youth and Family Services		All figures are \$m, GST inclusive where applicable				
Ref	Initiative	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
	Family Income Assistance	-	0.963	3.942	4.018	4.076

BUDGET : SENSITIVE

Total Vote Child Youth and Family Services	-	0.963	3.942	4.018	4.076
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Vote Health		All figures are \$m, GST inclusive where applicable				
Ref	Initiative	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
	Family Income Assistance	-	0.350	1.400	1.400	1.400
Total Vote Health		-	0.350	1.400	1.400	1.400

Capital Initiatives (Impact on Debt)

Vote Revenue		All figures are \$m, GST inclusive where applicable				
Ref	Initiative	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
	Departmental changes	1.49	4.57	2.171	-	-
Total Vote Revenue		1.490	4.570	2.171	-	-

- 8 note that the total estimated cost of the Working for Families package will be \$226 million in 2004/05, \$671 million in 2005/06, \$907 million in 2006/07 and \$1.13 billion in 2007/08 and outyears;

Contingency

- 9 note that a contingency of \$5.833 million in 2004/05, \$8.562 million in 2005/06, \$8.056 million in 2006/07 and \$8.506 million in 2007/08 and outyears has been set aside for the Working for Families package to cover the following costs:

9.1 residual programme and delivery costs;

9.2 development of an online In-Work Assistance service across the Inland Revenue Department and the Ministry of Social Development;

9.3 a monitoring and evaluation programme to measure the success of the Working for Families package;

9.4 payment of assistance to families or individuals who might otherwise be unintentionally disadvantaged by the Working for Families changes, in the event that Cabinet decides to raise the Transitional Working for Families Supplement cap (see recommendations 92 to 97);

- 10 note that the contingency is subject to the following conditions:

10.1 access to the contingency will be subject to the approval of Cabinet;

10.2 use of contingency funds is restricted to those issues directly related to the Working for Families package;

10.3 any unspent contingency in each fiscal year will be returned to the Crown;

SECTION 2: FAMILY INCOME ASSISTANCE

- 11 note that the focus of the Family Income Assistance initiatives is to make work pay and to improve income adequacy for families with dependent children;

- 12 note that the package of Family Income Assistance initiatives has four main elements:

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12.1 Increasing Family Support rates;

12.2 introducing a new work tested In-Work Payment and phasing out the Child Tax Credit;

12.3 introducing a new main benefit rate structure for families by removing the child component from main benefits and student allowances;

12.4 increasing the Family Tax Credit;

13 **note** that the estimated cost of the Family Income Assistance package is \$96 million in 2004/05, \$502 million in 2005/06, \$763 million in 2006/07 and \$1,006 million in 2007/08 and outyears;

Family Support

14 **agree** to increase the first child rates of Family Support by \$25.00 per week, and the subsequent child rates by \$15.00 per child per week, from 1 April 2005, as set out in the table below:

Family Support Rates	First child rates		Subsequent child rates		
	0-15 yrs	16-18 yrs	0-12 yrs	13-15 yrs	16-18 yrs
Current	\$47	\$60	\$32	\$40	\$60
Family Support rates from 1 April 2005	\$72	\$85	\$47	\$55	\$75

15 **agree** to increase each of the first and subsequent child rates of Family Support rates by \$10 per week from 1 April 2007, as set out in the table below:

Family Support Rates	First child rates		Subsequent child rates		
	0-15 yrs	16-18 yrs	0-12 yrs	13-15 yrs	16-18 yrs
Family Support rates from 1 April 2007	\$82	\$95	\$57	\$65	\$85

In-Work Payment

16 **note** that the objective of the In-Work Payment is to help low income working families with dependent children move into and stay in work;

17 **agree**, from 1 April 2006, to introduce an In-Work Payment for families with dependent children to be set at \$60.00 a week per family, plus an additional \$15.00 a week for the fourth and each subsequent child, as set out in the table below:

Number of dependent children	1	2	3	4	5	6	7	8 or more
Weekly rate	\$60	\$60	\$60	\$75	\$90	\$105	\$120	plus \$15 for each additional dependent child

18 **agree** that from 1 April 2006 the Child Tax Credit be closed to new recipients concurrent with the introduction of the In-Work Payment;

19 **agree** that when the in-Work Payment is introduced on 1 April 2006, all Child Tax Credit recipients, who are recipients as at 31 March 2006 and who are ineligible to receive the new In-Work Payment because they do not meet the work hours requirement, continue to be eligible for the Child Tax Credit under the current eligibility provisions unless they become eligible for the In-Work Payment (ie they are "grandparented");

BUDGET : SENSITIVE

- 20 **agree** that once a grandparented recipient is no longer entitled to the Child Tax Credit they cannot become re-eligible for the Child Tax Credit at a later date;

Eligibility criteria

- 21 **agree** that the eligibility criteria for the In-Work Payment be the same as for the Child Tax Credit (ie recipients must not be receiving a main income-tested social security benefit), but with the following changes:

21.1 couples with children must be in paid work of a combined total of at least 30 hours a week;

21.2 sole parents must be in paid work of at least 20 hours a week;

21.3 eligibility will be extended to include:

21.3.1 recipients of New Zealand Superannuation or the Veteran's Pension;

21.3.2 people receiving compensation for loss of earnings under the Injury Prevention, Rehabilitation and Compensation Act 2001 and who would have been eligible at the time of their accident (and including people receiving Child Tax Credit whose injury occurred after 31 December 2005 and who met the In-Work Payment hours test at the time of their injury);

21.4 the definition of a family's dependent children will include those for whom Orphan's Benefit, Unsupported Child's Benefit or Foster Care Allowance is being paid;

Payment to principal carer

- 22 **agree** that the In-Work Payment be paid to the principal carer of the dependent child/ren in the family, which is consistent with the payment of other Family Income Assistance;

Shared care

- 23 **agree** that where a carer normally has care of a child for one-third or more of the entitlement period, that carer is eligible for the In-Work Payment in respect of that child for every week in the year in which the carer also meets the In-Work Payment hours test and other eligibility criteria;

- 24 **agree** that those carers receiving the grandparented Child Tax Credit from 1 April 2006 must have care of a child for a least one-third of the income year to remain eligible for the full amount of the Child Tax Credit;

Abatement of Family Income Assistance

- 25 **agree** that from 1 April 2006 the abatement rate for Family Support, the In-Work Payment, the Child Tax Credit (for grandparented recipients) and the Parental Tax Credit be set at 30% from a threshold of \$27,500 a year of gross family income (with abatement being consecutive, as is currently the case);

Regular Adjustment of Family Income Assistance

- 26 **note** that maintaining the real value of Family Income Assistance payments over time is important to maintain income adequacy for low income families and the effectiveness of work incentive measures;

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- 27 **note** that the Speech from the Throne signalled the Government's intention to "move towards annual review of Family Support and Family Tax Credit rates and thresholds";
- 28 **agree** that the rates and thresholds of Family Support, and the Childcare Assistance thresholds (recommendation 49 below refers), be subject to a policy of regular adjustment from 1 April 2008;
- 29 **agree** that the legislation provide for the Family Support rates and thresholds and Childcare Assistance thresholds to be regularly adjusted by Order in Council so that:
- 29.1 they are increased by movements in the Quarterly Consumers Price Index (CPI);
 - 29.2 adjustments occur when cumulative CPI increases since the last CPI adjustment exceed five percent and that such adjustments will come into force on 1 April following that date;
 - 29.3 increases are rounded up to the nearest whole dollar (but subsequent increases are calculated on the basis of actual increased amounts, not the rounded up amounts);
 - 29.4 CPI adjustment periods will be counted from 1 April 2007 in the case of Family Support and from 4 October 2005 in the case of Childcare Assistance;
- 30 **agree** that the legislation provide for the Minister of Revenue, in consultation with the Minister for Social Development and Employment, to review the rates of In-Work Payment and the Parental Tax Credit every three years;
- 31 **note** that, following a review, the Minister will report to Cabinet including making any recommendations on adjustments that may be made to those rates;
- 32 **agree** that the legislation contain provision for the rates of the In-Work Payment and the Parental Tax Credit to be adjusted by Order in Council;

Family Tax Credit

- 33 **agree**, from 1 April 2006 onwards, to increase the Family Tax Credit on 1 April each year by an amount sufficient to ensure that couples do not suffer a reduction in income when moving off benefit into 30 hours of paid work a week;
- 34 **note** that the estimated level of the Family Tax Credit on 1 April 2006 will be \$17,149 net a year, and \$17,490 net a year on 1 April 2007;

Changes to Main Benefits and Student Allowances

- 35 **note** that main benefits and the Student Allowance currently contain a "child component" for sole parent and couple recipients with children;
- 36 **agree**, from 1 April 2005, to remove the child component from main benefit and Student Allowance rates at the same time as Family Support rates are increased;
- 37 **note** that the removal of the child component from main benefit and Student Allowance rates at the same time as the 1 April 2005 Family Support rates increase will:
- 37.1 provide a net increase in assistance to families with children;

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37.2 move towards a single programme of assistance for children through Family Support, with common rates, eligibility criteria and abatement rules;

37.3 help ensure that assistance for children will continue unchanged when people move from benefit to work, subject only to abatement based on annual income;

37.4 help to simplify the benefit system;

- 38 **agree** that from 1 April 2005 rates of benefits and Student Allowance paid to sole parents be removed and replaced with a single sole parent rate to be set equal to the rates of benefits and Student Allowance paid to sole parents with one child;
- 39 **agree** that from 1 April 2005 rates of benefits and Student Allowance paid to married couples with children be set equal to the rates of benefits and Student Allowance paid to married couples with no children;
- 40 **note** that the changes in recommendation 38 above affect the Unemployment Benefit, Sickness Benefit, Invalid's Benefit, Widow's Benefit, Domestic Purposes Benefit (Sole Parent), Domestic Purposes Benefit (Care for Sick and Infirm) and Student Allowance;
- 41 **note** that the changes in recommendation 39 above affect the Unemployment Benefit, Sickness Benefit and Student Allowance;
- 42 **note** that further benefit simplification is envisaged under the next stage of Future Directions (see recommendations 153 and 154 below);

Family Support for People in Receipt of Benefit

- 43 **note** that, due to the different assessment periods used to calculate main benefit and Family Support entitlements, some families may not be entitled to maximum Family Support while on benefit, or conversely may face an end of year Family Support debt if full Family Support is paid while on benefit;
- 44 **note** that the issues in recommendation 43 above raise income adequacy concerns for an estimated 2,450 families on benefit for part of the income tax year, which will be exacerbated by the transfer of the child component of main benefits to Family Support from 1 April 2005;
- 45 **agree** that when a family is on benefit, and their expected annualised income (calculated on a month by month basis while on benefit) is below the Family Support abatement threshold, they be entitled to maximum Family Support irrespective of income derived in other parts of the income tax year;
- 46 **agree** that those months on benefit where the situation in recommendation 45 applies are not subject to abatement in the end of year square-up and that a family's total annual income is used to calculate abatement in respect of the rest of the year;
- 47 **note** that when a family's annualised income is expected to be above the Family Support abatement threshold the Inland Revenue Department will assess entitlement using the tax year income basis that currently applies;

SECTION 3: CHILDCARE ASSISTANCE

- 48 **note** that the objective of the Childcare Assistance initiatives is to improve outcomes for low and middle income families with childcare costs by reducing a barrier to work and

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making quality Early Childhood Education and Out of School Care and Recreation more affordable;

- 49 **agree**, from 4 October 2004, to increase the Childcare Assistance thresholds to the levels in the table below:

	Rate 1	Rate 2	Rate 3
1 Child	\$40,040	\$44,200	\$48,360
2 Children	\$49,400	\$54,080	\$58,760
3 Children	\$57,720	\$63,440	\$69,160

- 50 **agree**, from 4 October 2004, to increase Out of School Care and Recreation Subsidy rates to match the Childcare Subsidy rates;
- 51 **agree** to increase all Childcare Assistance (ie Childcare Subsidy and Out of School Care and Recreation Subsidy) rates by 10% from 4 October 2004, and by a further 10% from 3 October 2005;
- 52 **note** that the increases in recommendation 51 above will be in addition to annual rates adjustments in line with movements in the Consumers Price Index;
- 53 **agree** that the Childcare Assistance absence hours cap be removed and absence rules be aligned with proposed changes to the Ministry of Education's Early Childhood Education absence rules once these are finalised in 2005 (or earlier if possible);
- 54 **agree** that the Childcare Assistance provisions be moved into legislation, with a regulation-making power to allow for the details of the provisions to be set out in regulations;
- 55 **note** that the different implementation dates for parts of the Childcare Assistance and Accommodation Supplement Packages may result in a small number of Childcare Assistance recipients becoming worse off on 1 April 2005;
- 56 **agree** that Childcare Assistance recipients, who would otherwise be worse off because they would receive a lower rate of Childcare Assistance or lose their entitlement due to the Accommodation Supplement changes as at 1 April 2005, have their Childcare Assistance entitlement or rate grandparented;

Linkage between Childcare Assistance and Early Childhood Education

- 57 **note** that an assessment of the impacts of the Early Childhood Education (ECE) funding proposals on Childcare Assistance expenditure, and of the Working for Families package on ECE expenditure, is not straightforward because:

57.1 any behavioural impacts of the policies are difficult to model, for example, some ECE services might increase fees despite additional ECE funding, and to the extent that participation declines as a result of increased fees, this might limit the take-up of Childcare Assistance;

57.2 ECE and Childcare Assistance expenditure are demand-driven;

57.3 to the extent that the Working for Families package increases labour market participation by parents with children under 6 years of age, ECE participation is likely to increase, with costs to Vote Education;

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- 58 **note** officials will identify likely savings in Vote Social Development Childcare Assistance arising from the Vote Education ECE funding proposals, including limited free ECE for three and four year olds, and report to the Minister of Education, Minister of Finance and Minister for Social Development and Employment by 31 October 2004, to enable Ministers to make decisions on what savings are to be transferred from Vote Social Development to Vote Education [Cab Min (04) 11/4A refers];
- 59 **note** that the estimated cost of the Childcare Assistance initiatives is \$19 million in 2004/05, \$31 million in 2005/06, \$34 million in 2006/07 and \$35 million in 2007/08 and outyears;

SECTION 4: ACCOMMODATION SUPPLEMENT

- 60 **note** that the objectives of the Accommodation Supplement initiatives are to improve housing affordability for low income New Zealanders;
- 61 **agree** to increase the number of Accommodation Supplement Areas from three to four from 1 April 2005 and revise the area definitions as set out in the table below:

Area 1
Northern Auckland urban zone, Central Auckland urban zone
Area 2
Western Auckland urban zone, Southern Auckland urban zone, Wellsford urban area, Snells Beach urban area, Warkworth urban area, Waiheke Island urban area, Waiuku urban area, Pukekohe urban area, Helensville urban area, Tauranga urban area, Wellington urban zone, Nelson urban area, Brightwater urban area, Wakefield urban area, Queenstown urban area, Wanaka urban area, Arrowtown urban area, Leigh area unit, Tauhoa-Puhorua area unit, Tahekeroa area unit, Cape Rodney area unit, Matheson Bay area unit, Kowhai area unit, Islands-Motutapu, Rangitoto, Rakino area unit, Great Barrier Island area unit, Little Barrier Island area unit, Algies Bay-Mahurangi area unit, Parakai area unit, South Head area unit, Kaukapakapa area unit, Muriwai Beach area unit, Rewiti area unit, Riverhead area unit, Karekare area unit, Patumahoe area unit, Kingseat area unit, Pokeno area unit, Hunua area unit, Mangatawhiri area unit, Awhitu area unit, Glenbrook area unit, Otara area unit, Bombay area unit, Clevedon area unit, Onewhere area unit, Maramarua area unit, Meremere area unit
Area 3
Taipa Bay-Mangonui urban area, Kaitiaki urban area, Kerikeri urban area, Russell urban area, Rainia urban area, Whangarei urban area, Raglan urban area, Whitianga urban area, Whangamata urban area, Tairua urban area, Thames urban area, Waihi Beach urban area, Matamata urban area, Katikati Community urban area, Te Puke Community urban area, Hamilton urban zone, Cambridge urban zone, Te Awamutu urban zone, Rotorua urban area, Taupo urban area, Whakatane urban area, Napier urban zone, Hastings urban zone, Palmerston North urban area, New Plymouth urban area, Feilding urban area, Kapiti urban area, Otaki urban area, Upper Hutt urban zone, Lower Hutt urban zone, Porirua urban zone, Blenheim urban area, Motueka urban area, Takaka urban area, Hanmer Springs urban area, Woodend urban area, Rangiora urban area, Christchurch urban area, Darfield urban area, Lincoln urban area, Leeston urban area, Rolleston urban area, Dunedin urban area, Alexandra urban area, Cromwell urban area, Nabhra area unit, Pencarrow area unit, Kapiti Island area unit, Maungakotukutuku area unit, Cloustonville area unit, Mangaroa area unit, Mana Island area unit, Makara-Ohariu area unit, Opiki area unit, Tokomaru area unit

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Area 4

Any part of New Zealand not included in Area 1, Area 2 or Area 3.

- 62 **agree** to amend the Accommodation Supplement Areas referred to recommendation 61 above to maintain a part of New Zealand in the same Accommodation Supplement Area if any of the definitions of urban areas, urban zones or area units are modified by Statistics New Zealand;
- 63 **note** that Section 611 of the Social Security Act 1964 gives power through Order in Council to promote area units or urban areas to an Accommodation Supplement Area with a higher maxima but not to demote, but will need modification to accommodate the increased number of Accommodation Supplement Areas and their references to urban zones;
- 64 **agree**, from 1 April 2005, to adjust the Accommodation Supplement maxima as set out in the table below:

AS maxima	1 person n/hold	2 person n/hold	3 person n/hold
Area 1	\$145	\$160	\$225
Area 2	\$100 (no change)	\$125	\$165
Area 3	\$65 (no change)	\$75 (no change)	\$120
Area 4	\$45 (no change)	\$55 (no change)	\$75 (no change)

- 65 **note** that officials will re-examine the Accommodation Supplement maxima set out in recommendation 64 above and report to the Minister for Social Development and Employment by December 2004 to enable any refinements based on new tenancy bond data to be considered alongside other priorities in the 2005 Budget;
- 66 **agree** to remove the abatement of the Accommodation Supplement for beneficiaries on the first \$80.00 per week of non-benefit gross income from 1 October 2004;
- 67 **note** that recommendation 66 above will mean that the Accommodation Supplement is not abated until a recipient moves off benefit;
- 68 **agree**, from 1 October 2004, to lower the Accommodation Supplement entry threshold for non-beneficiaries from 25% for renters and boarders, and 30% for mortgagors, of the relevant rate of Invalid's Benefit (plus first child under 16 rate of Family Support where there are children) to 25% for renters and boarders, and 30% for mortgagors, of the relevant rate of Unemployment Benefit (plus first child under 16 rate of Family Support where there are children);
- 69 **agree**, from 1 October 2004, to increase the income thresholds for non-beneficiaries from the relevant Invalid's Benefit rate plus \$17.92 per week to the relevant Unemployment Benefit income cut-out points;
- 70 **note** that for single Accommodation Supplement recipients under 25 years of age the "relevant rate of Unemployment Benefit" means the single over 25 rate of unemployment benefit;
- 71 **note** that the estimated costs of the Accommodation Supplement changes are \$63 million in 2004/05, \$129 million in 2005/06, \$142 million in 2006/07 and \$146 million in 2007/08 and outyears;

SECTION 5: INVALID'S BENEFIT CHANGES

- 72 **note** that the objective of the Invalid's Benefit changes are to encourage greater participation in paid employment by Invalid's Benefit recipients;
- 73 **note** that some Invalid's Benefit recipients want to work for more than 15 hours a week but are reluctant to try because they:
- 73.1 are uncertain whether they can sustain more work given their disability;
- 73.2 risk losing entitlement to the Invalid's Benefit if they regularly work 15 or more hours a week (known as the 15 hour rule);
- 74 **agree**, to take effect from 1 December 2004, to introduce a provision to allow Invalid's Benefit recipients, with the prior approval of the Chief Executive of the Ministry of Social Development, a period of up to six months to establish whether they can sustain 15 or more hours per week in open employment before their entitlement must be reviewed;
- 75 **agree**, to take effect from 1 December 2004, to amend the stand down provisions for Invalid's Benefit recipients so that they mirror the existing stand down provisions for Sickness Benefit recipients with chronic illnesses so that Invalid's Benefit recipients who undertake but then have to stop work will not, generally, face a stand down if they reapply for Invalid's Benefit for the same sickness, injury or disability;
- 76 **note** that the Minister for Social Development and Employment has directed the Ministry of Social Development to take steps towards changing the name of Invalid's Benefit, commencing with consultation with the disability sector and other relevant stakeholders;
- 77 **note** that the changes to the 15 hour rule and stand-down for recipients of Invalid's Benefit are expected to be cost neutral or result in only a small increase in expenditure on Invalid's Benefit in the short-term;
- 78 **note** that the estimated one-off cost of IT system changes to amend the 15 hour rule and re-name the Invalid's Benefit is \$500,000 (GST exclusive) in 2004/05, which is factored into the departmental costs of the Working for Families package;
- 79 **note** that the Ministry of Social Development will monitor and evaluate the changes to the 15 hour rule and the new stand-down provisions, and report on the outcomes to the Minister for Social Development and Employment by December 2006;

SECTION 6: SPECIAL BENEFIT

- 80 **note** that the changes to Family Support from 1 April 2005 will improve income adequacy and therefore reduce the need for hardship assistance for those with dependent children;
- 81 **agree** that:
- 81.1 Family Support be included as income in the assessment of Special Benefit;
- 81.2 for recipients of Special Benefit with dependent children, the level of Standard Costs allowed in the assessment for basic living costs (food, power, etc) be set at 70% of the applicant's unabated main benefit and unabated Family Support combined;

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- 81.3 subject to discretion, the rate of Special Benefit for those with dependent children, be fixed at the amount of deficiency between income and costs or at 25% of the applicant's allowable costs, whichever is the lower amount;
- 81.4 the changes in recommendations 81.1 to 81.3 above be applied to all new applications for Special Benefit received on or after 1 April 2005 and to existing cases as they come up for their three or six monthly review after that date (or earlier review on a change in circumstances);
- 82 note that the changes to Special Benefit referred to in recommendations 81.1 to 81.3 above will reduce 78% of Special Benefits paid to 31,200 households with children by an average of \$13.43 a week, compared with the average increase in income from the Family Income Assistance changes for beneficiaries of \$27.51 a week, and that no household will have a greater reduction in their Special Benefit than the increase in their Family Income Assistance;
- 83 note that a small minority of cases (three percent or 1,206 cases) use of Special Benefit discretion will be used to ensure that the reduction in Special Benefit does not exceed the increase in the household's Family Income Assistance from 1 April 2005;
- 84 note that the changes to Special Benefit from 1 April 2005 will be implemented by way of changes to the existing Ministerial Direction and will not require legislative change;
- 85 agree that from 1 April 2006 Special Benefit be replaced by a new benefit called Temporary Additional Support, with similar provisions to Special Benefit, but incorporating the following changes:
- 85.1 a rules-based approach to eligibility to replace the current highly discretionary provisions;
- 85.2 an accommodation loading of \$20 a week which will require applicants to pay the first \$20 a week of their net accommodation costs from their regular income;
- 85.3 an upper limit on the amount of Temporary Additional Support that can be paid equal to 30% of the applicant's unabated main benefit;
- 85.4 standardisation of the amount allowed for applicants without dependent children to cover basic living costs (food, power, etc) at 70% of their unabated main benefit;
- 85.5 a limit of \$50 a week (Consumers Price Index adjusted) on the amount that can be allowed in the assessment of eligibility for car payments;
- 86 agree to grandparent existing Special Benefits, entitlements and criteria, from 1 April 2006 to ensure that no recipient receives a reduction in their benefit as a result of the introduction of Temporary Additional Support referred to in recommendation 85 above;
- 87 agree that the grandparenting arrangements referred to in recommendation 86 above be reviewed by the Minister of Finance and Revenue and the Minister for Social Development and Employment in February/March 2008;
- 88 agree that the In-Work Payment and Child Tax Credit payments grandparented under recommendation 19 above, be included as income in the assessment of Temporary Additional Support applications received on or after 1 April 2006;

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- 89 **note** that the introduction of Temporary Additional Support and the change to a rules based approach from 1 April 2006 will require amendments to the Social Security Act 1964 to:

89.1 legislate for the principles of Temporary Additional Support;

89.2 make provision for Temporary Additional Support to be granted as prescribed by regulations;

89.3 grandparent existing entitlements to Special Benefit;

SECTION 7: CONSEQUENTIAL CHANGES TO OTHER SOCIAL ASSISTANCE

Accommodation Supplement

- 90 **note** that increases in the first child rates of Family Support and adjustments to main benefits rates will result in a partial offsetting reduction in Accommodation Supplement for the families affected by the changes, but that families will be better off overall;
- 91 **agree** that the increases to the first child rates of Family Support and adjustments to main benefit rates be allowed to flow on to Accommodation Supplement as described in recommendation 90 above;

Top-Up Provision

- 92 **note** that although every effort has been made to ensure that the policy changes do not result in people becoming financially worse off, the complexity of the social assistance system, the wide variety of individual circumstances and the phased implementation of different components of the package make it difficult to anticipate and address every situation;
- 93 **note** that a small group of Accommodation Supplement recipients, who gain overall from the Working for Families package relative to the status quo, are likely to be worse off on 1 April 2005 than they were on 31 March 2005 as a result of the Family Income Assistance changes introduced on 1 April 2005;
- 94 **agree** that a Transitional Working for Families Supplement be available to assist Accommodation Supplement recipients and other people, not yet identified, who would otherwise be financially disadvantaged as a result of the Working for Families changes;
- 95 **agree** that a provision for a Transitional Working for Families Supplement be included in legislation with associated entitlement criteria and other details set out in regulations;
- 96 **agree** to establish a new Benefit and Other Unrequited Expenses "Transitional Working for Families Supplement" in Vote Social Development;
- 97 **agree** that the Transitional Working for Families Supplement be capped at \$0.5 million per annum for each of the fiscal years 2005/06, 2006/07 and 2007/08;

Income Related Rents

- 98 **note** that increases in the Family Tax Credit, first child rates of Family Support, and adjustments to main benefits rates will result in a partial offsetting reduction in Income Related Rents for the families affected by the changes, but that families will be better off overall;

BUDGET : SENSITIVE

- 99 **agree** that the increases to the first child rates of Family Support, Family Tax Credit and adjustments to main benefit rates be allowed to flow on to Income Related Rents as described in recommendation 98 above;

Benefit Stand-Down

- 100 **agree** to increase the per child add-on in the stand-down formula for main benefits from \$50.00 to \$80.00 per week to reflect the increases in Family Support rates;

Treatment of Family Income Assistance

- 101 **note** that it is current policy and practice not to charge Family Income Assistance as income for assessing eligibility for and rates of social assistance but that this is not supported by legislation;
- 102 **agree** to continue the current policy and practice of not charging Family Income Assistance as income for social assistance purposes and that this decision is reflected in the Future Directions (Working for Families) Bill;
- 103 **agree** that a validating clause be included in the Future Directions (Working and Families) Bill to retrospectively confirm current practice;
- 104 **note** that the current policy and practice of not charging Family Income Assistance as income would also apply to the proposed new In-Work Payment from 1 April 2006;
- 105 **note** that for Special Benefit purposes, Family Support will be included as income to determine eligibility;

Use of Invalid's Benefit Rate Structure for Determining Eligibility for Some Social Assistance Payments

- 106 **note** that currently, some social assistance payments use the Invalid's Benefit rates to determine entitlement but removal of the sole parent (2+ child) rate will result in a number of beneficiaries no longer being eligible for these payments;
- 107 **agree** that the current Invalid's Benefit rate structure continue to be used to determine entitlement to specific second and third tier social assistance and a provision is included in the Social Security Act to allow this;
- 108 **agree** that the new provision for determining entitlement to specific second and third tier benefits is annually adjusted in line with Consumers Price Index movements;

Child Support

- 109 **note** that the increases to Family Support under current policy would reduce the amount of Child Support to be paid by some liable parents under the current Child Support formula, which would result in some custodial parents receiving lower payments of Child Support and the Crown absorbing the cost of lower payments in respect of custodial parents who are beneficiaries;
- 110 **agree** to retain the current levels of Family Support for the calculation of the living allowance in the Child Support payment formula and index these levels to annual increases in the Consumers Price Index movements, to avoid the effect described in recommendation 109 above;

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Community Services Card Thresholds

- 111 **note** that the proposed increases to Family Support and the introduction of the In-Work Payment will increase the incomes of low income households with the potential to cause an estimated 29,000 existing Community Services Card holders to lose eligibility to the Community Services Card;
- 112 **agree** that the thresholds for the Community Services Card be increased from 1 April 2005, 1 April 2006 and 1 April 2007 to ensure all current recipients remain eligible for the Community Services Card;
- 113 **agree** that the In-Work Payment, as well as Family Support, Child Tax Credit (where applicable), Family Tax Credit and Parental Tax Credit, be treated as income when assessing eligibility for the Community Services Card;

Foster Care Allowance, Orphan's Benefit and Unsupported Child's Benefit

- 114 **note** that recipients of the Foster Care Allowance, Orphan's Benefit and Unsupported Child's Benefit cannot receive Family Support for the child that allowance or benefit is paid in respect of, so will not benefit from increases to Family Support rates on 1 April 2005;
- 115 **agree** to a one-off increase of \$15 a week to the rates of Orphan's Benefit, Unsupported Child's Benefit and Foster Care Allowance (and including pro-rata increases to Foster Care Allowance clothing, Christmas and birthday allowances, and Higher Foster Care Allowance) on 1 April 2005;
- 116 **agree** that the one-off increase referred to in recommendation 115 above replace the general inflation adjustment that would otherwise occur on 1 April 2005, but does not replace the general inflation adjustments that will occur from 1 April 2006 onwards;
- 117 **note** that Vote Child, Youth and Family Services funding for the Foster Care Allowance is based upon projected placements as at 30 June 2004 and any variation to this amount will be funded in the short-term from the demand linked funding initiative of the Baseline Review Project, and in the longer term through the re-costing of the Child, Youth and Family Baseline to inform Budget 2006;
- 118 **note** that a full review of the payments to children for whom Foster Care Allowance, Orphan's Benefit and Unsupported Child's Benefit is paid will form part of the future work programme on social assistance beyond the 2004 Budget;
- 119 **note** that terms of reference for a full review of the payments to children for whom Foster Care Allowance, Orphan's Benefit and Unsupported Child's Benefit is paid is being prepared for the Minister for Social Development and Employment and the Associate Minister for Social Development (Child, Youth and Family Services) by 30 April 2004;

Student Loan Repayment Thresholds

- 120 **note** that the student loan repayment threshold and the part-time, part-year student full interest write-off threshold are based on the cut out point and rate respectively of Domestic Purposes Benefit for two or more children;
- 121 **note** that the introduction of a single sole parent rate of benefit in recommendation 38 above will have the unintended consequence of reducing the levels of the student loan repayment and write-off thresholds if the current way of setting them is maintained, and

BUDGET : SENSITIVE

will result in higher loan repayments being required of people with income over the repayment threshold and fewer people being eligible for interest write-offs;

- 122 **agree** that the student loan repayment threshold and part-time, part year full interest write-off thresholds be set at the current levels and be adjusted annually in line with Consumers Price Index movements to avoid the unintended consequence in recommendation 121 above of the proposed rate changes on student loan repayment and interest write-off thresholds;

SECTION 8: DELIVERY ENHANCEMENTS

- 123 **note** that Cabinet agreed in December 2003 [CAB Min (03) 41/2 refers] to the following enhancements to the current Family Income Assistance delivery system to be introduced by 1 April 2005:

123.1 automated exchange of information between the Ministry of Social Development and the Inland Revenue Department, for the purpose of identifying entitlement to family income assistance and to avoid double-payment;

123.2 weekly payments of family income assistance by the Inland Revenue Department;

123.3 monitoring and responding to claimants' changing income and circumstances;

- 124 **note** that in relation to the decisions in recommendation 123 above, Cabinet also approved the following changes to appropriations, with a corresponding impact on the Crown operating balance and debt:

	\$m - increase/(decrease)					
	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears	GST
Vote Revenue						
Department Output Class: Information Services (funded by revenue Crown)	0.100	1.010	0.700	0.700	0.700	incl.
Capital Contributions to the Department:						
Capital Investment	1.490	0.990	-	-	-	n/a
Vote Social Development						
Department Output Class: Services to Provide Benefit Entitlements and Obligations to Working Age Beneficiaries and to Promote Self-Sufficiency (funded by revenue Crown)	-	0.550	0.080	0.080	0.080	incl.
Total Operating	0.100	1.560	0.780	0.780	0.780	
Total Capital	1.490	0.990	-	-	-	

- 125 **agree** to the proposed delivery strategy to implement the Working for Families package consisting of the following key integrated initiatives:

125.1 electronic transfers of data between the Ministry of Social Development and the Inland Revenue Department, to facilitate better access to Family Income Assistance and to reduce end of year debt;

BUDGET : SENSITIVE

- 125.2 enhancing connections between the Ministry of Social Development and the Inland Revenue Department Call Centres;
- 125.3 a weekly payment option for Family Income Assistance;
- 125.4 coordinating information for clients;
- 125.5 developing a seamless online In-Work Assistance service across the Ministry of Social Development and the Inland Revenue Department;
- 125.6 overarching joint promotion and marketing to new and existing clients;
- 125.7 new Ministry of Social Development "Working Families Teams" that will focus on delivering face to face service to low to middle income working families, including actively marketing products and services to priority groups;
- 125.8 new Ministry of Social Development "Childcare Coordinator" positions to work with individual clients and priority population groups to assist them in arranging their childcare assistance;
- 126 **note** that in December 2003 Cabinet agreed that legislation should be enacted by 1 October 2004 to allow certain enhancements to the delivery of Family Income Assistance to take effect [EXG Min (03) 14/2 refers], including the transfer of information from the Ministry of Social Development to the Inland Revenue Department;
- 127 **agree** that the Future Directions (Working for Families) Bill include a provision allowing the Inland Revenue Department to give notice to the recipient of Family Income Assistance of the taking of an "adverse action", at the same time as it stops payment of Family Income Assistance to a client;
- 128 **note** that this provision is necessary in order to facilitate better access to Family Income Assistance and to reduce year-end debt, and that the purpose of the information match would be largely defeated if payments could not be ceased immediately and without giving the prior notice required under the Privacy Act 1993;
- 129 **note** that this provision will override the prior notice requirement in section 103 of the Privacy Act 1993, and that the Office of the Privacy Commissioner has indicated that it will object to the proposal;
- 130 **note** that the estimated cost of the delivery strategy to implement the Working for Families package is \$50 million in 2004/05, \$46 million in 2005/06, \$35 million in 2006/07 and \$28 million in 2007/08 and outyears;

SECTION 9: EVALUATION

- 131 **note** that officials propose to undertake an extensive programme of monitoring and evaluation to measure the success of the Working for Families package over a period of five years at an initial estimated cost of around \$7.8 million (GST exclusive) over the estimates period, and that provision has been made for this cost in the Working for Families package contingency (see recommendation 9 above);
- 132 **note** that the Ministry of Social Development and Treasury, in consultation with the Inland Revenue Department, Housing New Zealand Corporation and other relevant departments, will report back to the Minister of Finance and Revenue and the Minister for Social Development and Employment by 30 June 2004 setting out the proposed evaluation and monitoring strategy, including a timetable and governance structure;

SECTION 10: COMMUNICATIONS STRATEGY

133 **note** that the Working for Families package will be announced as part of the 2004 Budget;

134 **note** that the Ministry of Social Development and the Inland Revenue Department will implement a joint communication strategy to raise public awareness about the Working for Families package, using television, radio, internet and print media to target all eligible New Zealanders and their families;

135 **note** that the estimated cost of the public awareness campaign (which is included in delivery strategy appropriations in recommendation 145 below) is \$11.588 million in 2004/05, \$6.188 million in 2005/06 and \$3.375 million in 2006/07;

SECTION 11: FINANCIAL IMPLICATIONS

Family Income Assistance

136 **agree** to establish a new Benefit and Other Unrequited Expense "In-Work Payment" in Vote Revenue from 2005/06 onwards;

137 **agree** to increase funding to meet the costs of the Family Income Assistance initiatives, including changes to main benefit and Student Allowance rates and the consequential impacts on other social assistance:

All figures are \$m, GST inclusive where applicable

	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
Operating Balance impact	-	96.301	502.761	763.993	1006.564
No Impact (tax on benefits)	-	(5.273)	(21.632)	(28.596)	(29.537)
Total	-	91.028	481.129	735.397	977.027

138 **approve** the following changes to appropriations to fund the Family Income Assistance initiatives, with a corresponding impact on the operating balance:

	\$m - increase/(decrease)					
	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears	GST
Vote Revenue						
Benefits and Other Unrequited Expenses:						
Family Support Tax Credit	-	108.000	520.920	677.860	888.620	n/a
Family Tax Credit	-	-	1.250	6.536	6.567	n/a
Parental Tax Credit	-	0.400	2.200	4.000	4.900	n/a
Child Tax Credit	-	6.000	2.000	(98.000)	(122.000)	n/a
In-Work Payment	-	-	56.300	288.276	349.346	n/a
Sub Total Operating	-	114.400	582.670	878.672	1,127.433	
Vote Social Development						
Benefits and Other Unrequited Expenses:						
Domestic Purposes Benefit	-	(19.820)	(81.146)	(119.834)	(123.290)	n/a
Unemployment Benefit	-	(3.455)	(14.446)	(15.198)	(15.597)	n/a
Sickness Benefit	-	(1.462)	(6.060)	(6.439)	(6.839)	n/a
Invalid's Benefit	-	(0.543)	(2.289)	(2.512)	(2.673)	n/a

BUDGET : SENSITIVE

Widow's Benefit	-	(0.336)	(1.304)	(1.559)	(1.523)	n/a
Student Allowances	-	(0.917)	(3.690)	(3.740)	(3.796)	n/a
Orphan's/Unsupported Child's Benefit	-	1.614	6.644	7.075	7.516	n/a
Transition to Work	-	(0.026)	(0.106)	(0.107)	(0.108)	n/a
Transitional Working for Families Supplement	-	0.500	0.500	0.500	0.500	n/a
Sub Total Operating	-	(24.445)	(101.898)	(141.815)	(145.811)	
Vote Housing						
Benefits and Other Unrequited Expenses: Income Related Rental Subsidy	-	(0.240)	(5.035)	(7.078)	(10.271)	n/a
Sub Total Operating	-	(0.240)	(5.035)	(7.078)	(10.271)	
Vote Child Youth and Family Services						
Non Departmental Output Class:						
Family Wellbeing Services	-	0.090	0.370	0.377	0.382	incl.
Departmental Output Classes:						
Care and Protection Services (funded by revenue Crown)	-	0.861	3.523	3.591	3.643	incl.
Youth Justice Services (funded by revenue Crown)	-	0.012	0.049	0.050	0.051	incl.
Sub Total Operating	-	0.963	3.942	4.018	4.076	
Vote Health						
Non Departmental Output Class:						
National Services	-	0.350	1.400	1.400	1.400	incl.
Sub Total Operating	-	0.350	1.400	1.400	1.400	
Total Operating	-	91.028	481.079	735.197	976.827	

Child Support

139 note that legislating for the current Family Support levels in the Child Support formula and indexing these to the Consumers Price Index results in the following reduction in revenue through lower Child Support collections, with a corresponding impact on the operating balance:

Vote Revenue	Sm - increase/(decrease)				
	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
Child Support Collections	-	-	0.050	0.200	0.200

BUDGET : SENSITIVE

Childcare Assistance

140 approve the following changes to appropriations to fund the Childcare Assistance initiatives, with a corresponding impact on the operating balance:

	\$m - increase/(decrease)					
<i>Vote Social Development</i>	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears	GST
Benefits and Other Unrequited Expenses: Childcare Assistance	-	18.801	31.030	34.239	34.552	n/a

Accommodation Supplement

141 agree to increase funding to meet the costs of the Accommodation Supplement initiatives:

	All figures are \$m, GST-inclusive where applicable					
	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears	
Operating Balance Impact	-	62.996	128.741	141.701	146.219	
No Impact (tax on benefits)	-	0.489	0.652	0.652	0.652	
Total	-	63.485	129.393	142.353	146.871	

142 approve the following changes to appropriations to fund the Accommodation Supplement initiatives, with a corresponding impact on the operating balance:

	\$m - increase/(decrease)					
<i>Vote Social Development</i>	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears	GST
Benefits and Other Unrequited Expenses:						
Accommodation Supplement	-	60.410	125.293	138.253	142.771	n/a
Unemployment Benefit	-	1.619	2.158	2.158	2.158	n/a
Domestic Purposes Benefit	-	0.728	0.970	0.970	0.970	n/a
Sickness Benefit	-	0.462	0.617	0.617	0.617	n/a
Invalid's Benefit	-	0.210	0.280	0.280	0.280	n/a
Independent Youth Benefit	-	0.024	0.032	0.032	0.032	n/a
Widow's Benefit	-	0.017	0.022	0.022	0.022	n/a
New Zealand Superannuation	-	0.015	0.020	0.020	0.020	n/a
Total Operating	-	63.485	129.393	142.353	146.871	

Special Benefit

143 agree to establish a new Benefit and Other Unrequited Expense "Temporary Additional Support" in Vote Social Development from 2005/06 onwards;

144 approve the following changes to appropriations to introduce the Special Benefit changes, with a corresponding impact on the operating balance:

BUDGET : SENSITIVE

<i>Vote Social Development</i>	\$m - increase/(decrease)					GST
	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears	
Benefits and Other Unrequited Expenses:						
Special Benefit	-	(7.364)	(44.943)	(75.760)	(91.177)	n/a

Delivery and Communications Strategies

145 approve the following changes to appropriations to implement the Working for Families package, with a corresponding impact on the operating balance:

	\$m - increase/(decrease)					GST
	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears	
Vote Revenue						
Departmental Output Classes:						
Information Services (funded by revenue Crown)	-	7.456	10.263	8.250	5.250	incl.
Revenue Assessment and Collection	-	1.864	2.566	2.750	1.750	incl.
Sub Total Operating	-	9.320	12.829	11.000	7.000	
Vote Revenue						
Capital Contribution to the Department						
Capital Investment	-	3.580	2.171	-	-	n/a
Sub Total Capital	-	3.580	2.171	-	-	
Vote Social Development						
Departmental Output Classes:						
Services to Provide Benefit Entitlements and Obligations to Working Age Beneficiaries and to Promote Self-Sufficiency (funded by revenue Crown)	-	38.835	31.727	23.074	19.934	incl.
Policy and Purchase Advice (funded by revenue Crown)	-	0.416	0.416	-	-	incl.
Sub Total Operating	-	39.251	32.143	23.074	19.934	
Total Operating	-	48.571	44.972	34.074	26.934	
Total Capital	-	3.580	2.171	-	-	

146 note that included in the costs in recommendation 145 above are the following costs for the delivery strategy for Vote Revenue:

BUDGET : SENSITIVE

Vote Revenue	All figures are GST inclusive where applicable				
	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
Operating	-	5.382	9.454	9.875	7.000
Capital	-	3.580	2.171	-	-

147 **agree** that the drawdown of the Vote Revenue delivery strategy costs as set out in recommendation 146 above for 2005/06 and outyears be contingent on a report back to joint Ministers by December 2004 with detailed implementation plans for systems changes required in 2005/06 and onwards with a view to adjusting funding levels if required as a result of the report;

148 **note** that included in the costs in recommendation 145 above are the following costs for the delivery strategy for Vote Social Development:

Vote Social Development	All figures are GST inclusive where applicable				
	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
Operating	-	31.601	29.330	20.824	19.934
Capital	-	-	-	-	-

149 **agree** that the drawdown of the Vote Social Development delivery costs as set out in recommendation 148 above for 2006/07 and outyears be contingent on a report back to joint Ministers by December 2005 on the observed take up of non beneficiary assistance and call centre volumes with a view to adjusting funding levels in 2006/07 and outyears if required as a result of this report;

150 **note** that included in the costs in recommendation 145 above are the following costs for the communications strategy:

Communications Strategy	\$ millions, GST inclusive		
	2004/05	2005/06	2006/07
Ministry of Social Development	7.650	2.813	2.250
Inland Revenue	3.938	3.375	1.125
Total	11.588	6.188	3.375

151 **agree** that a Future Directions contingency be set aside, subject to the conditions in recommendation 10 above for policy and delivery changes and for the costs of evaluation and monitoring, as set out below:

	All figures are GST inclusive where applicable				
	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
Future Directions contingency	-	5.833	8.562	8.056	8.506

152 **note** that the contingency amount provides for the joint on-line application, which will be the subject of a further report back to Ministers by December 2004;

SECTION 12: FURTHER REFORM

- 153 **note** that, beyond the Working for Families package, the following streams of work need to be progressed in order to ensure that the social assistance system is able to meet its objectives and outcomes:
- 153.1 reform of basic benefits;
 - 153.2 reform of Sickness and Invalid's Benefits;
 - 153.3 further reform of housing assistance;
 - 153.4 reform of hardship programmes;
 - 153.5 reform of Crown debt policies and practices;
- 154 **direct** the Ministry of Social Development, Treasury and relevant departments to report back by 30 July 2004 to the Minister of Finance and Revenue, the Minister for Social Development and Employment and the Minister of Housing with a detailed scoping exercise for reform of basic benefits, Sickness and Invalid's Benefits, hardship programmes, Crown debt policies and practices and further reform of housing assistance as identified in recommendation 153 above;

SECTION 13: OTHER IMPLICATIONS

Human Rights Implications

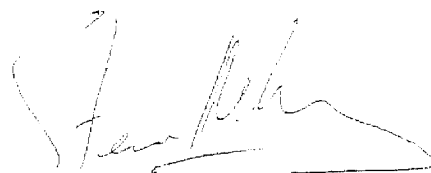
- 155 **note** that the Working for Families package raises a number of issues of inconsistency with the New Zealand Bill of Rights and the Human Rights Act;
- 156 **note** that the Ministry of Social Development and the Inland Revenue Department will work closely with the Ministry of Justice to provide justifications for any continuing or new discriminatory provisions that may be contained in the Working for Families package;

Legislation

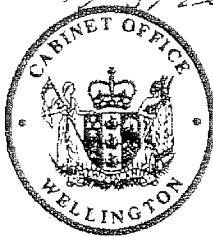
- 157 **invite** the Ministers of Finance, Revenue and Social Development and Employment to issue drafting instructions to Parliamentary Counsel and the Inland Revenue Department Drafting Unit to draft the necessary legislative amendments to give effect to the above decisions for inclusion in the Future Directions (Working for Families) Bill;
- 158 **note** that the Future Directions (Working for Families) Bill has a priority 2 (must be passed in 2004) on the 2004 Legislation Programme;
- 159 **note** that the Future Directions (Working for Families) Bill is planned for introduction on 27 May 2004 and the Leader of the House intends to assign a high priority to this legislation;
- 160 **authorise** the Ministers of Finance and Revenue and Social Development and Employment, in consultation with other Ministers as appropriate, to make decisions on policy clarifications that arise during the drafting of the legislation.



Hon Dr Michael Cullen
Minister of Finance and Revenue



Steve Maharey
Minister for Social Development and Employment



Budget: Sensitive

Cabinet

CAB Min (04) 13/4

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Minister of Finance
Minister of Revenue
Minister for Social Development and Employment
(MSD)
(Labour)

Copies to:

Prime Minister
Deputy Prime Minister
Hon Jim Anderton
Minister of Housing
(Ministry of Housing)
(HNZC)
Minister of Justice
Minister of Pacific Island Affairs
Minister of Health
Minister of Education
Minister of State Services
Minister of Māori Affairs
Minister of Labour
Minister of Women's Affairs
Minister for Disability Issues
Minister for Senior Citizens

Associate Minister for Social Development and
Employment (CYF)
Minister of Youth Affairs
Associate Minister for Social Development and
Employment (Hon Rick Barker)
Associate Minister for Social Development and
Employment (Hon Tariana Turia)
Associate Minister for Social Development and
Employment (Hon Taito Phillip Field)
Chief Parliamentary Counsel
Legislation Coordinator
Controller and Auditor-General
Secretary, POL
Secretary, EXG
Secretary, SDC

Reform of Social Assistance: Working for Families Package: Revised Recommendations

On 26 April 2004, following reference from the Cabinet Policy Committee (POL), Cabinet:

SECTION 1: OVERVIEW

Context

- 1 noted that the Working for Families package will assist working people, especially low and middle income families, to make the most of economic opportunities and share in our growing prosperity by improving the returns from paid work;
- 2 noted that the Working for Families package complements current government strategies to improve growth and innovation, invest in skills development, and maintain prudent macro-economic and fiscal management;

Objectives

- 3 noted that the key objectives of the Working for Families package are to:
- 3.1 make work pay by supporting families with dependent children, so that they are rewarded for their work effort;
 - 3.2 ensure income adequacy, with a focus on low and middle income families with dependent children to address issues of poverty, especially child poverty;
 - 3.3 achieve a social assistance system that supports people into work, by making sure that people get the assistance they are entitled to, when they should, and with delivery that supports them into, and to remain in, employment;

Key Impacts

- 4 noted that the Working for Families package will have the following key impacts:

Impact on employment

- 4.1 the changes will help make work pay for low and middle-income families with dependent children in employment: about 60% of the new expenditure will be directed to families in work;
- 4.2 the In-Work Payment and the increases in the Family Tax Credit will provide improvements in work incentives, especially for sole-parents;
- 4.3 the Childcare Assistance changes will help reduce childcare costs, which can act as an important barrier to employment, particularly for women;
- 4.4 effective marginal tax rates (EMTRs) will be improved for low income working families earning between \$20,000 and \$27,500 a year, thereby improving work incentives. EMTRs will be higher for some middle and higher income families not previously eligible for assistance;
- 4.5 most of the employment incentive gains will occur in April 2006, with some gain from October 2004 and October 2005;

Impact on incomes

- 4.6 from 2007, around 61% of families with dependent children will get more Family Income Assistance – around 290,000 families will gain on average \$66 a week (with an estimated average of \$95 a week for families with annual incomes in the range \$25,000 to \$45,000) from the cumulative Family Income Assistance changes (ie excluding the Childcare Assistance, Accommodation Supplement and Special Benefit changes);
- 4.7 around 28,000 families (and 33,000 children) will gain from increases to Childcare Assistance with average gains of \$23 a week per child from 2005;
- 4.8 around 99,500 Accommodation Supplement recipients will get an average increase in accommodation assistance of \$19 a week from 2005/06;

- 4.9 using a constant value poverty measure of 60% of the median household income, there is expected to be a 30% reduction in child poverty by 2007/08, and using a 50% measure, the expected reduction is 70%;

Summary Financial Tables

- 5 noted that the tables below present the total financial impact of the Working for Families package on the Crown's operating balance and debt:

Operating Initiatives (Impact on Operating Balance)

Vote Revenue		All figures are \$m, GST inclusive where applicable				
Ref	Initiative	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
	Family Income Assistance	-	114,400	-582,670	-878,672	1,127,433
	Departmental changes	0.100	10,330	13,529	11,700	7,700
Total Vote Revenue		0.100	124,730	-596,199	-890,372	1,135,133

Vote Social Development		All figures are \$m, GST inclusive where applicable				
Ref	Initiative	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
	Family Income Assistance	-	(19,172)	(80,266)	(113,219)	(116,274)
	Housing Assistance	-	62,996	128,741	141,701	146,219
	Childcare Assistance	-	18,801	31,030	34,239	34,552
	Hardship Assistance	-	(7,364)	(44,943)	(75,760)	(91,177)
	Departmental changes	-	39,801	32,223	23,154	20,014
Total Vote Social Development		-	95,063	66,786	10,115	(6,666)

Vote Housing		All figures are \$m, GST inclusive where applicable				
Ref	Initiative	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
	Family Income Assistance	-	(0,240)	(5,035)	(7,078)	(10,271)
Total Vote Housing		-	(0,240)	(5,035)	(7,078)	(10,271)

Vote Child Youth and Family Services		All figures are \$m, GST inclusive where applicable				
Ref	Initiative	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
	Family Income Assistance	-	0,963	3,942	4,018	4,076
Total Vote Child Youth and Family Services		-	0,963	3,942	4,018	4,076

Vote Health		All figures are \$m, GST inclusive where applicable				
Ref	Initiative	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
	Family Income Assistance	-	0,350	1,400	1,400	1,400
Total Vote Health		-	0,350	1,400	1,400	1,400

Capital Initiatives (Impact on Debt)

Vote Revenue		All figures are \$m, GST inclusive where applicable				
Ref	Initiative	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
	Departmental changes	1.49	4.57	2.171	-	-
Total Vote Revenue		1.490	4.570	2.171	-	-

- 6 noted that the total estimated cost of the Working for Families package will be \$226 million in 2004/05, \$671 million in 2005/06, \$907 million in 2006/07 and \$1.13 billion in 2007/08 and outyears;

Contingency

- 7 noted that a contingency of \$5.833 million in 2004/05, \$8.562 million in 2005/06, \$8.056 million in 2006/07 and \$8.506 million in 2007/08 and outyears has been set aside for the Working for Families package to cover the following costs:
- 7.1 residual programme and delivery costs;
 - 7.2 development of an online In-Work Assistance service across the Inland Revenue Department (IRD) and the Ministry of Social Development (MSD);
 - 7.3 a monitoring and evaluation programme to measure the success of the Working for Families package;
 - 7.4 payment of assistance to families or individuals who might otherwise be unintentionally disadvantaged by the Working for Families changes, in the event that Cabinet decides to raise the Transitional Working for Families Supplement cap (see paragraphs 92 to 97);
- 8 noted that the contingency is subject to the following conditions:
- 8.1 access to the contingency will be subject to the approval of Cabinet;
 - 8.2 use of contingency funds is restricted to those issues directly related to the Working for Families package;
 - 8.3 any unspent contingency in each fiscal year will be returned to the Crown;

SECTION 2: FAMILY INCOME ASSISTANCE

- 9 noted that the focus of the Family Income Assistance initiatives is to make work pay and to improve income adequacy for families with dependent children;
- 10 noted that the package of Family Income Assistance initiatives has four main elements:
- 10.1 increasing Family Support rates;
 - 10.2 introducing a new work tested In-Work Payment and phasing out the Child Tax Credit;
 - 10.3 introducing a new main benefit rate structure for families by removing the child component from main benefits and student allowances;

10.4 increasing the Family Tax Credit;

- 11 noted that the estimated cost of the Family Income Assistance package is \$96 million in 2004/05, \$503 million in 2005/06, \$764 million in 2006/07 and \$1,007 million in 2007/08 and outyears;

Family Support

- 12 agreed to increase the first child rates of Family Support by \$25.00 per week, and the subsequent child rates by \$15.00 per child per week, from 1 April 2005, as set out in the table below:

Family Support Rates	First child rates		Subsequent child rates		
	0-15 yrs	16-18 yrs	0-12 yrs	13-15 yrs	16-18 yrs
Current	\$47	\$60	\$32	\$40	\$60
Family Support rates from 1 April 2005	\$72	\$85	\$47	\$55	\$75

- 13 agreed to increase each of the first and subsequent child rates of Family Support rates by \$10 per week from 1 April 2007, as set out in the table below:

Family Support Rates	First child rates		Subsequent child rates		
	0-15 yrs	16-18 yrs	0-12 yrs	13-15 yrs	16-18 yrs
Family Support rates from 1 April 2007	\$82	\$95	\$57	\$65	\$85

In-Work Payment

- 14 noted that the objective of the In-Work Payment is to help low income working families with dependent children move into and stay in work;
- 15 agreed, from 1 April 2006, to introduce an In-Work Payment for families with dependent children to be set at \$60.00 a week per family, plus an additional \$15.00 a week for the fourth and each subsequent child, as set out in the table below:

Number of dependent children	1	2	3	4	5	6	7	8 or more
Weekly rate	\$60	\$60	\$60	\$75	\$90	\$105	\$120	plus \$15 for each additional dependent child

- 16 agreed that from 1 April 2006 the Child Tax Credit be closed to new recipients concurrent with the introduction of the In-Work Payment;
- 17 agreed that when the In-Work Payment is introduced on 1 April 2006, all Child Tax Credit recipients, who are recipients as at 31 March 2006 and who are ineligible to receive the new In-Work Payment because they do not meet the work hours requirement, continue to be eligible for the Child Tax Credit under the current eligibility provisions, unless they become eligible for the In-Work Payment (ie they are "grandparented");
- 18 agreed that once a grandparented recipient is no longer entitled to the Child Tax Credit they cannot become re-eligible for the Child Tax Credit at a later date;

Eligibility criteria

- 19 agreed that the eligibility criteria for the In-Work Payment be the same as for the Child Tax Credit (ie recipients must not be receiving a main income-tested social security benefit), but with the following changes:
- 19.1 couples with children must be in paid work of a combined total of at least 30 hours a week;
 - 19.2 sole parents must be in paid work of at least 20 hours a week;
 - 19.3 eligibility will be extended to include:
 - 19.3.1 recipients of New Zealand Superannuation or the Veteran's Pension;
 - 19.3.2 people receiving compensation for loss of earnings under the Injury Prevention, Rehabilitation and Compensation Act 2001 and who would have been eligible at the time of their accident (including people receiving Child Tax Credit whose injury occurred after 31 December 2005 and who met the In-Work Payment hours test at the time of their injury);
 - 19.4 the definition of a family's dependent children will include those for whom Orphan's Benefit, Unsupported Child's Benefit or Foster Care Allowance is being paid;

Payment to principal carer

- 20 agreed that the In-Work Payment be paid to the principal carer of the dependent child/ren in the family, which is consistent with the payment of other Family Income Assistance;

Shared care

- 21 agreed that where a carer normally has care of a child for one-third or more of the entitlement period, that carer is eligible for the In-Work Payment in respect of that child for every week in the year in which the carer also meets the In-Work Payment hours test and other eligibility criteria;
- 22 agreed that those carers receiving the grandparented Child Tax Credit from 1 April 2006 must have care of a child for a least one-third of the income year to remain eligible for the full amount of the Child Tax Credit;

Abatement of Family Income Assistance

- 23 agreed that from 1 April 2006 the abatement rate for Family Support, the In-Work Payment, the Child Tax Credit (for grandparented recipients) and the Parental Tax Credit be set at 30% from a threshold of \$27,500 a year of gross family income (with abatement being consecutive, as is currently the case);

Regular Adjustment of Family Income Assistance

- 24 noted that maintaining the real value of Family Income Assistance payments over time is important to maintain income adequacy for low income families and the effectiveness of work incentive measures;

- 25 noted that the Speech from the Throne signalled the government's intention to "move towards annual review of Family Support and Family Tax Credit rates and thresholds";
- 26 agreed that the rates and thresholds of Family Support, and the Childcare Assistance thresholds (paragraph 49 below refers), be subject to a policy of regular adjustment from 1 April 2008;
- 27 agreed that the legislation provide for the Family Support rates and thresholds and Childcare Assistance thresholds to be regularly adjusted by Order in Council so that:
- 27.1 they are increased by movements in the Quarterly Consumers Price Index (CPI);
 - 27.2 adjustments occur when cumulative CPI increases since the last CPI adjustment exceed 5% and that such adjustments will come into force on 1 April following that date;
 - 27.3 increases are rounded up to the nearest whole dollar (but subsequent increases are calculated on the basis of actual increased amounts, not the rounded up amounts);
 - 27.4 CPI adjustment periods will be counted from 1 April 2007 in the case of Family Support and from 4 October 2005 in the case of Childcare Assistance;
- 28 agreed that the legislation provides for the Minister of Revenue, in consultation with the Minister for Social Development and Employment, to review the rates of In-Work Payment and the Parental Tax Credit every three years;
- 29 invited the Minister of Revenue to report to the Cabinet Social Development Committee (SDC) in due course on the outcome of the review including making any recommendations on adjustments that may be made to those rates;
- 30 agreed that the legislation contain provision for the rates of the In-Work Payment and the Parental Tax Credit to be adjusted by Order in Council;

Family Tax Credit

- 31 agreed to increase the Family Tax Credit on 1 April each year by an amount sufficient to ensure that couples do not suffer a reduction in income when moving off benefit into 30 hours of paid work a week, from 1 April 2006 onwards;
- 32 noted that the estimated level of the Family Tax Credit on 1 April 2006 will be \$17,149 net a year, and \$17,490 net a year on 1 April 2007;

Changes to Main Benefits and Student Allowances

- 33 noted that main benefits and the Student Allowance currently contain a "child component" for sole parent and couple recipients with children;
- 34 agreed to remove the child component from main benefit and Student Allowance rates from 1 April 2005, at the same time as Family Support rates are increased;
- 35 noted that the removal of the child component from main benefit and Student Allowance rates at the same time as the 1 April 2005 Family Support rates increase will:
- 35.1 provide a net increase in assistance to families with children;

- 35.2 move towards a single programme of assistance for children through Family Support, with common rates, eligibility criteria and abatement rules;
- 35.3 help ensure that assistance for children will continue unchanged when people move from benefit to work, subject only to abatement based on annual income;
- 35.4 help to simplify the benefit system;
- 36 agreed that from 1 April 2005 rates of benefits and Student Allowance paid to sole parents be removed and replaced with a single sole parent rate to be set equal to the rates of benefits and Student Allowance paid to sole parents with one child;
- 37 agreed that from 1 April 2005 rates of benefits and Student Allowance paid to married couples with children be set equal to the rates of benefits and Student Allowance paid to married couples with no children;
- 38 noted that the changes in paragraph 36 above affect the Unemployment Benefit, Sickness Benefit, Invalid's Benefit, Widow's Benefit, Domestic Purposes Benefit (Sole Parent), Domestic Purposes Benefit (Care for Sick and Infirm) and Student Allowance;
- 39 noted that the changes in paragraph 37 above affect the Unemployment Benefit, Sickness Benefit and Student Allowance;
- 40 noted that further benefit simplification is envisaged under the next stage of Future Directions (see paragraphs 151 and 152 below);

Family Support for People in Receipt of Benefit

- 41 noted that, due to the different assessment periods used to calculate main benefit and Family Support entitlements, some families may not be entitled to maximum Family Support while on benefit, or conversely may face an end of year Family Support debt if full Family Support is paid while on benefit;
- 42 noted that the issues in paragraph 41 above raise income adequacy concerns for an estimated 2,450 families on benefit for part of the income tax year, which will be exacerbated by the transfer of the child component of main benefits to Family Support from 1 April 2005;
- 43 agreed that when a family is on benefit, and their expected annualised income (calculated on a month by month basis while on benefit) is below the Family Support abatement threshold, they be entitled to maximum Family Support irrespective of income derived in other parts of the income tax year;
- 44 agreed that those months on benefit where the situation in paragraph 43 applies are not subject to abatement in the end of year square-up and that a family's total annual income is used to calculate abatement in respect of the rest of the year;
- 45 noted that when a family's annualised income is expected to be above the Family Support abatement threshold IRD will assess entitlement using the tax year income basis that currently applies;

SECTION 3: CHILDCARE ASSISTANCE

- 46 noted that the objective of the Childcare Assistance initiatives is to improve outcomes for low and middle income families with childcare costs by reducing a barrier to work and making quality Early Childhood Education (ECE) and Out of School Care and Recreation more affordable;
- 47 agreed to increase the Childcare Assistance thresholds from 4 October 2004, to the levels in the table below:

	Rate 1	Rate 2	Rate 3
1 Child	\$40,040	\$44,200	\$48,360
2 Children	\$49,400	\$54,080	\$58,760
3 Children	\$57,720	\$63,440	\$69,160

- 48 agreed to increase Out of School Care and Recreation Subsidy (OSCAR) rates to match the Childcare Subsidy (CCS) rates from 4 October 2004,;
- 49 agreed to increase all Childcare Assistance (ie CSS and OSCAR subsidy) rates by 10% from 4 October 2004, and by a further 10% from 3 October 2005;
- 50 noted that the increases in paragraph 49 above will be in addition to annual rates adjustments in line with movements in the CPI;
- 51 agreed that the Childcare Assistance absence hours cap be removed and absence rules be aligned with proposed changes to the Ministry of Education's ECE absence rules once these are finalised in 2005 (or earlier if possible);
- 52 agreed that the Childcare Assistance provisions be moved into legislation, with a regulation-making power to allow for the details of the provisions to be set out in regulations;
- 53 noted that the different implementation dates for parts of the Childcare Assistance and Accommodation Supplement Packages may result in a small number of Childcare Assistance recipients becoming worse off on 1 April 2005;
- 54 agreed that Childcare Assistance recipients, who would otherwise be worse off because they would receive a lower rate of Childcare Assistance or lose their entitlement due to the Accommodation Supplement changes as at 1 April 2005, have their Childcare Assistance entitlement or rate grandparented;

Linkage between Childcare Assistance and Early Childhood Education

- 55 noted that an assessment of the impacts of the ECE funding proposals on Childcare Assistance expenditure, and of the Working for Families package on ECE expenditure, is not straightforward because:
- 55.1 any behavioural impacts of the policies are difficult to model, for example, some ECE services might increase fees despite additional ECE funding, and to the extent that participation declines as a result of increased fees, this might limit the take-up of Childcare Assistance;
- 55.2 ECE and Childcare Assistance expenditure are demand-driven;

55.3 to the extent that the Working for Families package increases labour market participation by parents with children under 6 years of age, ECE participation is likely to increase, with costs to Vote Education;

56 **directed** MSD, Treasury and the Ministry of Education to identify likely savings in Vote Social Development Childcare Assistance arising from the Vote Education ECE funding proposals, including limited free ECE for three and four year olds, and report to the Minister of Education, Minister of Finance and Minister for Social Development and Employment by 31 October 2004, to enable Ministers to make decisions on what savings are to be transferred from Vote Social Development to Vote Education [CAB Min (04) 11/4A];

57 **noted** that the estimated cost of the Childcare Assistance initiatives is \$19 million in 2004/05, \$31 million in 2005/06, \$34 million in 2006/07 and \$35 million in 2007/08 and outyears;

SECTION 4: ACCOMMODATION SUPPLEMENT

58 **noted** that the objectives of the Accommodation Supplement initiatives are to improve housing affordability for low income New Zealanders;

59 **agreed** to increase the number of Accommodation Supplement Areas from three to four from 1 April 2005 and revise the area definitions as set out in the table below:

Area 1
Northern Auckland urban zone, Central Auckland urban zone
Area 2
Western Auckland urban zone, Southern Auckland urban zone, Wellsford urban area, Snells Beach urban area, Warkworth urban area, Waiheke Island urban area, Waiuku urban area, Pukekohe urban area, Helensville urban area, Tauranga urban area, Wellington urban zone, Nelson urban area, Brightwater urban area, Wakefield urban area, Queenstown urban area, Wanaka urban area, Arrowtown urban area, Leigh area unit, Tauhoa-Puhoi area unit, Tahekeroa area unit, Cape Rodney area unit, Matheson Bay area unit, Kawau area unit, Islands-Motutapu, Rangitoto, Rakino area unit, Great Barrier Island area unit, Little Barrier Island area unit, Algies Bay-Mahurangi area unit, Parakai area unit, South Head area unit, Kaukapakapa area unit, Muriwai Beach area unit, Rewiti area unit, Riverhead area unit, Karekare area unit, Patumahoe area unit, Kingseat area unit, Pokeno area unit, Hunua area unit, Mangatawhiri area unit, Awhitu area unit, Glenbrook area unit, Otua area unit, Bombay area unit, Clevedon area unit, Onewhero area unit, Maramarua area unit, Meremere area unit
Area 3
Taipa Bay-Mangonui urban area, Kaitia urban area, Kerikeri urban area, Russell urban area, Paihia urban area, Whangarei urban area, Raglan urban area, Whitianga urban area, Whangamata urban area, Tairua urban area, Thames urban area, Waihi Beach urban area, Matamata urban area, Katikati Community urban area, Te Puke Community urban area, Hamilton urban zone, Cambridge urban zone, Te Awamutu urban zone, Rotorua urban area, Taupo urban area, Whakatane urban area, Napier urban zone, Hastings urban zone, Palmerston North urban area, New Plymouth urban area, Feilding urban area, Kapiti urban area, Otaki urban area, Upper Hutt urban zone, Lower Hutt urban zone, Porirua urban zone, Blenheim urban area, Motueka urban area, Takaka urban area, Hanmer Springs urban area, Woodend urban area, Rangiora urban area, Christchurch urban area, Darfield urban area, Lincoln urban area, Leeston urban area, Rolleston urban area, Dunedin urban area, Alexandra urban area, Cromwell urban area, Nablra area unit, Pencarrow area unit, Kapiti Island area unit, Maungakotukutuku area unit, Cloustonville area unit, Mangaroa area unit, Mana Island area unit, Makara-Ohariu area unit, Opiki area unit, Tokomaru area unit
Area 4
Any part of New Zealand not included in Area 1, Area 2 or Area 3.

60 agreed to amend the Accommodation Supplement Areas referred to in paragraph 59 above to maintain a part of New Zealand in the same Accommodation Supplement Area if any of the definitions of urban areas, urban zones or area units are modified by Statistics New Zealand;

61 noted that Section 61I of the Social Security Act 1964 gives power through Order in Council to promote area units or urban areas to an Accommodation Supplement Area with a higher maxima but not to demote, but will need modification to accommodate the increased number of Accommodation Supplement Areas and their references to urban zones;

62 agreed to adjust the Accommodation Supplement maxima from 1 April 2005, as set out in the table below:

AS maxima	1 person h/hold	2 person h/hold	3 person h/hold
Area 1	\$145	\$160	\$225
Area 2	\$100 (no change)	\$125	\$165
Area 3	\$65 (no change)	\$75 (no change)	\$120
Area 4	\$45 (no change)	\$55 (no change)	\$75 (no change)

63 direct that MSD to re-examine the Accommodation Supplement maxima set out in paragraph 62 above and report to the Minister for Social Development and Employment by December 2004 to enable any refinements based on new tenancy bond data to be considered alongside other priorities in the 2005 Budget;

64 agreed to remove the abatement of the Accommodation Supplement for beneficiaries on the first \$80.00 per week of non-benefit gross income from 1 October 2004;

65 noted that paragraph 64 above will mean that the Accommodation Supplement is not abated until a recipient moves off benefit;

66 agreed to lower the Accommodation Supplement entry threshold for non-beneficiaries from 25% for renters and boarders, and 30% for mortgagors, of the relevant rate of Invalid's Benefit (plus first child under 16 rate of Family Support where there are children) to 25% for renters and boarders, and 30% for mortgagors, of the relevant rate of Unemployment Benefit (plus first child under 16 rate of Family Support where there are children from 1 October 2004);

67 agreed to increase the income thresholds for non-beneficiaries from the relevant Invalid's Benefit rate plus \$17.92 per week to the relevant Unemployment Benefit income cut-out points from 1 October 2004;

68 noted that for single Accommodation Supplement recipients under 25 years of age the "relevant rate of Unemployment Benefit" means the single over 25 rate of unemployment benefit;

69 noted that the estimated costs of the Accommodation Supplement changes are \$63 million in 2004/05, \$129 million in 2005/06, \$142 million in 2006/07 and \$146 million in 2007/08 and outyears;

SECTION 5: INVALID'S BENEFIT CHANGES

- 70 noted that the objective of the Invalid's Benefit changes are to encourage greater participation in paid employment by Invalid's Benefit recipients;
- 71 noted that some Invalid's Benefit recipients want to work for more than 15 hours a week but are reluctant to try because they:
- 71.1 are uncertain whether they can sustain more work given their disability;
 - 71.2 risk losing entitlement to the Invalid's Benefit if they regularly work 15 or more hours a week (known as the 15 hour rule);
- 72 agreed to introduce a provision to take effect from 1 December 2004, to allow Invalid's Benefit recipients, with the prior approval of the Chief Executive of MSD, a period of up to six months to establish whether they can sustain 15 or more hours per week in open employment before their entitlement must be reviewed;
- 73 agreed to amend the stand down provisions (effective from 1 December 2004), for Invalid's Benefit recipients so that they mirror the existing stand down provisions for Sickness Benefit recipients with chronic illnesses so that Invalid's Benefit recipients who undertake but then have to stop work will not, generally, face a stand down if they reapply for Invalid's Benefit for the same sickness, injury or disability;
- 74 noted that the Minister for Social Development and Employment has directed MSD to take steps towards changing the name of Invalid's Benefit, commencing with consultation with the disability sector and other relevant stakeholders;
- 75 noted that the changes to the 15 hour rule and stand-down for recipients of Invalid's Benefit are expected to be cost neutral or result in only a small increase in expenditure on Invalid's Benefit in the short-term;
- 76 noted that the estimated one-off cost of IT system changes to amend the 15 hour rule and re-name the Invalid's Benefit is \$0.5 million (GST exclusive) in 2004/05, which is factored into the departmental costs of the Working for Families package;
- 77 direct MSD to monitor and evaluate the changes to the 15 hour rule and the new stand-down provisions, and report on the outcomes to the Minister for Social Development and Employment by December 2006;

SECTION 6: SPECIAL BENEFIT

- 78 noted that the changes to Family Support from 1 April 2005 will improve income adequacy and therefore reduce the need for hardship assistance for those with dependent children;
- 79 agreed that:
- 79.1 Family Support be included as income in the assessment of Special Benefit;
 - 79.2 for recipients of Special Benefit with dependent children, the level of Standard Costs allowed in the assessment for basic living costs (food, power, etc) be set at 70% of the applicant's unabated main benefit and unabated Family Support combined;

- 79.3 subject to discretion, the rate of Special Benefit for those with dependent children, be fixed at the amount of deficiency between income and costs or at 25% of the applicant's allowable costs, whichever is the lower amount;
- 79.4 the changes in paragraphs 79.1 to 79.3 above be applied to all new applications for Special Benefit received on or after 1 April 2005 and to existing cases as they come up for their three or six monthly review after that date (or earlier review on a change in circumstances);
- 80 noted that the changes to Special Benefit referred to in paragraphs 79.1 to 79.3 above will reduce 78% of Special Benefits paid to 31,200 households with children by an average of \$13.43 a week, compared with the average increase in income from the Family Income Assistance changes for beneficiaries of \$27.51 a week, and that no household will have a greater reduction in their Special Benefit than the increase in their Family Income Assistance;
- 81 noted that in a small minority of cases (3% or 1,206 cases) Special Benefit discretion will be used to ensure that the reduction in Special Benefit does not exceed the increase in the household's Family Income Assistance from 1 April 2005;
- 82 noted that the changes to Special Benefit from 1 April 2005 will be implemented by way of changes to the existing Ministerial Direction and will not require legislative change;
- 83 agreed that from 1 April 2006 Special Benefit be replaced by a new benefit called Temporary Additional Support, with similar provisions to Special Benefit, but incorporating the following changes:
- 83.1 a rules-based approach to eligibility to replace the current highly discretionary provisions;
- 83.2 an accommodation loading of \$20 a week which will require applicants to pay the first \$20 a week of their net accommodation costs from their regular income;
- 83.3 an upper limit on the amount of Temporary Additional Support that can be paid equal to 30% of the applicant's unabated main benefit;
- 83.4 standardisation of the amount allowed for applicants without dependent children to cover basic living costs (food, power, etc) at 70% of their unabated main benefit;
- 83.5 a limit of \$50 a week (CPI adjusted) on the amount that can be allowed in the assessment of eligibility for car payments;
- 84 agreed to grandparent existing Special Benefits, entitlements and criteria, from 1 April 2006 to ensure that no recipient receives a reduction in their benefit as a result of the introduction of Temporary Additional Support referred to in paragraph 83 above;
- 85 agreed that the grandparenting arrangements referred to in paragraph 84 above be reviewed by the Ministers of Finance, Revenue and Social Development and Employment in February/March 2008;
- 86 agreed that the In-Work Payment and Child Tax Credit payments grandparented under paragraph 19 above, be included as income in the assessment of Temporary Additional Support applications received on or after 1 April 2006;

87 noted that the introduction of Temporary Additional Support and the change to a rules based approach from 1 April 2006 will require amendments to the Social Security Act 1964 to:

87.1 legislate for the principles of Temporary Additional Support;

87.2 make provision for Temporary Additional Support to be granted as prescribed by regulations;

87.3 grandparent existing entitlements to Special Benefit;

SECTION 7: CONSEQUENTIAL CHANGES TO OTHER SOCIAL ASSISTANCE

Accommodation Supplement

88 noted that increases in the first child rates of Family Support and adjustments to main benefits rates will result in a partial offsetting reduction in Accommodation Supplement for the families affected by the changes, but that families will be better off overall;

89 agreed that the increases to the first child rates of Family Support and adjustments to main benefit rates be allowed to flow on to Accommodation Supplement as described in paragraph 88 above;

Top-Up Provision

90 noted that although every effort has been made to ensure that the policy changes do not result in people becoming financially worse off, the complexity of the social assistance system, the wide variety of individual circumstances and the phased implementation of different components of the package make it difficult to anticipate and address every situation;

91 noted that a small group of Accommodation Supplement recipients, who gain overall from the Working for Families package relative to the status quo, are likely to be worse off on 1 April 2005 than they were on 31 March 2005 as a result of the Family Income Assistance changes introduced on 1 April 2005;

92 agreed that a Transitional Working for Families Supplement be available to assist Accommodation Supplement recipients and other people, not yet identified, who would otherwise be financially disadvantaged as a result of the Working for Families changes;

93 agreed that a provision for a Transitional Working for Families Supplement be included in legislation with associated entitlement criteria and other details set out in regulations;

94 agreed to establish a new Benefit and Other Unrequited Expenses "Transitional Working for Families Supplement" in Vote Social Development;

95 agreed that the Transitional Working for Families Supplement be capped at \$0.50 million per annum for each of the fiscal years 2005/06, 2006/07 and 2007/08;

Income Related Rents

96 noted that increases in the Family Tax Credit, first child rates of Family Support, and adjustments to main benefits rates will result in a partial offsetting reduction in Income Related Rents for the families affected by the changes, but that families will be better off overall;

- 97 agreed that the increases to the first child rates of Family Support, Family Tax Credit and adjustments to main benefit rates be allowed to flow on to Income Related Rents as described in paragraph 96 above;

Benefit Stand-Down

- 98 agreed to increase the per child add-on in the stand-down formula for main benefits from \$50.00 to \$80.00 per week to reflect the increases in Family Support rates;

Treatment of Family Income Assistance

- 99 noted that it is current policy and practice not to charge Family Income Assistance as income for assessing eligibility for, and rates of, social assistance but that this is not supported by legislation;
- 100 agreed to continue the current policy and practice of not charging Family Income Assistance as income for social assistance purposes and that this decision be reflected in the Future Directions (Working for Families) Bill;
- 101 agreed that a validating clause be included in the Future Directions (Working and Families) Bill to retrospectively confirm current practice;
- 102 noted that the current policy and practice of not charging Family Income Assistance as income would also apply to the proposed new In-Work Payment from 1 April 2006;
- 103 noted that for Special Benefit purposes, Family Support will be included as income to determine eligibility;

Use of Invalid's Benefit Rate Structure for Determining Eligibility for Some Social Assistance Payments

- 104 noted that currently, some social assistance payments use the Invalid's Benefit rates to determine entitlement but removal of the sole parent (2+ child) rate will result in a number of beneficiaries no longer being eligible for these payments;
- 105 agreed that the current Invalid's Benefit rate structure continue to be used to determine entitlement to specific second and third tier social assistance and a provision is included in the Social Security Act to allow this;
- 106 agreed that the new provision for determining entitlement to specific second and third tier benefits is annually adjusted in line with CPI movements;

Child Support

- 107 noted that the increases to Family Support under current policy would reduce the amount of Child Support to be paid by some liable parents under the current Child Support formula, which would result in some custodial parents receiving lower payments of Child Support and the Crown absorbing the cost of lower payments in respect of custodial parents who are beneficiaries;
- 108 agreed to retain the current levels of Family Support for the calculation of the living allowance in the Child Support payment formula and index these levels to annual increases in the CPI movements, to avoid the effect described in paragraph 107 above;

Community Services Card Thresholds

- 109 noted that the proposed increases to Family Support and the introduction of the In-Work Payment will increase the incomes of low income households with the potential to cause an estimated 29,000 existing Community Services Card holders to lose eligibility for the Community Services Card;
- 110 agreed that the thresholds for the Community Services Card be increased from 1 April 2005, 1 April 2006 and 1 April 2007 to ensure all current recipients remain eligible for the Community Services Card;
- 111 agreed that the In-Work Payment, as well as Family Support, Child Tax Credit (where applicable), Family Tax Credit and Parental Tax Credit, be treated as income when assessing eligibility for the Community Services Card;

Foster Care Allowance, Orphan's Benefit and Unsupported Child's Benefit

- 112 noted that recipients of the Foster Care Allowance, Orphan's Benefit and Unsupported Child's Benefit cannot receive Family Support for the child that allowance or benefit is paid in respect of, so will not benefit from increases to Family Support rates on 1 April 2005;
- 113 agreed to a one-off increase of \$15 a week to the rates of Orphan's Benefit, Unsupported Child's Benefit and Foster Care Allowance (and including pro-rata increases to Foster Care Allowance clothing, Christmas and birthday allowances, and Higher Foster Care Allowance) on 1 April 2005;
- 114 agreed that the one-off increase referred to in paragraph 113 above replace the general inflation adjustment that would otherwise occur on 1 April 2005, but does not replace the general inflation adjustments that will occur from 1 April 2006 onwards;
- 115 noted that Vote Child, Youth and Family Services funding for the Foster Care Allowance is based upon projected placements as at 30 June 2004 and any variation to this amount will be funded in the short-term from the demand linked funding initiative of the Baseline Review Project, and in the longer term through the re-costing of the Child, Youth and Family Baseline to inform Budget 2006;
- 116 noted that a full review of the payments to children for whom Foster Care Allowance, Orphan's Benefit and Unsupported Child's Benefit is paid will form part of the future work programme on social assistance beyond the 2004 Budget;
- 117 noted that terms of reference for a full review of the payments to children for whom Foster Care Allowance, Orphan's Benefit and Unsupported Child's Benefit is paid is being prepared for the Minister for Social Development and Employment and the Associate Minister for Social Development (Child, Youth and Family Services) by 30 April 2004;

Student Loan Repayment Thresholds

- 118 noted that the student loan repayment threshold and the part-time, part-year student full interest write-off threshold are based on the cut out point and rate respectively of Domestic Purposes Benefit for two or more children;

- 119 noted that the introduction of a single sole parent rate of benefit in paragraph 36 above will have the unintended consequence of reducing the levels of the student loan repayment and write-off thresholds if the current way of setting them is maintained, and will result in higher loan repayments being required of people with income over the repayment threshold and fewer people being eligible for interest write-offs;
- 120 agreed that the student loan repayment threshold and part-time, part year full interest write-off thresholds be set at the current levels and be adjusted annually in line with CPI movements to avoid the unintended consequence in paragraph 119 above of the proposed rate changes on student loan repayment and interest write-off thresholds;

SECTION 8: DELIVERY ENHANCEMENTS

- 121 noted that Cabinet agreed in December 2003 to the following enhancements to the current Family Income Assistance delivery system to be introduced by 1 April 2005:
- 121.1 automated exchange of information between MSD and IRD, for the purpose of identifying entitlement to family income assistance and to avoid double-payment;
- 121.2 weekly payments of family income assistance by IRD;
- 121.3 monitoring and responding to claimants' changing income and circumstances;
- [EXG Min (03) 14/2]
- 122 noted that in relation to the decisions in paragraph 121 above, Cabinet also approved the following changes to appropriations, with a corresponding impact on the Crown operating balance and debt:

	\$m - increase/(decrease)					GST
	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears	
Vote Revenue						
Department Output Class:						
Information Services (funded by revenue Crown)	0.100	1.010	0.700	0.700	0.700	incl.
Capital Contributions to the Department:						
Capital Investment	1.490	0.990	-	-	-	n/a
Vote Social Development						
Department Output Class:						
Services to Provide Benefit Entitlements and Obligations to Working Age Beneficiaries and to Promote Self-Sufficiency (funded by revenue Crown)	-	0.550	0.080	0.080	0.080	incl.
Total Operating	0.100	1.560	0.780	0.780	0.780	
Total Capital	1.490	0.990	-	-	-	

- 123 agreed to the proposed delivery strategy to implement the Working for Families package consisting of the following key integrated initiatives:
- 123.1 electronic transfers of data between the MSD and IRD, to facilitate better access to Family Income Assistance and to reduce end of year debt;
 - 123.2 enhancing connections between the MSD and IRD Call Centres;
 - 123.3 a weekly payment option for Family Income Assistance;
 - 123.4 coordinating information for clients;
 - 123.5 developing a seamless online In-Work Assistance service across MSD and IRD;
 - 123.6 overarching joint promotion and marketing to new and existing clients;
 - 123.7 new MSD "Working Families Teams" that will focus on delivering face to face service to low to middle income working families, including actively marketing products and services to priority groups;
 - 123.8 new MSD "Childcare Coordinator" positions to work with individual clients and priority population groups to assist them in arranging their childcare assistance;
- 124 noted that in December 2003 Cabinet agreed that legislation should be enacted by 1 October 2004 to allow certain enhancements to the delivery of Family Income Assistance to take effect, including the transfer of information from MSD to IRD [EXG Min (03) 14/2];
- 125 agreed that the Future Directions (Working for Families) Bill include a provision allowing IRD to give notice to the recipient of Family Income Assistance of the taking of an "adverse action", at the same time as it stops payment of Family Income Assistance to a client;
- 126 noted that this provision is necessary in order to facilitate better access to Family Income Assistance and to reduce year-end debt, and that the purpose of the information match would be largely defeated if payments could not be ceased immediately and without giving the prior notice required under the Privacy Act 1993;
- 127 noted that this provision will override the prior notice requirement in section 103 of the Privacy Act, and that the Office of the Privacy Commissioner has indicated that it is opposed to the proposal;
- 128 noted that the estimated cost of the delivery strategy to implement the Working for Families package is \$50 million in 2004/05, \$46 million in 2005/06, \$35 million in 2006/07 and \$28 million in 2007/08 and outyears;

SECTION 9: EVALUATION

- 129 noted that officials propose to undertake an extensive programme of monitoring and evaluation to measure the success of the Working for Families package over a period of five years at an initial estimated cost of around \$7.8 million (GST exclusive) over the estimates period, and that provision has been made for this cost in the Working for Families package contingency (see paragraph 7 above);

- 130 directed MSD and Treasury, in consultation with IRD, Housing New Zealand Corporation and other relevant departments, to report to the Ministers of Finance, Revenue and Social Development and Employment by 30 June 2004 setting out the proposed evaluation and monitoring strategy, including a timetable and governance structure;

SECTION 10: COMMUNICATIONS STRATEGY

- 131 noted that the Working for Families package will be announced as part of the 2004 Budget;
- 132 noted that MSD and IRD will implement a joint communication strategy to raise public awareness about the Working for Families package, using television, radio, internet and print media to target all eligible New Zealanders and their families;
- 133 noted that the estimated cost of the public awareness campaign (which is included in delivery strategy appropriations in paragraph 143 below) is \$11.588 million in 2004/05, \$6.188 million in 2005/06 and \$3.375 million in 2006/07;

SECTION 11: FINANCIAL IMPLICATIONS

Family Income Assistance

- 134 agreed to establish a new Benefit and Other Unrequited Expense "In-Work Payment" in Vote Revenue from 2005/06 onwards;
- 135 agreed to increase funding to meet the costs of the Family Income Assistance initiatives, including changes to main benefit and Student Allowance rates and the consequential impacts on other social assistance:

All figures are \$m, GST inclusive where applicable					
	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
Operating Balance Impact	-	96.301	502.761	763.993	1006.564
No Impact (tax on benefits)	-	(5.273)	(21.632)	(28.596)	(29.537)
Total	-	91.028	481.129	735.397	977.027

- 136 approve the following changes to appropriations to fund the Family Income Assistance initiatives, with a corresponding impact on the operating balance:

	\$m - increase/(decrease)					
	2003/04	2004/05	2005/06	2006/07	2007/08 & Outyears	GST
Vote Revenue						
Benefits and Other Unrequited Expenses:						
Family Support Tax Credit	-	108.000	520.920	677.860	888.620	n/a
Family Tax Credit	-	-	1.250	6.536	6.567	n/a
Parental Tax Credit	-	0.400	2.200	4.000	4.900	n/a
Child Tax Credit	-	6.000	2.000	(98.000)	(122.000)	n/a
In-Work Payment	-	-	56.300	288.276	349.346	n/a
Sub Total Operating	-	114.400	582.670	878.672	1,127.433	

Vote Social Development					
Benefits and Other Unrequited Expenses:					
Domestic Purposes Benefit	-	(19.820)	(81.146)	(119.834)	(123.290) n/a
Unemployment Benefit	-	(3.455)	(14.446)	(15.198)	(15.597) n/a
Sickness Benefit	-	(1.462)	(6.060)	(6.439)	(6.839) n/a
Invalid's Benefit	-	(0.543)	(2.289)	(2.512)	(2.673) n/a
Widow's Benefit	-	(0.336)	(1.304)	(1.559)	(1.523) n/a
Student Allowances	-	(0.917)	(3.690)	(3.740)	(3.796) n/a
Orphan's/Unsupported Child's Benefit	-	1.614	6.644	7.075	7.516 n/a
Transition to Work	-	(0.026)	(0.106)	(0.107)	(0.108) n/a
Transitional Working for Families Supplement	-	0.500	0.500	0.500	0.500 n/a
Sub Total Operating	-	(24.445)	(101.898)	(141.815)	(145.811)
Vote Housing					
Benefits and Other Unrequited Expenses:					
Income Related Rental Subsidy	-	(0.240)	(5.035)	(7.078)	(10.271) n/a
Sub Total Operating	-	(0.240)	(5.035)	(7.078)	(10.271)
Vote Child Youth and Family Services					
Non Departmental Output Class:					
Family Wellbeing Services	-	0.090	0.370	0.377	0.382 incl.
Departmental Output Classes:					
Care and Protection Services (funded by revenue Crown)	-	0.861	3.523	3.591	3.643 incl.
Youth Justice Services (funded by revenue Crown)	-	0.012	0.049	0.050	0.051 incl.
Sub Total Operating	-	0.963	3.942	4.018	4.076
Vote Health					
Non Departmental Output Class:					
National Services	-	0.350	1.400	1.400	1.400 incl.
Sub Total Operating	-	0.350	1.400	1.400	1.400
Total Operating	-	91.028	481.079	735.197	976.827

Child Support

137 noted that legislating for the current Family Support levels in the Child Support formula and indexing these to the CPI results in the following reduction in revenue through lower Child Support collections, with a corresponding impact on the operating balance:

	\$m - increase/(decrease)				
Vote Revenue	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
Child Support Collections	-	-	0.050	0.200	0.200

Childcare Assistance

- 138 approved the following changes to appropriations to fund the Childcare Assistance initiatives, with a corresponding impact on the operating balance:

Vote Social Development	\$m - increase/(decrease)					
	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears	GST
Benefits and Other Unrequited Expenses:						
Childcare Assistance	-	18.801	31.030	34.239	34.552	n/a

Accommodation Supplement

- 139 agreed to increase funding to meet the costs of the Accommodation Supplement initiatives:

All figures are \$m, GST-inclusive where applicable					
	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
Operating Balance Impact	-	62.996	128.741	141.701	146.219
No Impact (tax on benefits)	-	0.489	0.652	0.652	0.652
Total	-	63.485	129.393	142.353	146.871

- 140 approved the following changes to appropriations to fund the Accommodation Supplement initiatives, with a corresponding impact on the operating balance:

Vote Social Development	\$m - increase/(decrease)					
	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears	GST
Benefits and Other Unrequited Expenses:						
Accommodation Supplement	-	60.410	125.293	138.253	142.771	n/a
Unemployment Benefit	-	1.619	2.158	2.158	2.158	n/a
Domestic Purposes Benefit	-	0.728	0.970	0.970	0.970	n/a
Sickness Benefit	-	0.462	0.617	0.617	0.617	n/a
Invalid's Benefit	-	0.210	0.280	0.280	0.280	n/a
Independent Youth Benefit	-	0.024	0.032	0.032	0.032	n/a
Widow's Benefit	-	0.017	0.022	0.022	0.022	n/a
New Zealand Superannuation	-	0.015	0.020	0.020	0.020	n/a
Total Operating	-	63.485	129.393	142.353	146.871	

Special Benefit

- 141 agreed to establish a new Benefit and Other Unrequited Expense "Temporary Additional Support" in Vote Social Development from 2005/06 onwards;

- 142 approved the following changes to appropriations to introduce the Special Benefit changes, with a corresponding impact on the operating balance:

Vote Social Development	\$m - increase/(decrease)					GST
	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears	
Benefits and Other Unrequited Expenses:						
Special Benefit	-	(7.364)	(44.943)	(75.760)	(91.177)	n/a

Delivery and Communications Strategies

- 143 approved the following changes to appropriations to implement the Working for Families package, with a corresponding impact on the operating balance:

	\$m - increase/(decrease)					GST
	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears	
Vote Revenue						
Departmental Output Classes:						
Information Services (funded by revenue Crown)	-	7.456	10.263	8.250	5.250	incl.
Revenue Assessment and Collection	-	1.864	2.566	2.750	1.750	incl.
Sub Total Operating	-	9.320	12.829	11.000	7.000	
Vote Revenue						
Capital Contribution to the Department						
Capital Investment	-	3.580	2.171	-	-	n/a
Sub Total Capital	-	3.580	2.171	-	-	
Vote Social Development						
Departmental Output Classes:						
Services to Provide Benefit Entitlements and Obligations to Working Age Beneficiaries and to Promote Self-Sufficiency (funded by revenue Crown)	-	38.835	31.727	23.074	19.934	incl.
Policy and Purchase Advice (funded by revenue Crown)	-	0.416	0.416	-	-	incl.
Sub Total Operating	-	39.251	32.143	23.074	19.934	
Total Operating	-	48.571	44.972	34.074	26.934	
Total Capital	-	3.580	2.171	-	-	

- 144 noted that included in the costs in paragraph 143 above are the following costs for the delivery strategy for Vote Revenue:

All figures are GST inclusive where applicable					
Vote Revenue	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
Operating	-	5.382	9.454	9.875	7.000
Capital	-	3.580	2.171	-	-

- 145 145.1 agreed that the drawdown of the Vote Revenue delivery strategy costs as set out in paragraph 144 above for 2005/06 and outyears be contingent on the report referred to in paragraph 145.2;
- 145.2 directed IRD, in consultation with Treasury, to report to joint Ministers by December 2004 with detailed implementation plans for systems changes required in 2005/06 and onwards with a view to adjusting funding levels if required as a result of the report;

- 146 noted that included in the costs in paragraph 143 above are the following costs for the delivery strategy for Vote Social Development:

All figures are GST inclusive where applicable					
Vote Social Development	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
Operating	-	31.601	29.330	20.824	19.934
Capital	-	-	-	-	-

- 147 147.1 agreed that the drawdown of the Vote Social Development delivery costs as set out in paragraph 146 above for 2006/07 and outyears be contingent on the report referred to in paragraph 147.2;
- 147.2 directed MSD, in consultation with Treasury, to report to joint Ministers by December 2005 on the observed take up of non-beneficiary assistance and call centre volumes with a view to adjusting funding levels in 2006/07 and outyears if required as a result of this report;

- 148 noted that included in the costs in paragraph 143 above are the following costs for the communications strategy:

\$ millions, GST inclusive			
Communications Strategy	2004/05	2005/06	2006/07
Ministry of Social Development	7.650	2.813	2.250
Inland Revenue	3.938	3.375	1.125
Total	11.588	6.188	3.375

- 149 agreed that a Future Directions contingency be set aside, subject to the conditions in paragraph 8 above for policy and delivery changes and for the costs of evaluation and monitoring, as set out below:

All figures are GST inclusive where applicable					
	2003/04	2004/05	2005/06	2006/07	2007/08 & outyears
Future Directions contingency	-	5.833	8.562	8.056	8.506

- 150 150.1 noted that the contingency amount provides for the joint on-line application;
- 150.2 directed MSD, IRD and Treasury to report to Ministers by December 2004 on the funding required for the joint on-line application;

SECTION 12: FURTHER REFORM

- 151 151.1 noted that, beyond the Working for Families package, the following streams of work need to be progressed in order to ensure that the social assistance system is able to meet its objectives and outcomes:
- 151.1.1 reform of basic benefits;
 - 151.1.2 reform of Sickness and Invalid's Benefits;
 - 151.1.3 further reform of housing assistance;
 - 151.1.4 reform of hardship programmes;
 - 151.1.5 reform of Crown debt policies and practices;
- 151.2 noted that the Minister for Social Development and Employment, in consultation with the Minister of Finance, will submit a brief paper to Cabinet on Monday 3 May 2004 outlining the indicative benefit structure that is intended to result from the work to be carried out under paragraph 151.1;
- 152 directed MSD, Treasury and relevant departments to report back by 30 July 2004 to the Ministers of Finance, Revenue, Social Development and Employment, and Housing with a detailed scoping exercise for reform of basic benefits, Sickness and Invalid's Benefits, hardship programmes, Crown debt policies and practices and further reform of housing assistance as identified in paragraph 151.1 above;

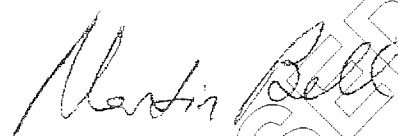
SECTION 13: OTHER IMPLICATIONS

Human Rights Implications

- 153 noted that the Working for Families package raises a number of issues of inconsistency with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993;
- 154 noted that MSD and IRD will work closely with the Ministry of Justice to provide justifications for any continuing or new discriminatory provisions that may be contained in the Working for Families package;

Legislation

- 155 invited the Ministers of Finance, Revenue and Social Development and Employment to issue drafting instructions to Parliamentary Counsel and the Inland Revenue Department Drafting Unit to draft the necessary legislative amendments to give effect to the above decisions for inclusion in the Future Directions (Working for Families) Bill;
- 156 noted that the Future Directions (Working for Families) Bill has a priority 2 (must be passed in 2004) on the 2004 Legislation Programme;
- 157 noted that the Future Directions (Working for Families) Bill is planned for introduction on 27 May 2004 and that the Leader of the House intends to assign a high priority to this legislation;
- 158 authorised the Ministers of Finance, Revenue and Social Development and Employment, in consultation with other Ministers as appropriate, to make decisions on policy clarifications that arise during the drafting of the legislation;
- 159 noted that the Minister for Social Development and Employment indicates that the proposals will be the subject of consultation with the government caucuses, and that consultation with other parties represented in Parliament is not required.


Secretary of the Cabinet

Reference: CAB (04) 162; POL Min (04) 8/2