



Tēnā koe

On 7 July 2021 you emailed the Ministry of Social Development (the Ministry), requesting under the Official Information Act 1982 (the Act), the following information:

- *Any available information on the current/upcoming review of the Accommodation Supplement, including but not limited to scope; terms of reference; timeline; any scheduled public engagement or consultation; any key officials and/or Ministers responsible that can be named.*
- *Any available information on the Working For Families review that has been signalled by this Government, including but not limited to scope of the review; terms of reference; any opportunities for public consultation; any key officials who have oversight of this review that can be named; any Ministers responsible.*

On 22 July 2021, you were advised by the Ministry that more time was required to respond to your request, and that in accordance with section 15(1) and 15A of the Act, the Ministry's decision would be with you no later than 1 September 2021.

On 1 September 2021, you were notified of the Ministry's decision and advised that the information will be provided to on or before 16 September 2021.

The following documents have been identified to be in scope of your request:

| No. | Date | Title |
|-----|------------------|---|
| 1. | 30 November 2020 | Report - Welfare Overhaul – Review of Working for Families – Options for change [REP/20/11/1047] |
| 2. | 8 March 2021 | Aide-memoire – Budget 2021 – Main benefit increases and other income support initiatives [REP/21/3/215] |
| 3. | 9 April 2021 | Joint Report – Welfare Overhaul: Working for Families Review [REP/21/4/356] |

| | | |
|-----|---------------|---|
| 4. | 16 April 2021 | Joint Report – Working for Families Review: revised recommendations [REP/21/4/383] |
| 5. | 11 May 2021 | Terms of reference for the Governance Group |
| 6. | 11 May 2021 | Project brief: Review of Working for Families |
| 7. | 11 May 2021 | Aide-memoire – Oral Cabinet Item: Review of Working for Families Tax Credits [REP/21/5/474] |
| 8. | 11 May 2021 | Oral Cabinet Item – Review of Working for Families Tax Credits |
| 9. | 12 May 2021 | Cabinet Minute – Cabinet Social Wellbeing Committee Minute SWC-21-MIN-0068 |
| 10. | 17 May 2021 | Cabinet Minute – Report of the Cabinet Social Wellbeing Committee CAB-21-MIN-0167 |
| 11. | 2 June 2021 | Report – Initial advice on the approach to the Accommodation Supplement Review [REP/21/5/567] |
| 12. | 24 June 2021 | Report – Approach to engagement for the Working for Families and Accommodation Supplement review [REP/21/6/614] |
| 13. | 25 June 2021 | Aide-memoire – Income Support Ministers Meeting 29 June 2021: Review of Working for Families and Accommodation Supplement [REP/21/6/673] |

Document 2, 9, and 10 are publicly available and therefore have not been enclosed in this response. You can find these documents at the following links:

REP/21/3/215 - Aide-mémoire – Budget 2021 – Main benefit increases and other income support initiatives, dated 8 March 2021:

www.msd.govt.nz/about-msd-and-our-work/publications-resources/information-releases/cabinet-papers/2021/budget-2021-msd-main-benefit-increase-release.html.

Cabinet Minute – Cabinet Social Wellbeing Committee Minute SWC-21-MIN-0068, dated 12 May 2021, and

Cabinet Minute – Report of the Cabinet Social Wellbeing Committee CAB-21-MIN-0167, dated 17 May 2021:

www.msd.govt.nz/about-msd-and-our-work/publications-resources/information-releases/cabinet-papers/2021/review-of-working-for-families.html.

Note, due to an oversight, Report – *Initial advice on the approach to the Accommodation Supplement Review* [REP/21/5/567] was not listed in the notification email sent to you on 1 September 2021. This document is now included in the above list and enclosed.

Some information is withheld under section 9(2)(f)(iv) of the Act as it is under active consideration. The release of this information is likely to prejudice the ability of government to consider advice and the wider public interest of effective government would not be served.

Some information is withheld under section 9(2)(g)(i) of the Act to protect the effective conduct of public affairs through the free and frank expression of opinions. The greater public interest is in the ability of individuals to express opinions in the course of their duty.

Some information has been redacted as 'out of scope' as it does not relate to the subject of your request.

Please note that to accompany the enclosed *REP/21/4/356 Joint Report: Welfare Overhaul: Working for Families Review*, you will find *REP/21/4/383 Joint Report: Welfare Overhaul: Working for Families revised recommendations* as well. Ministers agreed on a number of recommendations at a meeting and asked that a revised set be provided to record decisions on the direction for the Working for Families Review. This note provides the updated recommendations based on the discussion at the meeting, along with the original noting recommendations.

Please note that on page 13 – 14 of REP/21/4/356, the paragraph jumps from 36 to 45, this is due to a formatting error at the time the report was prepared.

Also, please note Ministers have agreed to public and targeted engagement to inform the Review of WFF and AS, as you will see in *REP/21/6/614 Approach to Engagement for the Working for Families and Accommodation Supplement review*. Initially engagement was planned to happen in 2021. Ministers have since made decisions to delay engagement until 2022. Further information on engagement will be shared as it is available.

The principles and purposes of the Official Information Act 1982 under which you made your request are:

- to create greater openness and transparency about the plans, work and activities of the Government,
- to increase the ability of the public to participate in the making and administration of our laws and policies and
- to lead to greater accountability in the conduct of public affairs.

This Ministry fully supports those principles and purposes. The Ministry therefore intends to make the information contained in this letter and any attached documents available to the wider public. The Ministry will do this by publishing this letter and attachments on the Ministry of Social Development's website. Your personal details will be deleted, and the Ministry will not publish any information that would identify you as the person who requested the information.

If you wish to discuss this response with us, please feel free to contact OIA_Requests@msd.govt.nz.

If you are not satisfied with this response regarding the Working for Families and Accommodation Supplement Review, you have the right to seek an investigation and review by the Ombudsman. Information about how to make a complaint is available at www.ombudsman.parliament.nz or 0800 802 602.

Ngā mihi nui

A handwritten signature in blue ink that reads "Polly Vowles". The signature is written in a cursive, flowing style.

Polly Vowles
Policy Manager
Income Support Policy

Joint Report: Welfare Overhaul - Review of Working for Families - Options for Change

Executive Summary

Working for Families tax credits play an important role for families with children in supporting income adequacy and maintaining financial incentives to work. They are a significant lever for government to achieve direct and immediate reductions in child poverty rates.

There are still some concerns that WFF, while achieving its key objectives for some groups, has several issues, including that it is complex, results in a poor interface between benefit and work, and results in high effective marginal tax rates for many families.

This report identifies options for a review within four key priority areas (none of which are mutually exclusive):

- improving income adequacy, for example, by s9(2)(f)(iv)
- improving the interface between benefit and work and the design of in-work assistance, for example, by s9(2)(f)(iv)
- 'making work pay' for lower income families, for example, by s9(2)(f)(iv)
- improving the client experience and operational settings between IR and MSD.

These options inevitably involve trade-offs between these objectives. For example, income support changes can typically not achieve improvements in income adequacy at the same time as improvements in financial incentives to work and/or low fiscal costs. These trade-offs can be explored in further advice.

The changes within the current system of payments, which could be developed for Budget 2021, include:

- s9(2)(f)(iv)

More fundamental changes, such as s9(2)(f)(iv), could be developed over the medium term. s9(2)(f)(iv)

If Ministers wish to make substantial income support changes, and consider a s9(2)(f)(iv), then it would be ideal to consider these in tandem so that they could be implemented at the same time. This would avoid large numbers of people being financially disadvantaged. s9(2)(f)(iv)

BUDGET-SENSITIVE

s9(2)(f)(iv)

There are also other complementary policy areas that support employment outcomes being put forward as Budget Bids by the Minister for Social Development and Employment, which could be considered alongside changes to WFF, including:

- s9(2)(f)(iv)
- childcare assistance to help make work pay – to help address concerns over whether families are better off in work than on a benefit, particularly in the case of sole parents once childcare costs are taken into account

There also a number of other options focused on working families, not currently being actively progressed as a Budget 2021 initiative, that officials can provide further detailed advice on, including:

• s9(2)(f)(iv)

-
-
-

Officials have not undertaken a feasibility assessment of these options yet. Options such as a s9(2)(f)(iv) are likely to have longer implementation timeframes than rate increases.


s9(2)(f)(iv)

. There will be limited fiscal headroom to progress significant income support packages this term, alongside your existing manifesto commitments and cost pressures.

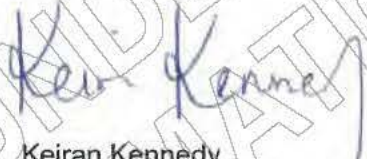
Recommended Actions

It is recommended that you:

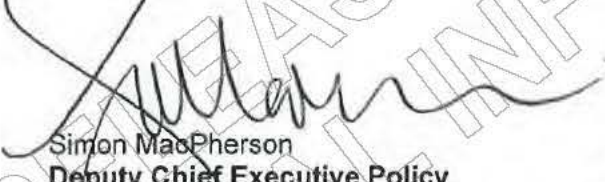
- a **note** that the Prime Minister and Ministers of Finance, Education, Social Development and Employment, Revenue, and Children are scheduled to meet on Tuesday 1 December to discuss income support changes within the context of Budget 2021
- b **note** that the Ministry of Social Development, Treasury, Child Poverty Unit, and Inland Revenue have prepared additional material to support discussion at the meeting
- c **discuss** the options identified in this paper alongside other potential Budget 2021 initiatives, and indicate to officials which initiatives you would like further advice on
- d **provide** feedback to officials on the scope and focus of the review beyond immediate Budget 2021 initiatives.



Kristie Carter
Director Child Poverty Unit
Department of the Prime Minister
and Cabinet



Keiran Kennedy
Manager, Welfare and Oranga Tamariki
Treasury



Simon MacPherson
Deputy Chief Executive Policy
Ministry of Social Development



Eina Wong
Principal Policy Advisor
Inland Revenue

Rt Hon Jacinda Ardern
Minister for Child Poverty Reduction

Hon Grant Robertson
Minister of Finance



Hon Carmel Sepuloni
Minister for Social Development and
Employment

Hon David Parker
Minister of Revenue

Joint Report: Welfare Overhaul - Review of Working for Families - Options for Change

Purpose of Report

1. Under the previous Government, the Minister for Child Poverty Reduction asked officials to review Working for Families (WFF) as part of the welfare overhaul. This was subsequently put on hold due to the COVID-19 response. This report now seeks direction as to the priorities for a review.
2. The report outlines current issues with WFF, potential options for change in the short-term through Budget 2021, and more fundamental options you could look to include in a review over the medium to longer-term. The paper also discusses options that would be complementary to WFF changes, and alignment with the wider system settings.
3. This report has been finalised in a short timeframe in order to inform discussion at the meeting of joint Ministers scheduled for Tuesday 1 December.

Background

4. Earlier WFF advice provided a high-level overview of WFF tax credits and considered the effectiveness of the In-Work Tax Credit (IWTC) and its settings (6 December 2019, T2019/3745). As a consequence, changes have been made to IWTC to support incentives to enter and remain in work, and to be consistent with a potential longer-term reform to the design of in-work payments.
5. The requirement for working families to meet the hours test has been removed, effective from 1 July this year, so people will continue to be eligible for IWTC as long as they have some income from paid work each week. The Government also announced the 'two-week grace period' as part of the Covid-19 Response Recovery Fund, to take effect from 1 April 2021. This will allow a family to continue receiving the IWTC payment for up to two weeks when taking an unpaid break from work.
6. The Minister for CPR also requested a broader review of WFF off the back of the Welfare Expert Advisory Group's report *Whakamana Tāngata: Restoring Dignity to Social Security in New Zealand*. This recommended fundamental changes to the design and targeting of WFF, and significant increases to main benefits and the FTC. The key WFF changes included:
 - a new 'Earned Income Tax Credit' to replace three existing tax credits – the In-Work Tax Credit (IWTC), Minimum Family Tax Credit, and Independent Earner Tax Credit
 - significant increases to FTC rates
 - making the Best Start Tax Credit universal for all children aged under three years.
7. The Government also has a specific priority to improve the wellbeing of children and to achieve a significant and sustained reduction in levels of child poverty, having set 10-year targets to more than halve the rates on the primary measures of the Child Poverty Reduction Act 2018. This review has been included as part of the work programme for the welfare overhaul.

8. As part of the earlier advice on WFF we noted the following:

WFF payments go to a relatively higher proportion of sole parent families than couple families ...

1. WFF is made up of the following tax credits:

- Family Tax Credit: main income adequacy payment received by both beneficiary and working families, which pays \$113pw for the eldest child and \$91pw for each subsequent child. It is paid to 267,000 mainly lower-income families, with some higher-income larger families – 63% are sole parent families, and 37% are couples.
- In-Work Tax Credit: main in-work payment which pays \$72.50pw for families with 1-3 children (with an extra \$15pw for fourth and subsequent children) to 191,000 households in work – 42% are sole parents, and 58% couples.
- Minimum Family Tax Credit: payment to 3,000 non-beneficiary households – 93% are sole parents and 7% couples. MFTC tops up the wages of low-income working families with children to a guaranteed minimum of \$27,768 a year (after tax).
- Best Start Tax Credit: provides payments of \$60pw to families for the child's first year, and for the subsequent two years if they earn \$79,000 or less.

WFF combines dual objectives of income adequacy and work incentives ...

2. WFF has two objectives:

- to support income adequacy and reduce child poverty
- to improve financial incentives for low-income earners to participate in the labour market.

WFF has achieved its key objectives for some groups, but has resulted in mixed effectiveness for others

3. WFF improved income adequacy in working households, increased the labour force participation of sole parents, but reduced it for secondary earners:

- the introduction of WFF reduced child poverty in working households, though not in 'non-working' households
- however, subsequent increases to the FTC in the Families Package in 2018 are estimated to have further significantly reduced poverty across working and 'non-working' households with children
- WFF had relatively modest impacts on labour supply, with some evidence that it increased the labour force participation of predominantly low-income sole parents, and reduced the labour force participation of relatively higher-income secondary earners in couples with children.

The labour market has changed since the WFF package was introduced, which could impact on the adequacy and work incentive objectives of WFF

9. The WFF package was phased in during a buoyant labour market (between 2004 and 2007). Demand for labour was relatively high and unemployment low. The country is now facing a period of rising unemployment, decreasing labour market participation and reduced hours, with the full extent of COVID-19 on the economy yet to be felt.
10. While the economic impact of COVID-19 will be far reaching, WFF recipients are likely to be amongst the hardest hit. We are seeing early signs of a disproportionate impact on women and workers occupying lower qualified, part-time positions in vulnerable sectors. Women are experiencing higher rates of underutilisation and underemployment, and these rates are highest for Māori and Pacific women who are over-represented in low-wage employment, and casual, temporary and other forms of insecure employment.
11. There are also changes associated with 'the future of work', which are widely accepted to shift working arrangements (to a greater or lesser extent) away from permanent full-time employment towards temporary, non-standard, and more flexible forms of work, with transitions between jobs more likely. The OECD Jobs Strategy, prior to COVID-19, argued that countries needed to step up their efforts to adapt policy to the challenges of the changing world of work and the rise in various forms of non-standard work, focusing on helping those at risk of being left behind, ensuring everyone has access to social protection, and a tax and benefits system that makes work pay and protects workers.
12. The 'working poor' make up a sizeable group of those in financial hardship. Around half of all those aged under 65 in low-income households are from households with at least one full-time worker or with self-employment as the main source of income: the other half are from workless households or households with only a part-time worker or workers. The same proportions are found when using material hardship measures.

These effects are likely to increase numbers eligible for WFF and increase the need for a flexible system that can respond to a changing labour market environment

13. The need for a more flexible system that encourages and facilitates people to remain in, re-enter or enter the labour market, in an environment of uncertainty, could be heightened in the future. Objectives could include the need to further improve the transition between work and benefits, with support that provides income smoothing in recognition that people may have ongoing irregular hours and earnings. Recent IWTC changes have responded to this issue to some extent, but may not go far enough in the context of the current and projected future labour market changes.
14. Consideration of settings that enable or encourage greater risk taking around participating in the labour market (such as taking on temporary work) while still maintaining a level of guaranteed income, will be important considerations in this context.

Issues with Working for Families

15. Working for Families has achieved its key objectives for some groups. Around 57% of all NZ families with children received a WFF tax credit in tax year 2019, at an annual expenditure of \$2.1 billion. However, like any transfer system that is designed to target particular groups of the population, it has several issues, including that it is complex, results in a poor interface between benefit and work, can be fiscally costly when altered, and results in high effective marginal tax rates for many families.
16. Officials have identified four broad (and inter-linked) issues/areas that could be addressed by a review of WFF, either separately or combined:
 - *Improving the adequacy of income support for families with children* – WFF is less cost-effective as a lever for child poverty reduction than a main benefit payment to

BUDGET-SENSITIVE

families with children because the FTC payment (the primary 'lever' within WFF to reduce child poverty), goes a fair way up the income distribution. Therefore, even relatively small increases carry a fairly high fiscal cost and, while improving income adequacy for lower and middle-income households, have less of an impact on child poverty reduction compared to increasing main benefits for families with children.

- *Improving the interface between benefit and work and structure/design of in-work assistance* – complexity in the system creates problems for people whose circumstances change frequently, both for those moving in and out of employment and those with varying employment arrangements, hours and earnings. The off-benefit rule creates a threshold for being 'in-work'.

There are design issues generally with the MFTC – it is complicated administratively, and is limited in its effectiveness as a work incentive payment, given its 101.2% effective marginal tax rate that discourages greater working hours.

- *'Making work pay'* – despite increases in the minimum wage and wage growth generally, there continue to be concerns that work 'does not pay', mainly for sole parents (given high effective marginal tax rates), and particularly once childcare costs are taken into account. Low and middle-income families face high effective marginal tax rates – the MFTC withdraws on a dollar-for-dollar basis, and at certain income levels both AS and WFF payments withdraw simultaneously.
- *Improving client experience and operational settings between IR and MSD, particularly in the context of varying circumstances* – the current system of payments is complex, involves multiple payments, and primarily relies on families 'seeking out' their entitlements rather than proactive engagement.

The high effective marginal tax rates and complexity with payments are challenging for clients, and delivery of payments sits across IR and MSD. Entitlements and levels change depending on amount of work undertaken and, if this is variable, the compliance and admin costs are high as part of ensuring correct payments or avoiding overpayments and subsequent debts. There are additional specific operational issues at this interface between benefit and work that create problems for clients, particularly where clients transition between the two payment systems.

Potential options for change

17. As you will be aware, in a tight fiscal environment, there will be limited fiscal headroom to progress significant income support packages this term, alongside your existing manifesto commitments (such as lifting benefit abatement thresholds) and cost pressures.

Objectives and options

18. Achieving the objectives of WFF is looking more challenging in a post-COVID context. Hardship and child poverty will likely increase, and improving financial incentives for people to work will be more challenging if labour demand remains low and unemployment high and persistent for some groups.
19. At the same time, changes such as increasing the benefit abatement threshold to enable people to work more hours while on a benefit will increase incentives to work part-time, however worsen incentives to leave the benefit system.
20. For people with children, and sole parents in particular where the margin between benefit and work is already small, the benefit system and part-time work would potentially offer more security than being in work and off-benefit. This could strengthen the need for a

BUDGET-SENSITIVE

focus on income adequacy for low-income working households, and what changes may be needed to enable and facilitate greater participation in a flexible labour market.

21. The following table presents the key option/s under each objective and further discussion below on these and other potential complementary options. These options inevitably involve trade-offs between these objectives. For example, income support changes can typically not achieve improvements in income adequacy at the same time as improvements in financial incentives to work and/or low fiscal costs. These trade-offs can be explored in further advice.

| Identified issues / objectives | Potential responses |
|---|--|
| Improving income adequacy for families with children | <ul style="list-style-type: none">• s9(2)(f)(iv)• |
| Improving the interface between benefit and work and structure/design of in-work assistance | <ul style="list-style-type: none">•• |
| 'Making work pay' | <ul style="list-style-type: none">• |
| Improving client experience and operational settings between IR and MSD | <ul style="list-style-type: none">• Taking a client-centred view to operational / delivery settings – changes to the way payments are delivered that can improve the tax-benefit interface, improve uptake/awareness/ease of access. |

Improving income adequacy for families with children

22. Options to support income adequacy could include changes to s9(2)(f)(iv), for example:

- s9(2)(f)(iv)
-

23. There are other options to improve income adequacy that could be considered as part of a review of WFF, such as s9(2)(f)(iv)

However, as noted earlier, some of these options have a relatively high fiscal cost in

s9(2)(f)(iv)

BUDGET-SENSITIVE

terms of achieving the child poverty reduction targets, and/or can reduce financial incentives to work.

24. We understand joint Ministers have signalled their interest in increasing main benefits. Given current fiscal constraints, and the high fiscal cost of s9(2)(f)(iv) in particular, progressing these changes in addition to benefit increases may not be feasible for Budget 2021. An alternative option could be to s9(2)(f)(iv) as outlined in the MSD report [REP/20/11/1081 refers]. Officials can also provide further information on these options if you are interested in including them in a review.

Improving the interface between benefit and work and structure/design of in-work assistance

25. In order to improve the interface between benefit and work, there could be value in considering structural changes to the tax credit system in the medium to long-term, such as s9(2)(f)(iv)

26. s9(2)(f)(iv)

27. Another option currently being considered by officials to provide income smoothing for displaced workers is s9(2)(f)(iv)

Making work pay

28. Options to help make work pay could include s9(2)(f)(iv)

29. s9(2)(f)(iv)

s9(2)(f)(iv)

30. Other options to help make work pay could include s9(2)(f)(iv). As above, these options carry significant costs and need to be balanced alongside other priorities in this space. Officials can provide further information on these options if you are interested in including them in a review.

Improving client experience and operational settings between IR and MSD

31. There are a number of known issues that arise with the split of administration of financial support between MSD and IR. Of particular concern are the issues that prevent or delay easy, timely access to financial support, and accurate payments as clients' transition between benefit and work. This relates to clients' experiences from a WFF perspective, and would involve understanding how that interacts with the benefit system.
32. There are a number of factors which can cause delays or gaps in financial assistance for people transitioning between benefit and work including, delays or gaps in the information exchange between MSD and IR and periods where a client's benefit is suspended.
33. Clients can also struggle to understand their entitlements when transitioning between work and benefit as MSD and IR staff lack familiarity and training in each other's products (e.g. the MFTC). Dealing with two agencies can also add significant time and complexity for recipients, particularly given the challenges in contacting each agency over the phone and having to juggle this with work childcare and other commitments.
34. MSD and IR are currently considering how to address these issues. Other, more significant options to help improve client experience between MSD and IR could include:
- Additional training for MSD and IR staff on their respective products to increase understanding and reduce the amount clients have to bounce between agencies when transitioning between work and benefit.
 - Improving the information exchange between MSD and IR to reduce delays in accessing financial assistance and minimising debt for clients.
 - Explore opportunities for alignment between MSD and IR to make payments simpler and more accessible.

Potential complementary responses in other policy areas

35. There are also other policy areas that support employment outcomes, that are being put forward as Budget Bids by the Minister for Social Development and Employment, that could be considered alongside changes to WFF that would seek to address the same or similar issues, including:

- s9(2)(f)(iv)

s9(2)(f)(iv)

BUDGET-SENSITIVE

- Childcare assistance to help make work pay – to help address concerns over whether families are better off in work than on a benefit. This is particularly an issue for sole parents on Sole Parent Support, where the gap between work and benefit can be very small once childcare costs are taken into account.
 - Increases in benefit abatement thresholds – to provide greater income support to working beneficiary families before their benefit payments begin to abate. Note that if this were to be combined with increases to main benefit rates, this would have a significant flow-on impact to the MFTC threshold (if aligned). The latter would necessitate a review of the Family Tax Credit abatement threshold because the abatement of these supports would overlap and result in high effective marginal tax rates.
36. There are also a number of other changes focused on working families, not currently being actively progressed as a Budget 2021 initiative, that officials can provide further detailed advice on, including:
- s9(2)(f)(iv)
 -
 -
37. Officials have not undertaken a feasibility assessment of these options yet. Options such as a s9(2)(f)(iv) are likely to have longer implementation timeframes than rate increases.

ANNEX ONE: WEAG's package and the EITC

38. The WEAG recommended a package of income support changes in their report *Whakamana Tāngata: Restoring Dignity to Social Security in New Zealand*, which included significant increases to main benefits and the Family Tax Credit (FTC), and changes to the design and targeting of Working for Families (WFF). The WFF changes included:

- a new 'Earned Income Tax Credit' (EITC) to replace three existing tax credits – the In-Work Tax Credit (IWTC), Minimum Family Tax Credit (MFTC), and Independent Earner Tax Credit (IETC). This new in-work payment would provide up to \$50 a week for people with and without children. The payment would have a unique 'phase in' structure that means it would increase for a family's earnings over \$150 a week⁴, and reduce once a family earned over \$48,000.
- significant increases to FTC rates: to \$170 a week for the eldest child (an increase of \$57) and to \$120 for subsequent children (an increase of \$29). The FTC abatement rate would also be reduced so that it was closer to being universal.
- making the Best Start Tax Credit universal for all children aged under three years, and consideration of a new Living Alone Payment.

39. The EITC proposed by the WEAG is more targeted and less generous than the in-work payments it would replace. The EITC results in relatively few families with children being financially disadvantaged only in the context of the other significant increases in support, particularly to the FTC. Without these substantial increases (and lower abatement), a much larger number of families with children would be disadvantaged by the introduction of an EITC as proposed.

40. s9(2)(f)(iv)

⁴ The WEAG package also increased the abatement threshold for main benefits to \$150pw. In combination, the effective abatement rate for the main benefit would reduce from 70% to 50%.



Inland Revenue
Te Tari Taake



TE TAI ŌHANGA
THE TREASURY



**DEPARTMENT OF THE
PRIME MINISTER AND CABINET**
TE TARI O TE PIRIMIA ME TE KOMITI MATUA



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

Joint Report: Welfare Overhaul: Working for Families Review

| | | | |
|-------|--------------|--------------|--|
| Date: | 8 April 2021 | Report No: | DPMC-2020/21-771; T2021/632; REP/21/4/356; IR2021/156 |
| | | File Number: | SH-3-6 |

Action sought

| | Action sought | Deadline |
|---|--|---|
| Rt Hon Jacinda Ardern Prime Minister / Minister for Child Poverty Reduction | Agree to recommendations and discuss at meeting | Ministers' meeting on 13 April 2021 at 8am |
| Hon Grant Robertson Minister of Finance | Agree to recommendations and discuss at meeting | Ministers' meeting on 13 April 2021 at 8am |
| Hon Carmel Sepuloni Minister for Social Development and Employment | Agree to recommendations and discuss at meeting | Ministers' meeting on 13 April 2021 at 8am |
| Hon David Parker Minister of Revenue | Agree to recommendations and discuss at meeting | Ministers' meeting on 13 April 2021 at 8am |

Contact for telephone discussion (if required)

| Name | Position | Telephone | 1st Contact |
|---------------------|--|-----------|-------------|
| Murray Shadbolt | Principal Advisor, Welfare and Oranga Tamariki Team, The Treasury | s9(2)(a) | |
| Deborah Tucker | Senior Analyst, Child Poverty Unit, Department of the Prime Minister and Cabinet | | |
| Daniel Frischknecht | Principal Analyst, Income Support, Ministry of Social Development | | |
| Eina Wong | Principal Policy Advisor, Policy and Regulatory Stewardship, Inland Revenue | | |

Minister's Office actions (if required)

Return the signed report to Treasury.

Enclosure: No

Joint Report: Welfare Overhaul: Working for Families Review

Executive Summary

1. Working for Families (WFF) was implemented between 2004 and 2007 to support income adequacy and reduce child poverty; and to improve financial incentives for low-income earners to participate in the labour market.
2. Since then, there have been important changes in the labour market and the welfare environment that impact on these objectives and the landscape that WFF is operating in. There have been sustained increases in the minimum wage, and general wage growth in the labour market, although the buoyancy experienced in 2004 has been dampened by economic factors over time, such as the Global Financial Crisis and now the impact of COVID-19. While the labour market is still predominantly made up of permanent stable employment, there are a significant proportion of low-income jobs that are precarious and have variable hours and earnings that impact particularly on women, Māori and Pacific workers.
3. The welfare context has also changed considerably since 2004, with significant increases in income support through the Families Package, recent and planned changes to benefit rates, introduction of elements of universalism through Best Start, and greater support for working beneficiaries through increases to abatement thresholds, and employment and training programmes.
4. The Government has set ambitious ten-year child poverty targets, which aim to halve rates of child poverty by 2027/28. In order for the targets to be achieved, further significant income support packages will be required.
5. While WFF has achieved its key objectives for some groups, like any transfer system that is designed to target particular groups of the population, it has a number of issues. It can be fiscally costly when altered, results in a poor interface between benefit and work, does not respond well to changing work and family circumstances, and results in high effective marginal tax rates for many families.
6. A review of WFF is on the medium-term Welfare Overhaul work programme [CAB-19-MIN-0578 refers] and, in light of the changing context and ongoing issues with the current scheme, we propose bringing this review forward. ^{s9(2)(f)(iv)}
7. We are seeking your feedback regarding the direction for the review, including the relative balance between the objectives. There are overlaps and trade-offs across key design choices – and officials can provide further advice on options once we have received Ministers feedback on the key trade-offs and objectives. We are seeking feedback on the relative emphasis on:
 - increasing payments to low-income working households to support the 'working poor' versus payments to beneficiary households, particularly given recent and proposed increases to beneficiaries
 - Officials' view is that WFF remains an important lever for improving income adequacy, but in light of recent and proposed income increases for beneficiaries there are questions for Ministers of whether any further increased payments should be focused on working households only, or both beneficiary and working households

- targeting versus universalism – should WFF be more targeted to low-income families to improve child poverty objectives more cost-effectively, or should settings be more universal to improve adequacy for both low-income families and a larger number of relatively higher-income families?
 - Officials' view is that targeting for WFF remains desirable, but there are also questions for Ministers on whether tax credits should be more or less targeted relative to current settings
 - whether in-work assistance strongly incentivises a movement off-benefit at a particular amount of work versus incentivising working more in the benefit system – should in-work assistance encourage movement off benefit at particular levels of hours worked and/or earned income or should the assistance phase in and merge with the benefit system and be available to working beneficiaries?
 - Officials' view is that there remains a need to provide a payment to low-income working families in recognition of the costs of working and people should expect to see a return from working an additional hour, but there are questions on the design of in-work assistance.
8. The original WFF reform also intended to achieve a social assistance system that supports people into work, by making sure they get the assistance they are entitled to in a timely manner, and with delivery that supports them into, and to remain in, employment. This continues to be an important consideration and, regardless of the direction and scale of reform, there is a need to modernise and simplify the system to better respond to changing work and care arrangements, improve the client experience, and improve the interface between benefit and work.
9. There are also choices to consider on the scope of the review and whether WFF should be broadened to include in-work assistance for those without children and/or disabled people; and whether the Childcare Assistance review should be part of the WFF review. Officials' view is that work on childcare assistance and disability supports should remain separate to the WFF review to manage the scope, with each policy project keeping each other informed as work develops.
10. We are seeking your feedback regarding the timing of any changes. s9(2)(f)(iv)
11. Officials will prepare detailed timeframes for policy development, engagement, legislation and implementation, and a detailed workplan alongside further development of options, based on decisions in this paper.

Recommended Action

We recommend that you:

Context and rationale for a review of Working for Families

- a **note** that Working for Families combines dual objectives of income adequacy and work incentives, and has achieved its key objectives for some groups, but has resulted in mixed effectiveness for others

- b **note** that the original Working for Families reform also included a third delivery objective to achieve a system that supports people into, and to remain in, work by making sure they get the assistance they are entitled to in a timely manner, and that this continues to be important regardless of the scale and direction of reform
- c **note** that the Welfare Expert Advisory Group recommended significant changes to Working for Families tax credits, including making the Family Tax Credit more generous and more universal, replacing in-work payments with a new Earned Income Tax Credit, and making Best Start universal for all children under three, as part of a wider welfare package
- d **note** that the Government has set ambitious ten-year child poverty targets, which will require further significant income support packages to make progress
- e **note** that, since the last significant changes to New Zealand's system of tax credits for families in 2004, there have been important contextual changes, including:
- changes to labour market settings, including sustained increases in the level of the minimum wage
 - significant increases in income support through the Families Package, indexation changes, and recent and planned main benefit increases
 - introduction of elements of universalism through Best Start
 - changes to the In-Work Tax Credit to increase its flexibility
 - greater support for working beneficiaries through increases to abatement thresholds and employment programmes
- f **note** that, while Working for Families tax credits are achieving their key objectives for some groups, current settings are complex, cause significant problems for those with changing work and family arrangements, result in a poor transition between benefit and work, and can result in high effective marginal tax rates for some families that discourage working more hours
- g s9(2)(f)(iv)
- h **agree**, in light of the changing context and the Government's commitment to ambitious targets for the reduction of child poverty, to bring forward the review of the Working for Families tax credits currently on the medium-term Welfare Overhaul work programme

Agree/Disagree
Prime Minister

Agree/Disagree
Minister of Finance

Agree/Disagree
Minister for Social Development and Employment

Agree/Disagree
Minister of Revenue

Objectives and direction for the review

- i **indicate** whether you are comfortable with the following high-level objectives for the system of tax credits for families, and provide any feedback on the relative balance between these objectives:

- supporting income adequacy and reducing child poverty
- improving financial incentives for low income earners to participate in the labour market

Agree/Disagree
Prime Minister

Agree/Disagree
Minister of Finance

Agree/Disagree
Minister for Social Development and Employment

Agree/Disagree
Minister of Revenue

- j **provide** feedback to officials regarding the direction for the review, including the relative balance between:

- **income adequacy for beneficiaries versus working families** – should payments to low-income working households to support the ‘working poor’ be increased versus payments to beneficiary households, particularly given recent and proposed income increases to beneficiaries
- **targeting versus universalism** – should WFF be more targeted to low-income families to improve child poverty objectives more cost-effectively, or should settings be more universal to improve adequacy for both low-income families and a larger number of relatively higher-income families?
- **incentivising movement off-benefit at a particular amount of work versus incentivising working more in the benefit system** – should in-work assistance encourage movement off benefit at particular levels of hours worked and/or earned income or should the assistance phase in and merge with the benefit system and be available to working beneficiaries?

- k **note** that there are choices for Ministers on whether the following should also be in scope:

- s9(2)(f)(iv)

- whether the Childcare Assistance review should be part of the WFF review

- l **agree** that a s9(2)(f)(iv) childcare assistance be separate, but related, items considered as part of the existing welfare overhaul work programme in order to ensure that the WFF review has a feasible scope

Agree/Disagree
Prime Minister

Agree/Disagree
Minister of Finance

Agree/Disagree
Minister for Social Development and Employment

Agree/Disagree
Minister of Revenue

m

s9(2)(f)(iv)

Agree/Disagree
Prime Minister

Agree/Disagree
**Minister of
Finance**

Agree/Disagree
**Minister for Social
Development and
Employment**

Agree/Disagree
**Minister of
Revenue**

Timing and implementation for changes arising from the review

n

s9(2)(f)(iv)

o

p

q

indicate the timeframe in which Ministers are seeking reform

r

indicate if you wish to have a nominated lead Minister for the duration of the review, who would be responsible for responding to parliamentary questions, Official Information Act requests, and other requests from the media and public

s

refer this report to the Minister for Children for their information

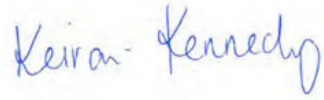
Refer / Not referred
Prime Minister Ardern

Next steps

t **discuss** the content of this report at your meeting on 13 April at 8am.



Kristie Carter
**Director, Child Poverty Unit,
Department of Prime Minister and Cabinet**



Keiran Kennedy
**Manager, Welfare and Oranga
Tamariki, The Treasury**



Polly Vowles
**Manager, Income Support Policy,
Ministry of Social Development**



Carolyn Elliott
**Acting Manager, Policy
and Regulatory Stewardship,
Inland Revenue**

Rt Hon Jacinda Ardern
**Prime Minister / Minister for Child
Poverty Reduction**

Hon Grant Robertson
Minister of Finance

Hon Carmel Sepuloni
**Minister for Social Development
and Employment**

Hon David Parker
Minister of Revenue

Joint Report: Welfare Overhaul: Working for Families Review

Purpose of Report

1. This paper provides advice on a review of Working for Families tax credits (WFF) – it seeks Ministers’ preferences on the relative emphasis of the objectives and key design questions to guide the direction of the review and the potential options for reform. It provides initial advice on the high-level considerations and trade-offs, and seeks Ministers’ direction on the scope, scale and timing of the review.

Context

2. The WFF package was implemented between 2004 and 2007 to increase support primarily for low to middle-income families. The package included introducing the WFF tax credits among other changes. The objectives at the time were to:
 - a. support income adequacy and reduce child poverty
 - b. improve financial incentives for low-income earners to participate in the labour market
 - c. achieve a social assistance system with delivery that supports people into work, and to remain in work, by making sure they get the assistance they are entitled to in a timely manner.
3. The introduction of WFF increased income adequacy and reduced child poverty in working households, though not in ‘non-working’ households. However, subsequent increases to the Family Tax Credit (FTC) in the Families Package in 2018 are estimated to have significantly reduced poverty across working *and* ‘non-working’ households with children.
4. The WFF tax credits and key statistics are summarised as follows:

WFF key statistics ...

Approximately 57% of all families with children (around 310,000 households in New Zealand) receive WFF, and 35% receive IWTC (using administrative and TAWA outputs). WFF is made up of the following tax credits:

- Family Tax Credit: main income adequacy payment received by both beneficiary and working families, which pays \$113pw for the eldest child and \$91pw for each subsequent child. It is paid to 290,000 families who are mainly lower-income families, with some higher-income larger families (e.g. families with three children earning \$100,000 would still be receiving around \$85 pw in WFF payments) – around 58% are sole parent families, and 42% are couples.
- In-Work Tax Credit: main in-work payment which pays \$72.50pw for families with 1-3 children (with an extra \$15pw for fourth and subsequent children). It is paid to 203,000 families in work – 40% are sole parents, and 60% couples.
- Minimum Family Tax Credit: payment to 4,000 non-beneficiary households – 90% are sole parents and 10% couples. MFTC tops up the wages of low-income working families with children to a guaranteed minimum of \$30,576 after tax (2021-22 tax year).
- Best Start Tax Credit: provides payments of \$60pw to all families for the child’s first year, and for the subsequent two years if they earn \$79,000 or less. 27,000 families received Best Start (IR’s recipients only).

Total 2019 tax year spend for WFF \$2.8 billion across all credits:

- Family Tax Credit - \$2 billion
- In-Work Tax Credit - \$600 million
- Minimum Family Tax Credit - \$13 million
- Best Start Tax Credit - \$23 million

5. The Welfare Expert Advisory Group's report *Whakamana Tāngata: Restoring Dignity to Social Security in New Zealand* recommended fundamental changes to the design and targeting of WFF, and significant increases to main benefits and the FTC. The key WFF changes proposed included:
 - a. replacing the In-Work Tax Credit (IWTC), the Minimum Family Tax Credit (MFTC), and the Independent Earner Tax Credit (IETC)¹, with a new tax credit similar to the Earned Income Tax Credit (EITC), which provides work incentives targeted to people lower down the income scale (including for those without children)
 - b. making the FTC more universal, through higher payment rates and a two-tier abatement rate that is low for most families and high for families earning over \$160,000
 - c. making the Best Start Tax Credit universal for all children under three.
6. The review of WFF is part of the medium-term Welfare Overhaul work programme [CAB-19-MIN-0578 refers]. In light of the changing context and the Government's commitment to ambitious targets for the reduction of child poverty, we recommend bringing forward the review of the WFF currently on the medium-term Welfare Overhaul work programme.
7. In addition, the Welfare Overhaul will consider wider changes to income support settings, including childcare assistance and financial assistance available for people with a health condition and disability. Officials will consider any interactions of this review with other work already underway as part of the Welfare Overhaul.

Links to child poverty targets

8. The Government has set ten-year child poverty targets, which require baseline rates to be halved by 2027/28. The targets on all three measures are ambitious, but the target on the before-housing-cost measure is likely to prove particularly challenging. To achieve it, the income of low-income households with children must rise considerably faster than the median-income, whereas the general trend in the economy is for middle incomes to grow faster than those at the bottom. Further significant income support packages will likely be required to achieve the targets, particularly on the before-housing-cost measure.
9. The extent to which any reforms are expected to result in substantial reductions in measured poverty is essentially dependent on the extent to which any changes are expected to substantially improve the adequacy of incomes for low-income families. Adequacy improvements could be directed towards the incomes of beneficiaries, the 'working poor', or both.

Labour market and welfare context has changed since WFF was introduced

New Zealand has experienced sustained wage growth since WFF, though a significant portion of lower end workers continue to experience poor labour market outcomes

10. WFF was phased in during a buoyant labour market (between 2004 and 2007). Demand for labour was relatively high and unemployment low. Since 2004, there have been sustained increases in the minimum wage and general wage growth. Evidence suggests, however, that wage growth has been significantly higher for higher paid employees, with the wage rates of lower decile employees (other than those on the minimum wage), rising at a much slower rate².

¹ IETC is paid to workers earning between \$24,000 and \$48,000 p/a at a rate of up to \$10 p/w. It is paid to 550,000 individuals with a total spend of \$240 million (based on 2019 tax year figures).

² Rosenberg, Dr Bill. Shrinking portions to low and middle-income earners: Inequality in Wages & Self-Employment 1998-2015, NZCTU, August 2017.

11. The IWTC and MFTC have played a relatively modest role over time in encouraging people into work and to stay in work. There is some evidence that the introduction of the tax credits increased the labour force participation of predominantly low-income sole parents and reduced participation of relatively higher-income secondary earners in couples.
12. While New Zealand continues to be made up of predominantly standard employment relationships, it is widely accepted that technology will continue to drive diversified and more flexible work arrangements, and transitions between jobs will be more likely and more frequent. Pressure on firms to be adaptive is likely to increase the number of temporary workers and contractors.
13. New Zealand has relatively high rates of part-time workers (30% of women work part-time and women make up 70% of the part-time workforce) and high rates of underemployment by OECD standards. While part-time (and some full-time) working arrangements may be classed as permanent many of these roles can be precarious. There are significant numbers of low-paid employees in the retail, food and accommodation sectors on contracts with low guaranteed hours that vary week to week. Around one in ten permanent workers also have multiple jobs.
14. The data points to a greater likelihood that workers in these lower-end jobs are women, Māori and Pacific workers. Māori and Pacific women in particular are over-represented in low-wage employment, and casual, temporary and other forms of insecure employment. COVID-19 has only exacerbated the situation for these groups, who are also more likely to be in industries impacted by COVID-19 restrictions. Women with caring responsibilities, and especially sole parents, are also exposed to the adverse effects of economic recessions that can lock in long-term unemployment, poverty (including in-work poverty), and lead to increased rates of child poverty.

Options for reform will need to respond to these realities and prepare for future labour market challenges

15. The OECD Jobs Strategy, prior to COVID-19, argued that countries needed to step up their efforts to adapt policy to the challenges of the changing world of work, focusing on helping those at risk of being left behind, ensuring everyone has access to social protection, and a tax and benefits system that makes work pay and protects workers.
16. The need for a more flexible system that encourages and facilitates people to remain in, re-enter or enter the labour market, in an environment of uncertainty, could be heightened in the future. This points to a need to further improve the transition between work and benefits, and the complex interface between wages, welfare and WFF entitlements. It also suggests that achieving the objectives of WFF is potentially more challenging if labour demand remains low and/or variable, and unemployment high and persistent for some groups and in some regions.
17. As part of the COVID-19 response, there has been a focus on employment, education and training supports to increase work opportunities and to encourage people into industries with higher labour demand. Flexi wage has been expanded and there is a manifesto commitment to extend the Training Incentive Allowance. The Government is also exploring Social Unemployment Insurance with social partners, which would have an impact on the labour market, the returns from work, and would have a significant overlap with WFF entitlements.

There have been significant increases in income support through the Families Package, and recent and planned changes to benefit rates and abatement thresholds

18. Over previous decades, in-work incomes have increased by significantly more than benefit incomes due to wage growth exceeding the rate of income support over an extended period. This has had the impact of:

- a. increasing the financial incentives to work for low to middle-income families considerably compared to the early 2000's (with wages doing more of the 'heavy lifting' in providing adequate incomes compared to in-work payments)
 - b. reducing the value of the tax credits available for working families as the payment rates and abatement threshold have eroded relative to wages, particularly the IWTC.
19. To address some of these issues, there have been recent increases in income support for both beneficiaries and low to middle-income working families. In 2018, the Government introduced the Families Package, which boosted the incomes of low- and middle-income families with children by increasing the FTC payment rates and raising the abatement threshold and rate; introduced a Best Start payment and a Winter Energy Payment; and reinstated the Independent Earner Tax Credit (which was due to be removed in 2018).
20. As well as helping to improve income adequacy for both beneficiaries and working families, these changes also extended the number of families eligible for WFF tax credits, partly offsetting the reduction in families eligible for WFF in prior years.
21. In response to stakeholders views on the inflexibility of the IWTC, the hours test has now been removed and a 'grace period' introduced to allow a family to continue receiving the payment for up to two weeks when they are not in work.
22. There have also been targeted income increases for beneficiaries through increases to the benefit abatement thresholds, the \$25 per week increases to main benefits on 1 April 2020 and the indexation of main benefits to wages. The Government is also considering options for increasing main benefits further, including \$20 per week increases on 1 July 2021 and additional increases on 1 April 2022.
23. Together these income support changes will provide significant income increases for beneficiaries. In light of these changes, there are now choices for Ministers on whether to continue to address income adequacy concerns for beneficiaries and/or whether to progress complementary changes that target further income increases to low-income working households.

There are problems with the current WFF framework

24. Working for Families has achieved its key objectives for some groups and has improved income adequacy and reduced poverty for both working and (subsequent to the Families Package), non-working households also. Like any transfer system that is designed to target particular groups of the population, it has a number of issues, including that it can be fiscally costly when altered, is complex, results in a poor interface between benefit and work, and high effective marginal tax rates (EMTRs) for many families.
25. The following summarises some of the ongoing issues with WFF, and more recent problems highlighted by clients and beneficiary non-governmental organisations:
 - a. *WFF changes are not particularly cost-effective as a lever for child poverty reduction* because the FTC and IWTC payments go to both low income and middle income families with children, so relatively small increases carry a high fiscal cost and have less of an impact on child poverty reduction in comparison to increasing main benefits for families with children. However, WFF has greater coverage than main benefits because it includes the working poor (i.e. broadly half of all children in poverty are in working households).
 - b. *'Making work pay'* – despite increases in the minimum wage and wage growth generally, there continue to be concerns that work 'does not pay', mainly for sole parents, particularly once childcare costs are taken into account. Low and middle-

income families face high EMTRs (particularly sole parents) – the MFTC withdraws on a dollar-for-dollar basis, and at certain income levels both WFF and Accommodation Supplement payments withdraw simultaneously.

- c. *Interface between benefit and work and structure/design of in-work assistance* – needing to be 'off-benefit' to qualify for MFTC/IWTC creates problems for people whose circumstances change frequently, and the settings can discourage working more hours. There has also been confusion for clients with the recent changes to the IWTC, suggesting that improvements to the settings have not necessarily made the system simpler.
 - d. *Client experience and operational settings between IR and MSD* – the current system of payments is complex, involves multiple payments, and primarily relies on families 'seeking out' their entitlements rather than proactive engagement. Weekly payments within an annual entitlement create complexity for clients; and entitlements and levels change depending on amount of work undertaken, and changes in relationships and care of children (especially shared care).
26. Interviews by NGO groups have highlighted the high compliance costs some people face because systems do not cater well for change³. The same groups that have more precarious work⁴ and are more prevalent in poverty statistics are also more prevalent in statistics for child support and shared care arrangements. They are therefore more likely to experience changes in circumstances and require more interactions with government agencies to update and correct entitlements, and are also more at risk of incurring unnecessary debt to government.

Scale of reform

27. WFF now operates in a different labour market and welfare landscape compared to when it was introduced. There have been periodic reviews and improvements of some components of WFF, and various options have been explored through Budget processes, but no fundamental review has taken place since its inception.

28. s9(2)(f)(iv)

29.

30. In order to address the issues with the current scheme, s9(2)(f)(iv)

Achievement of the Government's child poverty targets will also require further significant income support packages. Together, this suggests a review and s9(2)(f)(iv) is warranted.

³ For example, the Family 100 Project and discussion with Benefit Advocate groups.

⁴ Women, Māori and Pacific, disabled persons, and low-skilled casual workers.

Key design questions and options for reform

31. While WFF has continued to play an important role in improving income adequacy (and reducing child poverty), and improving the returns from work, there is an argument to re-examine the balance and relative emphasis between the two objectives, particularly given the different settings and landscape that WFF is now operating in.
32. In terms of child poverty reduction, how much can be achieved through the benefit and tax systems, and how much can be achieved by supporting work effort is a common issue that OECD countries continue to grapple with. In virtually all OECD countries, non-employed families are the most economically disadvantaged; and it is generally agreed that good quality, sustainable employment is a primary route through which parents can move their children out of poverty. In saying that, broadly half of all children in poverty in New Zealand are in working households.
33. Policy choices in this area should not be seen as choosing between either work or benefits, but require a balanced approach that supports income adequacy for those on benefit, encourages increased employment among parents where appropriate, and also increases the rewards of paid work at the same time. A starting point might be to determine what policies are needed to help ensure that families are not poor when they are in paid work⁵. In New Zealand, the majority of children in poverty living in beneficiary households are in sole parent families, whereas the vast majority of those in working households are in couple-led families.
34. Recent and proposed increases to benefit levels and the benefit abatement threshold changes will make a significant contribution to income adequacy for beneficiaries and to child poverty reduction.
35. Minimum wage increases and the recent FTC increases as part of the Families Package are also further supporting low-income workers, but there is an argument to consider increases to in-work assistance to address income adequacy and child poverty for working households also, and to ensure that work pays.
36. Some key design considerations/questions include:
 - **Income adequacy for beneficiaries versus working families.** Given the recent and proposed increases in incomes for beneficiary households:
 - should there be a complementary focus on income adequacy and making work pay for low-income working households?
 - should any increases in support through the tax credit system go to all low-income households (both working and beneficiary), or specifically to low-income 'working' households?
 - **Targeted versus universal.** Should settings be more targeted to low-income families to improve income adequacy/child poverty objectives more cost-effectively, or should settings be more universal to improve adequacy for both low-income families and a larger number of relatively higher-income families?
 - **Incentivising movement off-benefit at a particular amount of work versus incentivising working more in the benefit system.** Does the emphasis on getting people off benefit and into work remain a key issue (i.e. current eligibility for in-work assistance relies on a minimum number of hours worked and/or being off benefit), ^{s9(2)(f)(iv)}

⁵ Whiteford, P, Adema, W (2007), 'What Works Best in Reducing Child Poverty: A Benefit or Work Strategy?', OECD Social, Employment And Migration Working Papers No. 51.

s9(2)(f)(iv)

- 45 When considering any changes to income support settings, there are inevitable trade-offs between increasing incomes, improving incentives to work and managing fiscal costs. This is often referred to as the 'iron triangle' and highlights the choices and trade-offs between raising the living standards of those on low incomes or in poverty, encouraging work, and ensuring fiscal costs to governments are affordable and sustainable.
- 46 The following discusses these key considerations and design questions, some of the trade-offs, and potential options for changes to help inform the focus of the review. The key design choices and options will have some overlaps and there will be trade-offs across them. Officials can provide further advice on options once we have received Ministers feedback on the key trade-offs and objectives.

Income adequacy for beneficiaries versus working families

- 47 Recent and proposed increases to benefit rates will improve benefit incomes considerably and reduce child poverty. However, there are also a significant number of working families in poverty. Around half of those aged under 65 in low-income households or in material hardship are from households with at least one full-time worker or with self-employment as the main source of income; the other half are from workless households or households with only a part-time worker or workers.
- 48 The recent minimum wage increases will have ensured many of those in full time work have experienced income increases and maintained the gap between benefit and full-time work for some groups, however, the value of in-work supports have eroded relative to wage growth.
- 49 The gap is relatively smaller for some groups, particularly secondary earners and sole parents who have higher income support levels and may face childcare costs from working while on a single income. s9(2)(f)(iv)

- 50 The Minimum Family Tax Credit (MFTC) guarantees that work pays when working part-time (at 20 hours for sole parents), combined with the In-Work Tax Credit (IWTC) , but the gain diminishes as hours increase due to a combination of abatement and childcare costs. This pattern is similar for a secondary earner in two-parent families (where the threshold is 30 hours).

- 51 s9(2)(f)(iv)

Potential options

- 52 s9(2)(f)(iv)

53

s9(2)(f)(iv)

54

55

Targeted versus universal

56 As noted earlier, WFF is now more targeted than when it was introduced due to indexation settings and wage growth, but recent changes made to FTC/IWTC as part of the Families Package extended eligibility to some higher income families. Best Start Tax Credit was also introduced – which is universal for all children younger than 1.

57 The FTC payment is the primary 'lever' within WFF to reduce child poverty, but even relatively small increases carry a high fiscal cost because it covers around 310,000 families and goes a fair way up the income distribution. For example, a working family with three children earning \$100,000 would still be receiving an abated WFF payment of around \$85pw (with cut-out at around \$120,000). s9(2)(f)(iv)

58

s9(2)(f)(iv)

59 This fiscal cost and poverty reduction trade-off is particularly important for the ten-year child poverty targets, which are to halve the 2017/18 rates. Reaching the targets is likely to require regular and significant increases in income support for low-income families over time and the BHC measure is likely to be the most challenging of the targets.

60

s9(2)(f)(iv)

Potential options

61 s9(2)(f)(iv)

62

63

64

65

Movement off benefit or beneficiaries working more

66 In-work payments can:

- help to incentivise movement into work or work a certain number of hours; and/or
- help meet the additional costs associated with working; and/or
- provide a sufficient gap between benefits and work to ensure incomes reflect the additional efforts and opportunity costs of working (e.g. ensuring fairness/equity across people in different employment circumstances).

67 These objectives are not independent and can overlap significantly but are important considerations as they can influence the design of any in-work payment. The IWTC is likely to reflect a combination of all three objectives above. Ministers have choices on the role that in-work payments play within the WFF scheme as well as the broader tax and transfer system.

68 Currently, the MFTC provides a strong financial incentive to move off benefit and work a certain number of hours, however it discourages greater working hours, given it withdraws on a dollar for dollar basis. The on/off benefit rule is also difficult for people to navigate, complicates the benefit/work interface and can result in gaps in support – all of which can act as a barrier to work.

69 As part of considering the role of a work-focused payment, it is important to understand the labour supply effects of financial incentives associated with welfare support settings. If work incentives are dampened by policy changes that increase support to

those out of work, then poverty reduction goals will likely be costly to achieve, given risks of reduced employment and increased rates of welfare receipt.

- 70 As noted above, evidence on the effects of the introduction of the WFF tax credits on improving financial incentives to work found relatively modest impacts – there was some evidence of increased labour force participation of low-income sole parents, and reduced participation of relatively higher-income secondary earners in couples, which was anticipated.
- 71 Much of the research on the role of work-focused payments is based on evaluations of the US's EITC. There have been similar concerns with the EITC that it may improve incentives for sole parents to participate in the labour market, but worsen incentives for second earners because of the family income test.
- 72 The EITC is conditional on earned income, whereas WFF has some components that are conditional on employment and being off-benefit (IWTC and MFTC). The MFTC requires a minimum number of hours worked (a cliff-face entry) and the IWTC has a work requirement (without hours since the recent changes), whereas the EITC has a phase-in region at low earnings that encourages more earnings – they both have a plateau and phase-out region.

Potential options

73 s9(2)(f)(iv)

74

75

76

Modernising WFF delivery

77 Irrespective of questions of balance and the scale and nature of the reform of WFF, there is a need to simplify the system to improve client experience, and better respond to people's circumstances and changing work and care arrangements. This is part of the third objective of the original WFF reform – supporting people into work and to remain in work by making sure they get the assistance they are entitled to in a timely manner.

78 Recipients report greatest levels of satisfaction with WFF when they are in a stable environment with no changes in care arrangements, circumstances, or income fluctuations. When personal circumstances change and the recipient is required to interact with government, their satisfaction decreases due to the complexity in dealing with multiple agencies, variations within WFF and Child Support, and the potential for over and underpayments of entitlements. Financial uncertainty or stress as a result of changes is the most reported cause of a poor experience by a recipient, and can result in debt or less timely support.

79 s9(2)(f)(iv) reform also needs to respond to these problems that clients experience with the interface between benefit and work, the complexity of payments, and navigating the operational arms of both the Ministry of Social Development (MSD) and Inland Revenue (IR). s9(2)(f)(iv)

80 s9(2)(f)(iv)

- improving the information exchange between agencies.

Scope of review

81 We propose the scope of the review primarily focuses on the current WFF tax credits (Best Start tax credit and Family tax credit, In-Work tax credit and Minimum Family tax credit).

82 s9(2)(f)(iv)

83 There are also choices for Ministers as to whether to broaden the scope of the review to include assistance for those currently not covered by WFF, and/or whether to include the childcare assistance review within the WFF review.

Assistance only to families with children or broadening scope to include in-work assistance for those without children and/or disabled people

- 84 Currently WFF is only available to families with children, with the IETC providing a work incentive to individuals without children. The IETC provides up to \$10 per week for low-income working people earning between \$24,000 and \$48,000. ^{s9(2)(f)(iv)}

85 ^{s9(2)(f)(iv)}

86

Childcare Assistance

- 87 A broad review of childcare assistance is on the long-term welfare overhaul work programme [CAB-19-MIN-0578 refers]. We understand that in the context of discussions on MSD's Budget 21 bid on improving Childcare Assistance, Ministers have expressed interest in bringing the review forward, with the potential for a public announcement to be made. Officials will be providing advice to Ministers by the end of April 2021 on possible options for the scope, timing and milestones for the review.
- 88 As there are strong synergies between WFF and childcare assistance, there would be distinct advantages in doing the two reviews alongside each other. However, we do not recommend that the review of childcare assistance form part of the WFF review as it would be likely to cause its scope and management to become too broad and potentially unwieldy.
- 89 The aims, objectives and delivery mechanisms of WFF and childcare assistance are largely separate and have different agencies as key stakeholders. The WFF review would be of primary interest for the Treasury, IR and MSD, while the review of childcare assistance would be done with major involvement from the Ministry of Education, Ministry for Women and the Ministry of Business Innovation and Employment (MBIE).
- 90 As MSD will be involved in both reviews, officials will ensure that they progress in parallel and take full advantage of the potential improvements in the interactions between WFF and childcare assistance.

Related work programmes

- 91 Other priorities on the government's work programme that would have an impact on the WFF review are the Social Unemployment Insurance project, the Debt to Government project, and the Welfare Overhaul.

Timing of review and stakeholder engagement

92 The timeframe for the review will need to take into consideration:

- policy development
- consultation, whether targeted or public
- legislative change and feasible timeframes for implementation (IT changes, staff training, communications)
- other related work programmes and budget changes.

93 A working group of officials from IR, MSD, the Treasury, and the Child Poverty Unit will work on the options for change. MBIE, the Ministry of Education and other agencies will be consulted. ^{s9(2)(f)(iv)}

94 Timing for the review will also be informed by which Budget Ministers wish to make decisions in. ^{s9(2)(f)(iv)}

95 ^{s9(2)(f)(iv)}

96

Stakeholder engagement

97 There is a question whether Ministers want to involve the public and key stakeholders in the policy development stage. Public consultation can provide information on the likely practical impacts of different options but require more time to incorporate in the review. Targeted stakeholder engagement may provide more informed opinions on the effectiveness of the options on the objectives, as key stakeholders generally have a better understanding of the technical nature of the tax and transfer system.

Child poverty targets – interaction with timing

98 The Government is required to set its next round of intermediate child poverty targets by June this year, which will set out the level of reduction it is aiming for over the next three years. Alongside the benefit increase that is intended for Budget 2021, ^{s9(2)(f)(iv)}

99

s9(2)(f)(iv)

100

101 The timing of implementation will also influence when changes impact on child poverty targets. s9(2)(f)(iv)

Officials will provide advice on the scale or extent of the decisions that can be made according to this timeframe.

Lead Minister and announcement of review

102 Officials recommend that decisions on options be considered by this Income Support Ministerial group before being considered by Cabinet. While the review is underway, it would be useful to have a nominated Minister responsible for responding to parliamentary questions, OIA requests and other requests from the media and public.

103 Ministers may also want to more formally announce the timing of the review of WFF. This could be done after this meeting, or alongside other Budget 2021 announcements, or as part of a refresh of the Welfare Overhaul work programme.

Next Steps

104 Officials will prepare more detailed timeframes for policy development, engagement, legislation and implementation and a detailed workplan alongside further development of options, based on decisions in this paper.



Inland Revenue
Te Tari Taake



TE TAI ŌHANGA
THE TREASURY



**DEPARTMENT OF THE
PRIME MINISTER AND CABINET**
TE TARI O TE PIRIMIA ME TE KOMITI MATUA



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

Joint Report: Working for Families Review: revised recommendations

| | | | |
|--------------|---------------|---------------------|---|
| Date: | 16 April 2021 | Report No: | DPMC-2020/21-860; T2021/1007; REP/21/4/383; IR2021/175 |
| | | File Number: | SH-3-6 |

Action sought

| | Action sought | Deadline |
|---|---|----------|
| Rt Hon Jacinda Ardern Prime Minister / Minister for Child Poverty Reduction | Agree to revised recommendations discussed at meeting | None |
| Hon Grant Robertson Minister of Finance | Agree to revised recommendations discussed at meeting | None |
| Hon Carmel Sepuloni Minister for Social Development and Employment | Agree to revised recommendations discussed at meeting | None |
| Hon David Parker Minister of Revenue | Agree to revised recommendations discussed at meeting | None |

Contact for telephone discussion (if required)

| Name | Position | Telephone | 1st Contact |
|---------------------|--|-----------|-------------|
| Murray Shadbolt | Principal Advisor, Welfare and Oranga Tamariki Team, The Treasury | s9(2)(a) | |
| Deborah Tucker | Senior Analyst, Child Poverty Unit, Department of the Prime Minister and Cabinet | | |
| Daniel Frischknecht | Principal Analyst, Income Support, Ministry of Social Development | | |
| Eina Wong | Principal Policy Advisor, Policy and Regulatory Stewardship, Inland Revenue | | |

Minister's Office actions (if required)

| |
|---------------------------------------|
| Return the signed report to Treasury. |
|---------------------------------------|

Enclosure: No

Joint Report: Working for Families Review: revised recommendations

Purpose

1. Following the Income Support Ministers' meeting on 13 April, at which the Working for Families report (*Joint Report: Welfare Overhaul: Working for Families Review - DPMC-2020/21-771; T2021/632; REP/21/4/356; IR2021/156*) was discussed, Ministers' agreed on a number of recommendations and asked that a revised set be provided to record decisions on the direction for the Review. This note provides the updated recommendations based on the discussion at the meeting, along with the original noting recommendations.

Recommended Action

We recommend that you:

Context and rationale for a Review of Working for Families

- a **note** that Working for Families combines dual objectives of income adequacy and work incentives, and has achieved its key objectives for some groups, but has resulted in mixed effectiveness for others
- b **note** that the original Working for Families reform also included a third delivery objective to achieve a system that supports people into, and to remain in, work by making sure they get the assistance they are entitled to in a timely manner, and that this continues to be important regardless of the scale and direction of reform
- c **note** that the Welfare Expert Advisory Group recommended significant changes to Working for Families tax credits, including making the Family Tax Credit more generous and more universal, replacing in-work payments with a new Earned Income Tax Credit, and making Best Start universal for all children under three, as part of a wider welfare package
- d **note** that the Government has set ambitious ten-year child poverty targets, which will require further significant income support packages to make progress
- e **note** that, since the last significant changes to New Zealand's system of tax credits for families in 2004, there have been important contextual changes, including:
 - changes to labour market settings, including sustained increases in the level of the minimum wage
 - significant increases in income support through the Families Package, indexation changes, and recent and planned main benefit increases
 - introduction of elements of universalism through Best Start
 - changes to the In-Work Tax Credit to increase its flexibility
 - greater support for working beneficiaries through increases to abatement thresholds and employment programmes
- f **note** that, while Working for Families tax credits are achieving their key objectives for some groups, current settings are complex, cause significant problems for those with changing work and family arrangements, result in a poor transition between benefit and

work, and can result in high effective marginal tax rates for some families that discourage working more hours

g

s9(2)(f)(iv)

h

agree, in light of the changing context and the Government's commitment to ambitious targets for the reduction of child poverty, to bring forward the Review of the Working for Families tax credits currently on the medium-term Welfare Overhaul work programme

Agree/Disagree
Prime Minister

Agree/Disagree
Minister of
Finance

Agree/Disagree
Minister for Social
Development and
Employment

Agree/Disagree
Minister of
Revenue

Objectives and direction for the Review

i

agree with the following high-level objectives for the system of tax credits for families:

- supporting income adequacy and reducing child poverty
- improving financial incentives for low income earners to participate in the labour market

Agree/Disagree
Prime Minister

Agree/Disagree
Minister of
Finance

Agree/Disagree
Minister for Social
Development and
Employment

Agree/Disagree
Minister of Revenue

j

note that you discussed at the meeting the direction for the Review, including the relative balance between:

- **income adequacy for beneficiaries versus working families** – should payments to low-income working households to support the 'working poor' be increased versus payments to beneficiary households, particularly given recent and proposed income increases to beneficiaries?
- **targeting versus universalism** – should WFF be more targeted to low-income families to improve child poverty objectives more cost-effectively, or should settings be more universal to improve adequacy for both low-income families and a larger number of relatively higher-income families?
- **incentivising movement off-benefit at a particular amount of work versus incentivising working more in the benefit system** – should in-work assistance encourage movement off benefit at particular levels of hours worked and/or earned income or should the assistance phase in and merge with the benefit system and be available to working beneficiaries?

k

s9(2)(f)(iv)

Agree/Disagree
Prime Minister

Agree/Disagree
Minister of Finance

Agree/Disagree
**Minister for Social
Development and
Employment**

Agree/Disagree
Minister of Revenue

l

s9(2)(f)(iv)

Agree/Disagree
Prime Minister

Agree/Disagree
Minister of Finance

Agree/Disagree
**Minister for Social
Development and
Employment**

Agree/Disagree
Minister of Revenue

m

s9(2)(f)(iv)

Agree/Disagree
Prime Minister

Agree/Disagree
Minister of Finance

Agree/Disagree
**Minister for Social
Development and
Employment**

Agree/Disagree
Minister of Revenue

n

s9(2)(f)(iv)

Agree/Disagree
Prime Minister

Agree/Disagree
Minister of Finance

Agree/Disagree
**Minister for Social
Development and
Employment**

Agree/Disagree
Minister of Revenue

o

s9(2)(f)(iv)

Agree/Disagree
Prime Minister

Agree/Disagree
Minister of Finance

Agree/Disagree
**Minister for Social
Development and
Employment**

Agree/Disagree
Minister of Revenue

p **agree** that childcare assistance be a separate but related item, considered as part of the existing welfare overhaul work programme

Agree/Disagree
Prime Minister

Agree/Disagree
Minister of Finance

Agree/Disagree
**Minister for Social
Development and
Employment**

Agree/Disagree
Minister of Revenue

q **agree** that the Working for Families Review include the Accommodation Supplement

Agree/Disagree
Prime Minister

Agree/Disagree
Minister of Finance

Agree/Disagree
**Minister for Social
Development and
Employment**

Agree/Disagree
Minister of Revenue

Timing and implementation for changes arising from the Review

r s9(2)(f)(iv)

s

t

u

agree that officials report back on the Review to Ministers in the middle of the year, including advice on initial options, s9(2)(f)(iv)

Agree/Disagree
Prime Minister

Agree/Disagree
Minister of Finance

Agree/Disagree
**Minister for Social
Development and
Employment**

Agree/Disagree
Minister of Revenue

v s9(2)(f)(iv)

Agree/Disagree
Prime Minister

Agree/Disagree
Minister of Finance

Agree/Disagree
**Minister for Social
Development and
Employment**

Agree/Disagree
Minister of Revenue

w **agree** that the Minister for Social Development and Employment be the lead Minister for the Review

Agree/Disagree
Prime Minister

Agree/Disagree
Minister of Finance

Agree/Disagree
**Minister for Social
Development and
Employment**

Agree/Disagree
Minister of Revenue

x **agree** that the Ministry of Social Development be the lead agency for the Review, with other key agencies part of the joint working group

Agree/Disagree
Prime Minister

Agree/Disagree
Minister of Finance

Agree/Disagree
**Minister for Social
Development and
Employment**

Agree/Disagree
Minister of Revenue

y **agree** to announce the Review of Working for Families, which is part of the Welfare Overhaul work programme, alongside other announcements in Budget 2021

Agree/Disagree
Prime Minister

Agree/Disagree
Minister of Finance


Agree/Disagree
**Minister for Social
Development and
Employment**

Agree/Disagree
Minister of Revenue

z **note** that officials will work with Ministers' offices on the content of the Budget 2021 announcement

aa refer this report to the Minister for Children for their information.

Refer / Not referred
Prime Minister



Kristie Carter
Director, Child Poverty Unit,
Department of Prime Minister and Cabinet



Keiran Kennedy
Manager, Welfare and Oranga
Tamariki, The Treasury



Polly Vowles
Manager, Income Support Policy,
Ministry of Social Development



Carolyn Elliott
Acting Manager, Policy
and Regulatory Stewardship,
Inland Revenue

Rt Hon Jacinda Ardern
Prime Minister / Minister for Child
Poverty Reduction

Hon Grant Robertson
Minister of Finance

Hon Carmel Sepuloni
Minister for Social Development
and Employment

Hon David Parker
Minister of Revenue

Terms of reference for the Governance Group

Terms of Reference for the Working for Families Review Governance Group

Purpose

The Governance Group will ensure the successful undertaking of the Working for Families (WFF) review. It will provide policy oversight of the work, resolve any issues that cannot be sorted at the working group level and ensure appropriate resourcing across agencies. The WFF Governance Group is responsible for:

- the provision of an appropriately resourced working group, and
- supporting the working group to deliver timely, free and frank, and high-quality advice to Ministers.

Roles

The roles of the Governance Group are to:

- ensure the WFF review has appropriate resourcing from across agencies to complete the review
- provide project oversight and ensure the WFF review has appropriate project management in place
- provide policy oversight of significant items of cross-agency advice to Ministers included in the review, focused on the overall approach to advice and key issues
- resolve any issues that cannot be addressed at the working group level
- ensure connectivity with other welfare overhaul workstreams being progressed alongside the review of WFF, such as the review of Childcare Assistance Out of scope
- ensure connectivity across other workstreams across government.

Work in the wider welfare overhaul should continue to be considered by the welfare overhaul senior officials' group where appropriate.

The lead manager will determine what advice the Governance Group will consider.

Membership

The Ministry of Social Development's DCE for Policy will chair the WFF Governance Group. The membership of the Governance Group will additionally comprise second and third-tier representatives (or delegates) from:

- Treasury
- Inland Revenue
- Ministry of Social Development
- Department of the Prime Minister and Cabinet
- Ministry for Housing and Urban Development – when Accommodation Supplement items are discussed.

Operating model

It is anticipated that the Governance Group will meet fortnightly for the remainder of the review. The Governance Group will determine when it is useful for members of the working group to attend Governance Group meetings.

Project brief: Review of Working for Families

| | |
|--|---|
| Project staff | <p>MSD the lead agency of the Working for Families review ('the Review'), with a joint-agency working group.</p> <p>The core working group currently includes:</p> <ul style="list-style-type: none"> • MSD: Daniel Frischknecht, Maudie Johnson-Hunter, Alana Roughan, Ellen Hughes • DPMC: Deborah Tucker (CPU), Katrina Quickenden (Strategy) • IR: Eina Wong, Philip Marshall, Samantha Aldridge, Mila Maxon • TSY: Murray Shadbolt, Chris Thompson, Laura Browne, Michael Eglinton • MHUD: Nick McNabb <p>Lead Managers Responsible – Polly Vowles, Keiran Kennedy, Kristie Carter, Maraina Hak, Carolyn Elliott.</p> <ul style="list-style-type: none"> • Additional people, including delivery teams, will support the Review and attend meetings as needed. The group will meet at 1pm Wednesday every week and have additional ad-hoc meetings/workshops as needed. • Co-location can be arranged on an 'as-needed' basis. At this stage no permanent co-location is needed for the Review. |
| Purpose/ Objective | <p>The purpose of this project is to review Working for Families and Accommodation Supplement settings. The ultimate deliverable is advice to Joint Ministers with detailed recommendations on changes to Working for Families and Accommodation Supplement settings s9(2)(f)(iv).</p> |
| Key contacts not on the working group | <ul style="list-style-type: none"> • Delivery teams within MSD and IR • MBIE (interested party) • Modelling teams at MSD and IR (note a Treasury representative is proposed for the working group). |

| | |
|----------------|---|
| Context | <p>Joint Ministers have agreed to bring forward the Review currently on the medium-term Welfare Overhaul work programme. Joint Ministers have agreed that officials report back on the Review to Ministers in the middle of the year, including advice on initial options, s9(2)(f)(iv).</p> <p>s9(2)(f)(iv)</p> <p>Fiscal envelope of the review:</p> <ul style="list-style-type: none"> • s9(2)(f)(iv) |
|----------------|---|

| In scope | Out of scope |
|--|---|
| <ul style="list-style-type: none"> Working for Families settings Accommodation Supplement and options for s9(2)(f)(iv) Options for supporting disabled people in work, s9(2)(f)(iv) | <p>To be considered alongside the review:</p> <ul style="list-style-type: none"> Childcare Assistance settings Out of scope <p>Key links but outside of review:</p> <ul style="list-style-type: none"> Health and Disability System reviews Social Unemployment Insurance Other initiatives being considered or progressed as part of Welfare Overhaul |

| Key milestones/deliverables | Who? | Sign out? | Date due |
|---|--|------------------------------|-----------------------------|
| <p>Initial AS advice:</p> <ul style="list-style-type: none"> seek confirmation from Ministers on key issues with AS to inform scope of options to consider for reform, s9(2)(f)(iv) s9(2)(f)(iv) | To Joint Ministers, and the Housing Minister | Cross-agency (including HUD) | May 2021 |
| <p>Initial advice on s9(2)(f)(iv):</p> <ul style="list-style-type: none"> Background advice on disability supports s9(2)(f)(iv) | To Joint Ministers | Cross-agency (excluding HUD) | Late June / early July 2021 |
| <p>Subsequent advice on WFF options:</p> <ul style="list-style-type: none"> Summary of key decisions Clarification of outstanding questions on scope, s9(2)(f)(iv) Outline of key trade-offs as a result of decisions Modelling of some high-level options in light of decisions made by Ministers. This includes, but not limited to, modelling of poverty and distributional impacts by income decile for each option Approach to engagement with key stakeholders, s9(2)(f)(iv) s9(2)(f)(iv) | To Joint Ministers | Cross-agency (excluding HUD) | Late June / early July 2021 |
| <p>Subsequent advice on AS:</p> <ul style="list-style-type: none"> Summary of key decisions Clarification of outstanding questions Outline of key trade-offs as a result of decisions Modelling of some high-level options in light of decisions made by Ministers | To Joint Ministers, and the Housing Minister | Cross-agency (including HUD) | s9(2)(f)(iv) |

| | | | |
|--|--------------------|------------------------------|--------------|
| - s9(2)(f)(iv) | | | |
| Subsequent iterations of advice will reflect decisions by Ministers and provide options for packages across the individual components. | To Joint Ministers | Cross-agency (including HUD) | s9(2)(f)(iv) |
| s9(2)(f)(iv) | To Joint Ministers | Cross-agency (including HUD) | |
| s9(2)(f)(iv) | | | |
| s9(2)(f)(iv) | | | |

| | |
|-----------------------------|---|
| Planning assumptions | <p>The key assumptions for this project are that:</p> <ul style="list-style-type: none"> - Sufficient resource can be allocated from Policy teams - Service delivery teams in MSD and IR have capacity to be involved in the policy design stage (ie prior to any additional funding being allocated) - Modelling resourcing and data is available. Modelling of options and modify existing models to include options with s9(2)(f)(iv) - s9(2)(f)(iv) - Appropriate project management will be put in place. |
| Risk management | <p>There are risks around:</p> <ul style="list-style-type: none"> • Managing expectations about what policy objectives can be achieved and how much extra affected people can get, given that it will be public information that a review is underway and s9(2)(f)(iv) • Capacity within agencies, particularly modelling resources, including appropriate and available data. • Implementation of s9(2)(f)(iv), including alongside other potential reforms. • These risks (and any others) will be captured in a risk register as part of the project management. |

| | |
|----------------------------|---|
| Engagement approach | s9(2)(f)(iv). This can be tested with Ministers in upcoming advice. Key stakeholders could include subject matter experts s9(2)(f)(iv). |
| Governance | Governed by the Working for Families Governance Group, with a working group of officials. |

Aide-mémoire



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

Cabinet paper

Date: 11 May 2021

Security Level: Cabinet Sensitive

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

File Reference: REP/21/5/474

Oral Cabinet Item: Review of Working for Families Tax Credits

Cabinet Committee

Social Wellbeing

Date of meeting

12 May 2021

Minister

Hon Carmel Sepuloni, Minister for Social Development and Employment

Proposal

You are presenting an oral item on the Working for Families (WFF) review.

The oral item and a two-page document to table provide an update to Cabinet of areas of scope which have been agreed by income support Ministers to inform the Budget day public announcement of the WFF review.

Key points

The oral item provides:

- an overview of the WFF review
- agreed scope and objectives of the review
- links between other work programmes
- next steps.

Additional considerations

Welfare Expert Advisory Group recommendations and welfare overhaul

The Welfare Expert Advisory Group (WEAG) recommended significant and large-scale reform of the welfare system, with recommendations ranging from specific initiatives to system-level changes.

The WEAG recommended significant changes to WFF tax credits, including:

- making the Family Tax Credit more generous and more universal
- replacing in-work payments with a new Earned Income Tax Credit

-
- making Best Start universal for all children aged under three.

The Government agreed to a 3 – 5 year programme of work for the welfare overhaul, which included a review of WFF in the medium term (within 2 – 4 years).

In light of the changing context in which WFF operates and the Government's commitment to reduce child poverty, this review is being brought forward.

You recently received advice on the welfare overhaul work programme, providing you with an update on progress and seeking an opportunity to discuss your priorities over the remainder of the term [REP/21/1/003 refers].

As part of this advice, we signalled that s9(2)(f)(iv)

We will support you to provide an update to Cabinet on the welfare overhaul work programme later this year.

Objectives and scope of review

s9(2)(f)(iv)

Ministers have agreed the review will consider the Accommodation Supplement and options for supporting disabled people in work. A review of Childcare Assistance will be considered alongside the WFF review as a separate, but related, work stream.

s9(2)(f)(iv)

Outstanding questions

There are still a number of outstanding questions which will be covered in the next advice to Income Support Ministers, expected in July 2021.

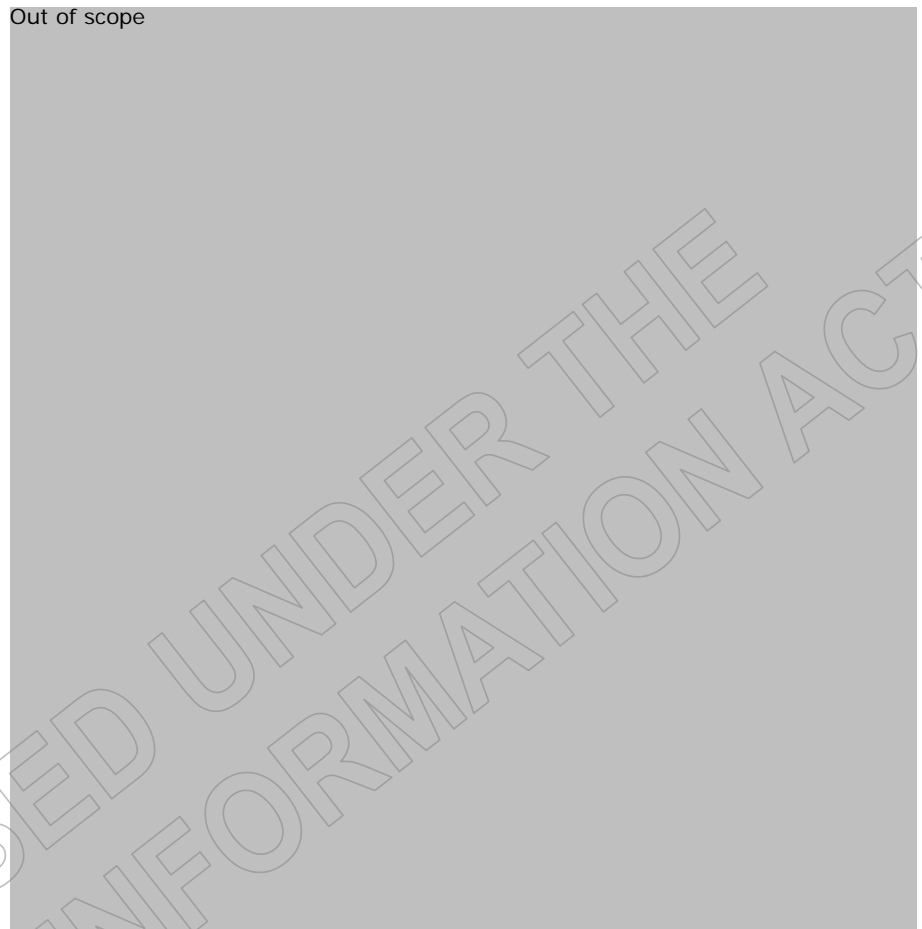
These include:

- s9(2)(f)(iv)

- Out of scope
-

-
- what level of consultation and engagement should be undertaken, with which parties and at what time
 - timing of any legislative changes.

Out of scope



Talking points

I am providing an update to Cabinet on the decisions made by Income Support Ministers to inform a Budget Day announcement of a review of Working for Families tax credits.


Working for Families was implemented in the mid-2000s to increase financial assistance for low to middle-income families and make work pay.

There has been no fundamental review of Working for Families since it was introduced.

Income Support Ministers have agreed to bring forward the review of Working for Families currently on the medium-term Welfare Overhaul work programme.

Working for Families should continue to improve income adequacy, reduce child poverty and to help make work pay.

s9(2)(f)(iv)



The review will also include other related work: a review of Accommodation Supplement s9(2)(f)(iv) [REDACTED].

The review of Childcare Assistance will be considered as a separate, but related item.

Out of scope [REDACTED].

s9(2)(f)(iv) [REDACTED].

Author: Maudie Johnson-Hunter, Policy Analyst, Income Support Policy

Responsible manager: Polly Vowles, Policy Manager, Income Support Policy

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

Background

1. Working for Families (WFF) provides financial assistance for low to middle-income families and is currently made up of the following tax credits:
 - Family Tax Credit: the main income adequacy payment received by both beneficiary and working families, which pays \$113pw for the eldest child and \$91pw for each subsequent child. It is paid to 290,000 low to middle-income families – around 58% are sole parent families, and 42% are couples.
 - In-Work Tax Credit: the main in-work payment which pays \$72.50pw for families with 1-3 children (with an extra \$15pw for fourth and subsequent children). It is paid to 203,000 families in work – 40% are sole parents, and 60% couples.
 - Minimum Family Tax Credit: a top up for low-income working families with children to a guaranteed minimum of \$30,576 after tax (2021-22 tax year). It is paid to 4,000 working families – 90% are sole parents and 10% couples.
 - Best Start Tax Credit: provides \$60pw to all families for the child's first year, and for the subsequent two years it is targeted by family income (beginning to abate from \$79,000). It is paid to 27,000 families (Inland Revenue recipients only) and was introduced as part of the Families Package in 2018.

Review of Working for Families

2. In its report in 2019, the Welfare Expert Advisory Group recommended significant changes to WFF as part of a wider suite of changes to income support settings. Cabinet agreed to a review of WFF as part of the medium-term Welfare Overhaul work programme [CAB-19-MIN-0578 refers].
3. In April 2021, the Ministers for Child Poverty Reduction (the Prime Minister), Finance, Social Development and Revenue ('Income Support Ministers') agreed to bring forward the review of WFF in light of the Government's commitment to reduce child poverty and the changing labour market and income support context.
4. Income Support Ministers agreed that:
 - a. The original WFF objectives of supporting income adequacy and reducing child poverty, and improving financial incentives for low-income earners to enter the labour market remain important.
 - b. s9(2)(f)(iv)

c.

The review will be considered alongside other reviews on the Welfare Overhaul work programme

5. Income Support Ministers agreed that the review of WFF also consider:
 - a. Accommodation Supplement and s9(2)(f)(iv)
 - b. options for supporting disabled people in work, s9(2)(f)(iv)
 - c. interactions with a separate, but related, review of Childcare Assistance settings that is part of the existing welfare overhaul work programme.
6. Out of scope

Next steps

7. Income Support Ministers (and the Minister of Housing in relation to Accommodation Supplement) will have joint oversight of the work, with the Minister for Social Development and Employment the lead Minister.
8. Officials will report back to Income Support Ministers on the review in the middle of the year, including advice on initial options, to inform next steps s9(2)(f)(iv) . Final funding and policy decisions will be considered by Cabinet.

Recommendations

It is recommended that Cabinet:

1. **Note** the agreed scope and plan for the Working for Families review
2. **Note** that officials will report back on the Review to Income Support Ministers in the middle of the year.



Report

Date: 2 June 2021

Security Level: Budget Sensitive

To: Rt Hon Jacinda Ardern, Prime Minister / Minister for Child Poverty Reduction
Hon Grant Robertson, Minister of Finance
Hon Dr Megan Woods, Minister of Housing
Hon Carmel Sepuloni, Minister for Social Development and Employment
Hon David Parker, Minister of Revenue

Initial advice on the approach to the Accommodation Supplement Review

Purpose of the report

- 1 This report provides initial advice on considering Accommodation Supplement (AS) changes as part of the Working for Families (WFF) Review, including:
 - information about AS, current recipients and the current level of support
 - the key concerns about AS, to inform option development.
- 2 It seeks Ministers' feedback on the scope and objectives for the review. This will inform the direction of the AS Review, ^{s9(2)(f)(iv)}

Executive summary

- 3 Within New Zealand's three-tiered income support system, WFF and AS are the largest forms of second-tier assistance. WFF and AS both provide targeted income support to low-income New Zealanders. AS is designed to help low- to middle-income families with high housing costs, whereas WFF helps to improve income adequacy for low- to middle-income families with children and reduce child poverty. Because they have different objectives, they target different population groups, but there is some overlap (i.e. low-income families with children with high housing costs). Considering reform of AS alongside WFF provides an opportunity to ^{s9(2)(f)(iv)}
- 4 AS is currently the main form of housing assistance for low-income people in New Zealand. In 2019/20 expenditure was \$1.7 billion, and this is forecast to reach \$2.1 billion by 2022/23. At the end of December 2020, AS was supporting approximately 635,000 people (including 211,000 children) in 378,131 households. AS is tightly targeted to households with low after-housing-costs incomes. The majority of AS recipients rent, although AS also assists boarders and homeowners, and the majority of recipients also receive a benefit. The average subsidy received is \$101 per week.

- 5 AS is designed to partially cover housing costs that exceed a proportion of income each week (25% for most recipients, and 30% for homeowners). It pays 70% of these costs up to a maxima, which differs by family size and location. Maxima were last increased in 2018, based on 40th percentile 2016 rents. AS is paid directly to recipients and is the most targeted policy intervention for providing direct support to low-income households in housing stress. AS is fairly typical across the OECD, with about half of OECD countries having systems with similar design features.
- 6 Based on TAWA¹ modelling from the 2018/19 tax year, the overlap between the AS and the Working Families populations was approximately 115,000 families. This overlap accounted for 33% of AS recipients and 32% of WFF recipients. Just under two-thirds (62%) of families receiving both payments were sole parent families (71,000 families) and the remaining 38% were couples with children (44,000).
- 7 Rapidly rising rental costs, driven by a lack of affordable supply, mean that a high proportion of AS recipients remain in housing stress, spending more than 40% of their income on housing costs. The international definition of housing-related stress for low-income households is 30 percent.
- 8 Given the position of AS at the intersection between the welfare and housing systems, s9(2)(f)(iv) . These include: that without regular adjustment, aspects of AS are unresponsive to increasing housing costs in the private market and has limited effectiveness in alleviating housing stress; there is low take-up of AS by non-beneficiaries; and the inequity of assistance provided across the major housing subsidies.
- 9 In addition, landlord capture is an often-cited risk with any increases to housing assistance provided via AS. That is, some or all of any increase in AS will be absorbed into increases in accommodation costs (rents). While New Zealand research suggests that increases to AS have benefited recipients more than landlords (analysis of the changes made to AS in 2018 resulted in a significant drop in what people were paying in rent after they received AS), it is important to ensure design of reform options minimises this risk.
- 10 In taking a wider view, following your direction to reform AS alongside WFF, we seek a discussion with Ministers on some key questions to inform the objectives and scope of the AS Review.
- 11 In the WFF Review, Ministers confirmed the high-level objectives of the WFF tax credits as supporting income adequacy and reducing child poverty and improving financial incentives for low-income earners to participate in the labour market.

s9(2)(f)(iv)

¹ Treasury's micro-simulation model of the tax and welfare system.

- 20 AS is part of a range of housing assistance offered in New Zealand, and changes to AS will have a range of consequential impacts for other types of support.

s9(2)(f)(iv)

s9(2)(f)(iv)

21

- 22 As an income support lever, any changes to AS and WFF are likely to impact on child poverty and the achievement of the Government's child poverty reduction targets. These impacts will be included in the analysis of options.

23 s9(2)(f)(iv)

Recommended actions

It is recommended that you:

1. **note** that in April 2021, you directed officials to include Accommodation Supplement in the Working for Families Review, with initial advice in mid-2021 to s9(2)(f)(iv)
2. s9(2)(f)(iv)
3. **note** that Accommodation Supplement is the main form of housing assistance in New Zealand, paid directly to recipients and providing a partial subsidy of housing costs above a threshold and up to a maxima
4. **note** that there are a number of areas of concern that s9(2)(f)(iv), including that without regular adjustment, aspects of it are unresponsive to increasing housing costs in the private market and it provides limited effectiveness in alleviating housing stress; there is low take-up of assistance by non-beneficiaries; inequity of assistance provided across the major housing subsidies; and risks related to landlord capture
5. **agree** to discuss this paper at the next Income Support Ministers' meeting and to invite the Minister of Housing to this meeting

Agree/Disagree
Prime Minister

Agree/Disagree
**Minister of
Finance**

Agree/Disagree
**Minister for Social
Development and
Employment**

Agree/Disagree
**Minister of
Revenue**

6.

s9(2)(f)(iv)

7.

8.

Yes/No
Prime Minister

Yes/No
**Minister of
Finance**

Yes/No
**Minister of
Housing**

Yes/No
**Minister for Social
Development and
Employment**

Yes/No
**Minister of
Revenue**

b.

s9(2)(f)(iv)

Yes/No
Prime Minister

Yes/No
**Minister of
Finance**

Yes/No
**Minister of
Housing**

Yes/No
**Minister for Social
Development and
Employment**

Yes/No
**Minister of
Revenue**

9. s9(2)(f)(iv)

10.

11.

Yes/No
Prime Minister

Yes/No
Minister of
Finance

Yes/No
Minister of
Housing

Yes/No
Minister for Social
Development and
Employment

Yes/No
Minister of
Revenue

12. s9(2)(f)(iv)

Keiran Kennedy

Hayley Hamilton

Keiran Kennedy
Manager, Welfare and Oranga
Tamariki
The Treasury

Hayley Hamilton
General Manager, Employment and
Housing Policy
Ministry of Social Development

..... / /

..... / /

Rt Hon Jacinda Ardern
Prime Minister
Minister for Child Poverty Reduction

Hon Grant Robertson
Minister of Finance

..... / /

..... / /

Hon Dr Megan Woods
Minister of Housing

..... / /

Hon Carmel Sepuloni
Minister for Social Development
and Employment

..... / /

Hon David Parker
Minister for Revenue

..... / /

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

Background

- 24 Income Support Ministers² have indicated that they want to consider options for reform of the Accommodation Supplement (AS) alongside the Working for Families (WFF) Review, s9(2)(f)(iv)
- 25 s9(2)(f)(iv)
- 26 Within New Zealand's three-tiered income support system, with main benefits as the first tier, AS and WFF are the largest forms of second-tier assistance. Second tier assistance refers to additional assistance provided for specific ongoing costs and is usually in the form of a partial subsidy, rather than covering the additional costs completely. The advantage of our tiered system of main benefits and supplementary payments is that it targets financial assistance towards those with the highest financial need. However, the trade-off is complexity, with the result that this assistance is more complicated to deliver and harder for recipients to understand.
- 27 WFF and AS both provide targeted income support to low-income New Zealanders. AS is designed to help low- to middle-income families with high housing costs, whereas WFF helps to improve income adequacy for low- to middle-income families with children and reduce child poverty. Because they have different objectives they target different population groups, but there is some overlap (i.e. low-income families with children with high housing costs). s9(2)(f)(iv)
- 28 This reports seeks to:
- provide information about the AS, who is currently supported by it and how much they receive, and compares this to WFF recipients
 - set out the concerns with the AS s9(2)(f)(iv)
 - confirm the scope of the review, s9(2)(f)(iv)
 - get feedback on objectives and emphasis for changes to the AS.

How the Accommodation Supplement works

- 29 AS aims to help households with high housing costs relative to their income to maintain private market accommodation. AS is paid directly to recipients alongside their benefit or superannuation payment (or for non-beneficiaries as a separate payment from MSD) rather than directly to landlords. AS provides low-income households a partial subsidy for accommodation costs that exceed 25% of income (or 30% of income for homeowners), up to a cap that is based on local rent levels. It is neutral to tenure type (renting, homeownership, or boarding) and is a non-taxable benefit available to beneficiary, non-beneficiary and New Zealand Superannuation / Veteran's Pension (NZS/VP) recipients who meet income, cash asset and residency requirements and whose accommodation costs meet the threshold.
- 30 At the end of December 2020, AS supported 378,131 recipients, and cost \$1.7 billion in 2019/20. The average amount of subsidy per recipient was \$101 per week.

² A group of Ministers considering packages for Budget 2021 and includes the Prime Minister/ Minister for Child Poverty Reduction, Minister of Finance, Minister of Social Development and Employment and the Minister of Revenue.

Spending is forecast to increase to \$2.0 billion in 2020/21 and to \$2.1 billion by 2022/23. **Appendix 1** provides further details about the current AS recipients, and **Appendix 2** explains how the subsidy works in more detail.

31 Increased AS costs are driven by a number of factors including:

- the number of main benefit recipients, with Jobseeker Support recipients increasing due to the impacts of Covid-19
- increases in rents outpacing benefit rates
- policy changes (i.e. the Families Package and consequential impacts of benefit increases).

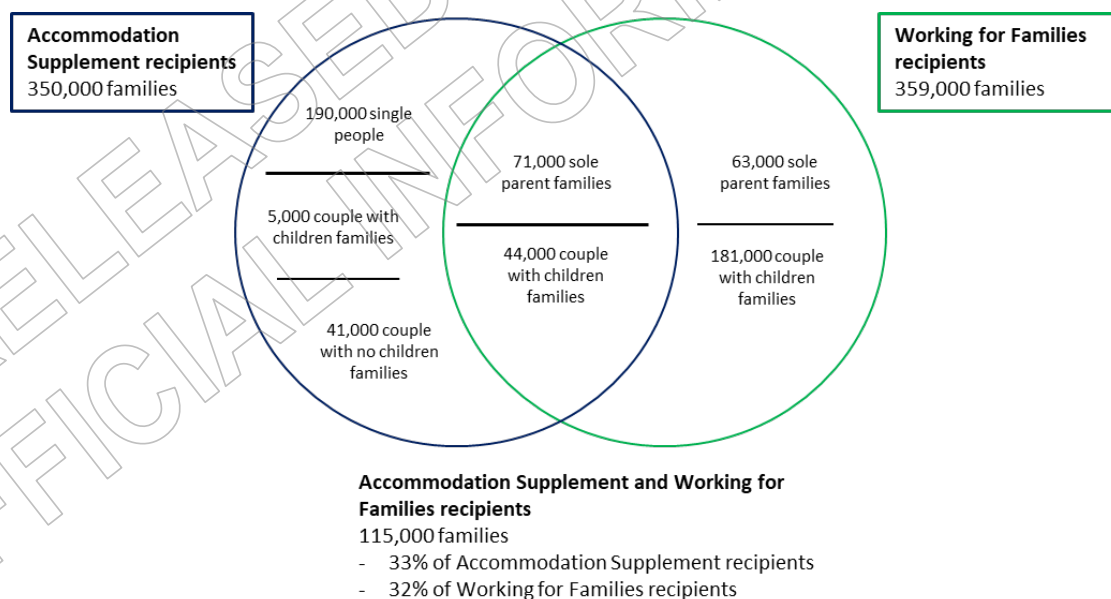
Comparisons between the population of recipients of Accommodation Supplement and Working for Families

32 Using TAWA³ modelling, the following diagram provides estimates of the number of families receiving AS and WFF in tax year 2018/2019. The TAWA output has been linked to MSD administrative data in the IDI to identify individuals receiving AS.⁴

33 Due to eligibility settings for both forms of assistance, the overlap between the two populations centres on families with children. There were approximately 115,000 families receiving both AS and WFF, comprising 71,000 sole parent families (62% of overlap) and 44,000 couple with children families (38% of overlap).⁵

34 For the remaining 235,000 AS recipients who were not also receiving WFF, the majority (98%) were families without children (190,000 single people, 41,000 couple with no children families).

Figure 1. Overlap between the Accommodation Supplement and Working for Families populations in the 2018/19 tax year



³ Treasury's micro-simulation model of the tax and welfare system.

⁴ These results are not official statistics. They have been created for research purposes from the Integrated Data Infrastructure (IDI) which is carefully managed by Stats NZ. For more information about the IDI please visit <https://www.stats.govt.nz/integrated-data/>. The results are based in part on tax data supplied by Inland Revenue to Stats NZ under the Tax Administration Act 1994 for statistical purposes. Any discussion of data limitations or weaknesses is in the context of using the IDI for statistical purposes, and not related to the data's ability to support Inland Revenue's core operational requirements.

⁵ Apparent inconsistencies in totals are due to rounding and/or suppression, with estimates being suppressed in they did not meet the confidentiality requirements of Stats NZ.

Comparisons to housing subsidy models used overseas

- 35 New Zealand's AS shares much in common with other nationally offered demand-side housing subsidies seen in the OECD. About 13 OECD countries offer subsidies with features similar to AS, including:
- consideration of household type and size, income, and actual housing costs when determining eligibility
 - expecting some contribution from tenants, varying from 20% to 50% in the countries reviewed
 - establishing a concept of adequate or acceptable housing and setting maximum amounts of assistance that can be received.
- 36 While extending eligibility for demand-side housing subsidies to low-income owner occupiers (as New Zealand does) is less common, it is a feature of several countries' systems (e.g. Sweden, Finland, Germany). Other countries may instead use the tax system to support this group (e.g. Spain).

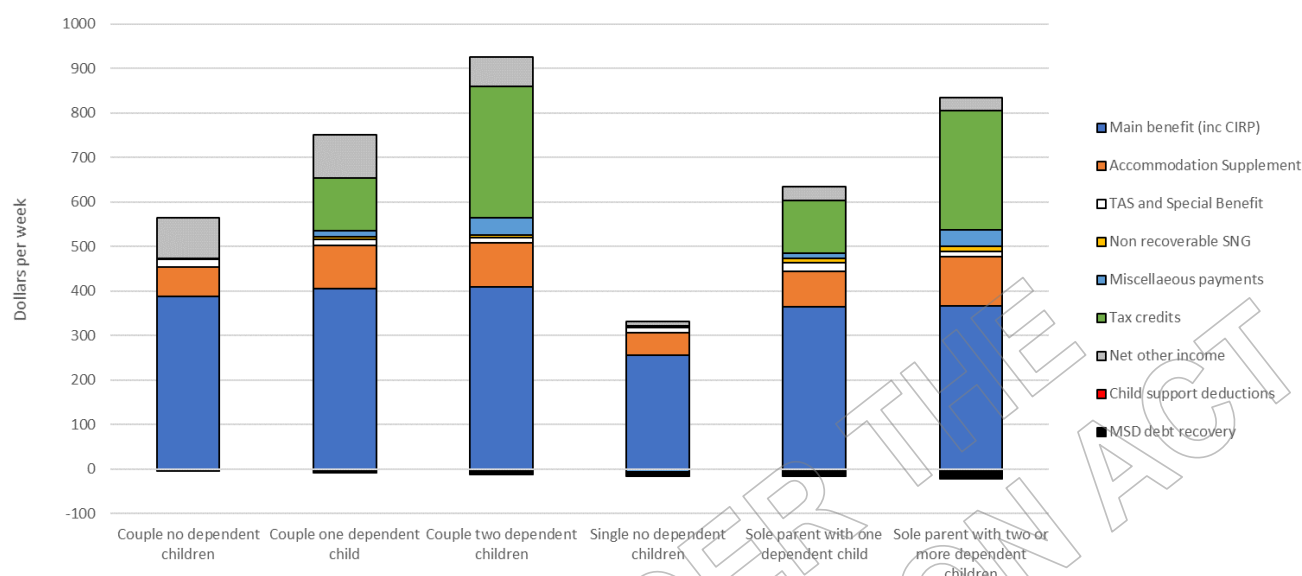
The Welfare Expert Advisory Group acknowledged the critical role AS plays in income support

- 37 In its 2019 report, *Whakamana Tāngata – Restoring Dignity to Social Security in New Zealand*, the Welfare Expert Advisory Group (WEAG) recommended to "subsidise housing costs for people on low incomes (in addition to raising main benefit rates to provide an adequate income) and ensure the combination of changes to housing support and abatement rates make households better off."
- 38 The WEAG's report also noted that:
- "The Accommodation Supplement and other housing subsidies will be required as long as low-paid workers and benefit recipients receive inadequate incomes and are unable to access affordable, secure housing. It follows that the welfare system has an abiding interest in ensuring good housing outcomes. A demand-driven payment like the Accommodation Supplement will continue to grow exponentially unless the housing crisis is resolved."
- 39 The WEAG also acknowledged that the welfare system cannot be expected to implement the changes required in housing policy to ensure there is adequate supply of affordable housing for New Zealanders. However, the welfare system needs to be contributing to the direction of the systemic changes required, because many of the individuals and families most affected by failures in the housing system are recipients of welfare.
- 40 In November 2019 Cabinet agreed that, in the work programme to respond to the WEAG's recommendations, a review of housing subsidies would progress over the long-term [CAB-19-Min-0578].

For people in receipt of main benefits, their income is made up of a package of income support payments

- 41 In response to recommendation 5 in *Whakamana Tāngata* that proposes annual reporting on key outcomes for those interacting with the welfare system, MSD has created a dataset that records payments, earnings and housing costs of people in receipt of a main benefits.
- 42 The graph below provides preliminary analysis from this dataset that shows the average amount of family income for all adults in receipt of income-tested main benefits. The graph below shows average income for each type of family, however there is variation with each group depending of the exact nature of each person's circumstances and housing.

Figure 2. Preliminary analysis from the benefit incomes dataset that shows average family income for adult recipients of main benefits, by family type (October 2020)



- 43 Figure 2 shows the average contribution AS makes to incomes per household type across all benefit recipients, which includes IRRS recipients and people who do not receive any housing assistance. This means the contribution of AS to incomes of AS recipients is understated in this analysis.

What are the main concerns with the Accommodation Supplement?

- 44 Given the position of AS at the intersection between the welfare and housing systems, s9(2)(f)(iv). In recent years, both the WEAG and the Child Poverty Action Group (CPAG) have lead calls for significant change or complete overhaul of AS. s9(2)(f)(iv)

Aspects of AS are not responsive to increasing housing costs in the private market as it is not regularly updated

- 45 Since its introduction in 1993 the AS has had sporadic updates to its policy settings and long periods when no adjustments have been made. The lack of regular adjustment means that the amount of support provided to recipients is unresponsive to rising market conditions (particularly rents). Subsequently, the amount of assistance AS recipients are able to receive lags behind current market conditions by several years and is particularly inequitable for people in regions that have faced the steepest increases in rents.
- 46 AS parameters were last updated in 2018 as part of the Families Package based on 40th percentile of 2016 rents (approximately 90 percent of median rent). In January 2016, the median rent for all of New Zealand was \$395 per week. As at January 2021 the median rent was \$500 per week, representing a growth of 27 percent. Over the same period, the average weekly wage grew by just over half that rate, at 16 percent.
- 47 Some AS parameters have not been adjusted at all. The cash asset limits for AS recipients are currently \$8,100 for single people and \$16,200 for couples. These are hard limits, so any cash assets above the applicable level means an applicant loses all eligibility to AS. These limits were originally the cash asset limits for the Accommodation Benefit and have not been updated since 1988, before AS existed. The lack of adjustment to the cash asset creates issues for people who are saving for first home purchases as accumulating enough savings for a house deposit will make them ineligible for AS. In addition, the AS cash asset limit is out of step with the cash asset limit for public housing application, which is \$42,700.

Without regular adjustment AS has limited effectiveness as an instrument to alleviate housing stress

- 48 Housing support is a significant component of income support provided through the welfare system. As noted by the WEAG, this is expected to grow until sufficient supply of affordable housing is available to low-income New Zealanders. The table below sets out the actual and forecast expenditure for AS from the Budget Economic and Fiscal Update (BEFU) 2021.
- 49 The impact of COVID-19 resulted in an uptick in the number of AS recipients. The increase of approximately 60,000 recipients between December 2019 to December 2020 was driven largely by 41,000 more Jobseeker Support recipients accessing AS and an increase of 8,000 non-beneficiaries accessing AS. MSD is aware that there is underutilisation of AS by non-beneficiaries ^{s9(2)(f)(iv)}

Table 1. Actual and Forecast expenditure from the Budget Economic and Fiscal Update 2021 for Accommodation Supplement 2018/19 – 2024/25

| | Actual | | Forecast | | | | |
|--------------------------|----------|----------|----------|----------|----------|----------|----------|
| Financial year | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
| Accommodation Supplement | \$1,552m | \$1,708m | \$2,009m | \$2,159m | \$2,123m | \$2,140m | \$2,142m |

- 50 The current AS maxima (set in 2018) are based on 2016 rents. Since then housing costs have increased substantially. Outdated maxima erode the residual incomes of households constrained by the maxima⁶ and places them in higher housing-related stress. However, Budget 2021 announcements relating to increases to benefit rates will help to offset some housing stress experienced by benefit recipients.
- 51 MSD administrative data from October 2020 shows that 70 percent of households receiving AS are spending more than 40 percent of their income on housing. The international definition for housing-related stress for low-income households is 30 percent. For certain subsets of AS recipients, for example, the majority beneficiaries (87%) who are renting, are spending more than 40 percent of their income on rent. Nearly all (95%) beneficiaries who are renting in Auckland are paying more than 40% of their income on housing costs, and 51% of beneficiary renters in Auckland are paying 60% or more. Appendix 1 provides more detail.
- 52 Increased take up of Temporary Additional Support (TAS) is another indicator of housing stress that demonstrates insufficiencies of AS. TAS is a hardship payment available to beneficiaries and non-beneficiaries that provides a guaranteed minimum level of disposable income after regular weekly costs (such as accommodation) are taken into account. As at the end of December 2020, due to high accommodation costs, 24% of AS recipients (92,607 recipients) also received TAS. The average weekly payment for households receiving AS and TAS was \$134.39 (AS) and \$61.64 (TAS) or a combined payment of \$196.03. ^{s9(2)(f)(iv)}

There are also poorer work incentives for beneficiary households receiving TAS, since any increases in their income would cause their TAS to reduce dollar for dollar (for those not receiving the upper limit).

⁶ Households not receiving the maxima means that they are not limited by the maximum rates of AS and could receive more AS if their accommodation costs increased (although not only households constrained by the maxima are in high housing-related stress).

Low take-up by non-beneficiaries

- 53 Low take-up of AS is an issue among lower-to-moderate income working households. In 2019, MSD modelled the take-up rate among non-beneficiary households using 2017/18 HES data in the IDI. Key findings from this work showed that in the year to June 2019, around 100,000 households may have been eligible for AS but did not receive it.⁷ Approximately 38% of this group had dependent children and that these children accounted for 8% of the children in material hardship at the time. The average amount these households would have received if they took it up would be \$64 per week in 2017/18 (which would now be higher following the changes to AS with the Families Package and increasing housing costs since 2017/18).
- 54 Around 84 percent of this cohort were employed showing that the majority of households missing out on this payment are part of the 'working poor' population. These findings have significant implications as they relate to income adequacy, child poverty and work incentives. Further work needs to be done to understand the reasons for low take-up although compliance costs and lack of awareness are likely the driving factors.

Equity of assistance provided across housing subsidies

- 55 The differences in design of housing subsidies across public housing (Income Related Rent Subsidy) and private market housing (AS) come with trade-offs and issues for how the two subsidies work together. The Income Related Rent Subsidy (IRRS) is a more generous subsidy than what is available to people in the private market through AS. For a sole parent with children, the average IRRS subsidy (paid to the housing provider) is \$329 per week⁸ compared to the average AS payment for a sole parent with children of \$141 per week.
- 56 This has created inequity between households with similar incomes and circumstances in the private market and in public housing. This 'affordability gap' between IRRS and AS creates financial barriers for public housing tenants to move into private rentals or homeownership and increases demand for public housing among AS recipients.
- 57 As rents have increased over time, public housing tenants have been insulated from these cost increases by IRRS funding, while AS recipients have faced an increasing housing cost burden. This is because public housing tenants pay an Income Related Rent (usually 25% of household income) that is adjusted based on income, not housing costs. In contrast, AS recipients must pay 25% of their income to qualify for AS, then make a contribution to their housing costs above that rate, as well as 100% of housing costs above the maxima (noting the maxima are not regularly updated like IRRS).

Landlord capture

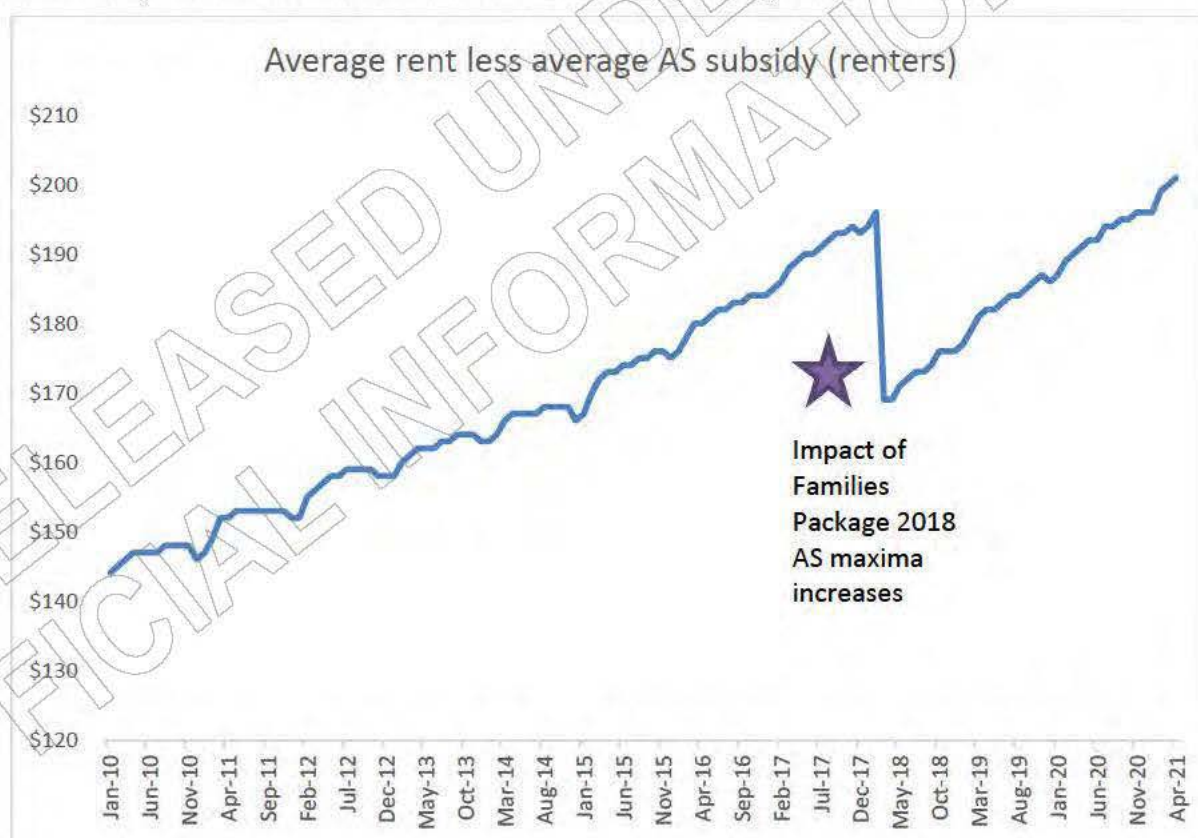
- 58 Landlord capture is an oft-cited risk with increasing the AS. Landlord capture occurs when landlords increase the accommodation costs of renters/boarders to absorb some or all of the increased amount of financial support and thus receiving the financial gain in increased support as opposed to the intended beneficiary. A 2015 review of international evidence suggests a range of impacts with the magnitude of landlord capture ranging from 30 – 78 percent. However, there are limitations of the applicability of these findings to the New Zealand context, due to the design features of some housing subsidies in other countries considered in the analysis (i.e. unlike AS, some housing allowances are paid directly to landlords) and the local housing market conditions in other countries.

⁷ This figure may represent an upper estimate of non-beneficiary take-up due to the impact of COVID-19 and the increased numbers now on Jobseeker Support.

⁸ This figure does not include the capital or operating supplement components of the Income Related Rent Subsidy.

- 59 For New Zealand-based evidence, in 2018 Motu investigated the extent of landlord capture following the AS maxima increase in 2005.⁹ In 2005, Auckland was divided into two areas and a higher AS maxima was available in central and northern urban areas.
- 60 Following the AS area change in 2005, on average, accommodation related support payments increased by \$6.81 for those impacted, and rental payments increased by \$2.44 per week (approximately 36% of the increase). The authors also noted from the data that it was not possible to determine if it was due to recipients being able to afford to spend more on housing and improving the quality of their accommodation or if it was due to landlords increasing rents. ^{s9(2)(f)(iv)}
- 61 Following the most recent changes to AS in 2018, MSD administrative data shows a dramatic drop in the amount people were spending on rent less the AS subsidy. Figure 4 provides evidence of increases to the AS benefitting AS recipients more than it did landlords.

Figure 3. The net impact of the 2018 Families Package AS changes for AS households renting - the average amount households pay in rent less the average AS subsidy - shows a dramatic drop in 2018 in amount households were spending on rent.



- 62 MSD's view is that the major factor for increasing accommodation costs in the current market is the lack of supply of affordable rental housing for lower-income households, and that it is not as a result of any policy changes to the AS driving real growth in rents. Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development (HUD) also agree that the lack of affordable supply is the main cause of rising accommodation costs. There is little available evidence on the impact of AS policy changes on rising costs, however HUD agrees this is unlikely to have been the main factor in rising accommodation costs while at the same time AS has not contributed to an increase in affordable supply. Treasury agrees that a lack of

⁹ Do housing allowances increase rents? Evidence from a discrete policy change. Dean R. Hyslop and David Rea. Motu Working Paper 18-10. Motu Economic and Public Policy. July 2018.

housing supply is at the core of the problem. However, Treasury notes that where supply cannot respond to increasing demand, any increase in ability to pay (including increases to salaries, wages or transfers) will likely lead to some increases in rents.

63 s9(2)(f)(iv)

. There are specific design features of the AS (partial subsidy, paid directly to tenants) that seek to mitigate the extent of landlord capture. Despite the perceived risk of an increase in the subsidy being partially absorbed by higher rents, the evidence shows that households will benefit from any change through higher after-housing-costs incomes. The extent to which households benefit (vs the extent to which there is landlord capture) is difficult to quantify.

Approach to reform: objectives, key design questions, options for discussion

64 This section sets out options, objectives and key design questions. We seek to understand Ministers' objectives for the review, which will inform the development of more detailed advice on options.

s9(2)(f)(iv)

65 For the WFF Review, Ministers have confirmed the high-level objectives of the WFF tax credit as supporting income adequacy, reducing child poverty and improving financial incentives for low-income earners to participate in the labour market.

s9(2)(f)(iv)

66

67

s9(2)(f)(iv)

68 s9(2)(f)(iv)

69

70 s9(2)(f)(iv)

71

s9(2)(f)(iv)

72 s9(2)(f)(iv)

s9(2)(f)(iv)

73 s9(2)(f)(iv)

74

s9(2)(f)(iv)

75 s9(2)(f)(iv)

76

77

s9(2)(f)(iv)

78

79

80

Consideration of other housing subsidies, s9(2)(f)(iv)

s9(2)(f)(iv)

81

s9(2)(f)(iv)

82 When considering options for reform of the AS, a number of other housing subsidies will be affected by any changes. s9(2)(f)(iv)

Other housing subsidies

83 Table two below sets out other types of housing assistance, and their relationship to AS. s9(2)(f)(iv)

Table two. Other housing subsidies and potential flow on impacts resulting from changes to Accommodation Supplement

| Description | Type of support | Number of recipients (As at end of December 2020) | Total spend 2019/20 | Average subsidy | Relationship to AS |
|--|--|--|------------------------------|--------------------------------------|--|
| Accommodation Supplement A weekly payment for low income people with high housing costs. Paid directly to recipients. | Homeownership, private rentals, boarding | 378,131 recipients | \$1.7 billion | \$101 per week | |
| Income Related Rent Subsidy Makes up the difference between a tenants Income Related Rent and the market rent for the housing / agreed rent (for some Community Housing Providers). Paid directly to the provider. | Public housing tenants, provided by either Kāinga Ora or Community Housing Provider (CHP). | 61,268 Kāinga Ora IRRS places, 9,473 Registered CHP IRRS places | \$1.07 billion ¹⁰ | \$314 per week | Demand for public housing is driven by deficiencies in the private rental market (both affordability, and discrimination that means people cannot find housing that meets their needs). s9(2)(f)(iv) |
| Temporary Additional Support A weekly payment that helps people when they do not have enough money to cover essential costs | Homeownership, private rental, boarding, public housing, Emergency Housing and Transitional Housing contributions. | 94,019 recipients, (98.5% were also receiving AS) | \$233.1 million | \$62 per week | Approximately 98% of TAS recipients also receive the AS. TAS reduces dollar for dollar when other income increases. s9(2)(f)(iv) |
| Emergency Housing Special Needs Grants A grant that helps people with the cost of staying in short term emergency accommodation. Client contributes 25% of their income. | Emergency housing (motels, campsite) | 8,503 individual clients granted an EH SNG (December 2020 quarter) | \$215.4 million | \$1,501 average 7-day-rate per grant | s9(2)(f)(iv) |

¹⁰ This figure does not include the capital costs or operating supplement provided to public housing providers.

| Description | Type of support | Number of recipients (As at end of December 2020) | Total spend 2019/20 | Average subsidy | Relationship to AS |
|---|---|---|------------------------|-----------------|--------------------|
| Accommodation Benefit A weekly payment that is paid with a Student Allowance to help with accommodation costs. | Private rental, boarding, hostels | 42,242 (2020 calendar year) | \$81.9 million | \$69 per week | s9(2)(f)(iv) |
| Housing Support Products A set of individual products that aim to address barriers to accessing or retaining housing by filling gaps not covered by other forms of assistance | Private rental and people exiting public housing | 1,342 grants in December 2020. | \$4.6 million | n/a | s9(2)(f)(iv) |
| Recoverable Assistance Payment (RAP), Advance Payment of Benefit (Advances) for housing related costs Used to meet essential immediate needs, including tenancy bonds, rent /board in advance and rent arrears. | RAP are available to non-beneficiaries and Advances are for beneficiaries, subject to income and asset tests. | 30,708 total grants in December 2020 (3,807 RAPs, 26,901 Advances) | \$22.4 million | n/a | |

s9(2)(f)(iv)

85 s9(2)(f)(iv)

86

87

88

s9(2)(f)(iv)

89 s9(2)(f)(iv)

90

91

s9(2)(f)(iv)

92 s9(2)(f)(iv)

93

s9(2)(f)(iv)

94

Next steps

- 95 Following feedback on this paper, officials will develop options and provide further advice for consideration s9(2)(f)(iv)

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

Appendix 1: Key facts – Accommodation Supplement Recipients

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

Appendix 2: Accommodation Supplement core settings

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

Appendix 1: Key Facts - Accommodation Supplement Recipients

As at 30 April 2020 AS supported...

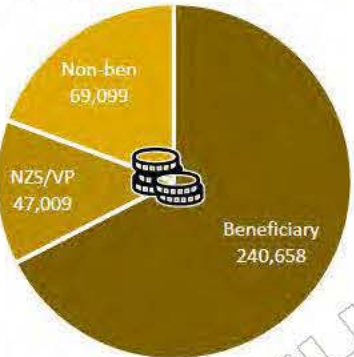


356,766 households

Approximately one in eight New Zealanders are supported by AS



Most AS recipients are renting and receive a main benefit

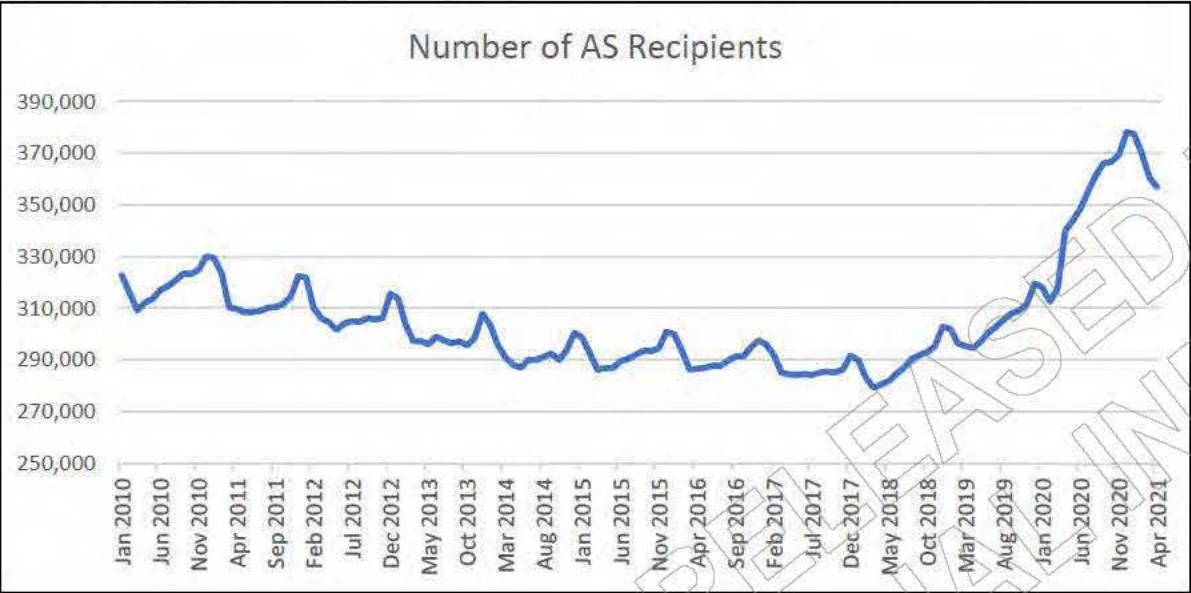


Most AS recipients are single and do not have children



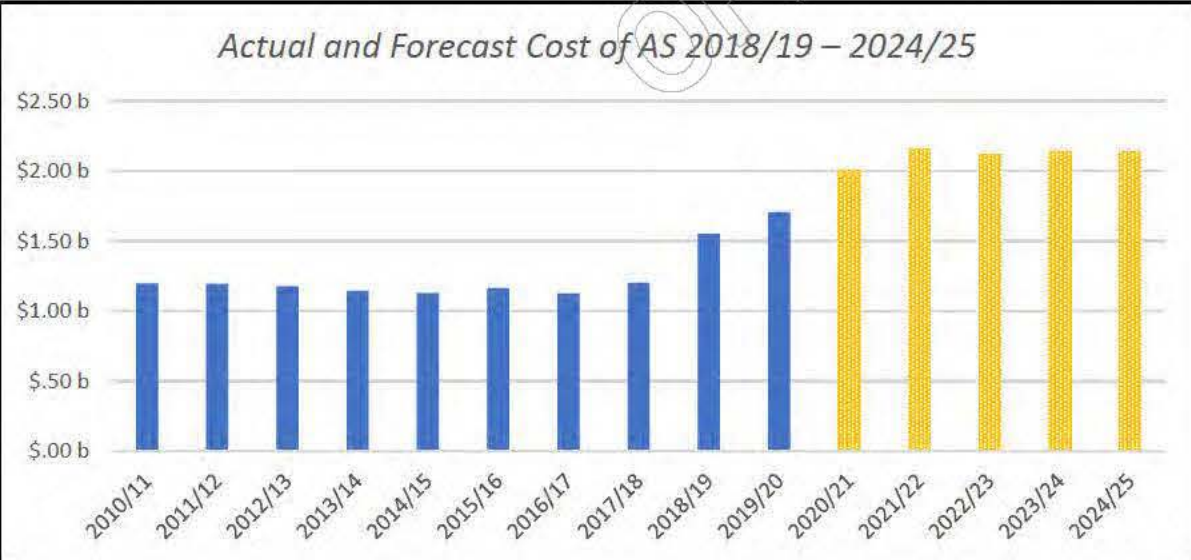
The number of households receiving AS has increased significantly

The number of households receiving AS has been increasing since late 2017. Trends in AS receipt generally follow main benefit receipt. The impact of COVID-19 further increased the number of households receiving AS.



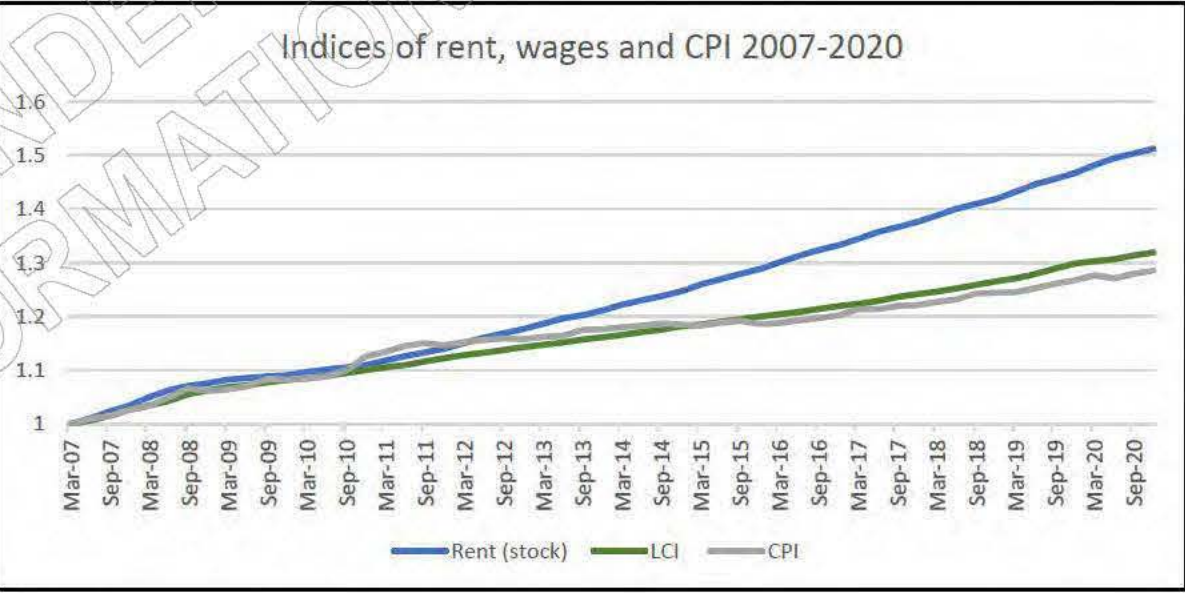
The cost of AS is forecast to increase (Budget Economic and Fiscal Update 2021)

Since 2017, AS expenditure has trended upwards. The increases to the AS maxima as part of the Families Package in 2018 and the impact of COVID-19 have driven increased expenditure. The cost of AS is forecast to surpass \$2b in 2020/21 for the first time.



Rising rents

From around 2015 lower quartile rents have risen faster than earnings and much faster than prices in general. For lower-income households, housing costs are absorbing more income and causing higher rates of housing-related stress.



AS recipients in housing stress

As at 2 October 2020, 70% of all AS recipients were paying more than 40% of their income on housing; 44% were paying more than half of their income on housing (for lower-income households, 30% is the accepted international threshold for housing-related stress). Rates of housing-related stress varies by AS Area and is forecast to worsen in all AS Areas.

| AS Area | Proportion of AS recipients paying >40% of income on housing costs | Average AS paid | Proportion of AS recipients forecast to be on the maxima by 2024 |
|--------------------------------|--|-----------------|--|
| Area 1 (maxima \$165-\$305) | 78% | \$139 | 41% |
| Area 2 (maxima \$105-\$220) | 70% | \$98 | 53% |
| Area 3 (maxima \$80-\$160) | 62% | \$74 | 55% |
| Area 4 (maxima \$70-\$120) | 57% | \$61 | 59% |

Appendix 2: Accommodation Supplement Core Settings

The AS is a cash payment to clients for some of their housing costs

Eligibility criteria for Accommodation Supplement

- Recipients must have not have cash assets above \$8,100 for a single person and \$16,200 for a couple.
- Recipients have to meet an income test based on family type. Beneficiaries automatically meet this test (as their income is sufficiently low).
- Non-beneficiary recipients must have income below the cut-out points set out in the table below. Superannuation and Veteran's Pension recipients must have income below a set limit (does not include their NZS/VP income).

Cut-out points and NZS/VP limits – weekly income

| Family type | Area 1 | Area 2 | Area 3 | Area 4 | NZS/VP |
|--------------------------|----------|---------|---------|---------|----------|
| Single person | \$1,190 | \$950 | \$850 | \$810 | \$591.20 |
| Couple (no children) | \$1,691 | \$1,371 | \$1,171 | \$1,071 | \$858.72 |
| Couple with children | \$2,011* | \$1,671 | \$1,431 | \$1,271 | \$858.72 |
| Sole parent, 1 child | \$1,653 | \$1,333 | \$1,133 | \$1,033 | \$717.40 |
| Sole parent, 2+ children | \$1,933 | \$1,593 | \$1,353 | \$1,193 | \$755.82 |

*Note the highest annual cut-out point for couples with children in Area 1 is \$104,572

Accommodation Supplement provides a partial subsidy for costs above an 'entry threshold' and up to a maximum amount

The entry threshold is 25% of income for a renter or boarder, and 30% for a homeowner.

Accommodation Supplement subsidises 70% of accommodation costs above this threshold, up to a cap or 'maxima'.

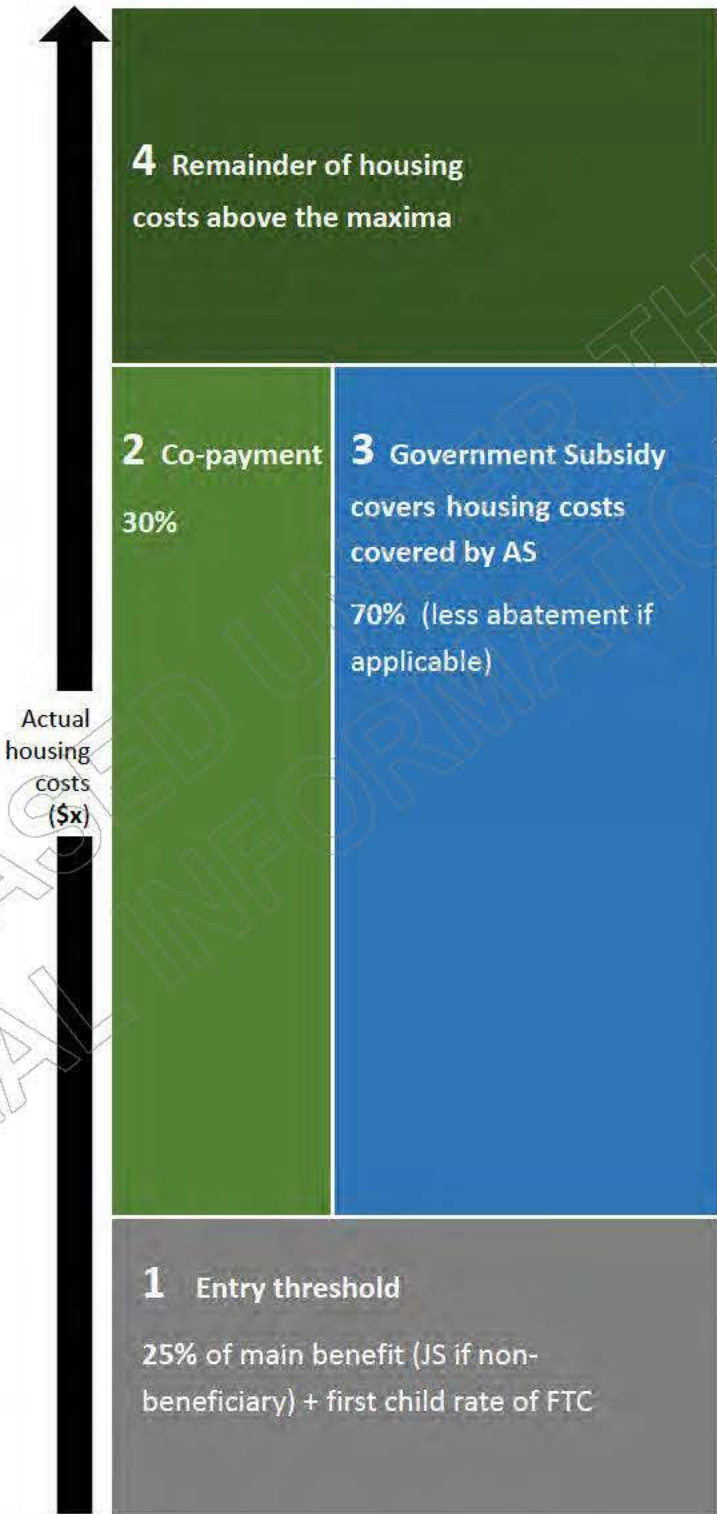
Maxima are set regionally, based on the 40th percentile of rents in an Area (based on 2016 rental data).

Accommodation Supplement maxima

| Family Type | Area 1* | Area 2 | Area 3 | Area 4 |
|--------------------------|---------|--------|--------|--------|
| Single person | \$165 | \$105 | \$80 | \$70 |
| Couple (no children) | \$235 | \$155 | \$105 | \$80 |
| Couple with children | \$305 | \$220 | \$160 | \$120 |
| Sole parent, 1 child | \$235 | \$155 | \$105 | \$80 |
| Sole parent, 2+ children | \$305 | \$220 | \$160 | \$120 |

*Area 1 covers Auckland, Queenstown, Tauranga, Area 2 is most other main centres (i.e. Hamilton, Wellington, Christchurch), Area 3 is mainly provincial centres (i.e. Dunedin, Rotorua) and Area 4 the remaining small towns and rural areas.

How the Accommodation Supplement works



How abatement works

Abatement applies to non-beneficiaries only. For every \$1 non-beneficiary households earns over the income thresholds (set out below), their AS subsidy is reduced by 25c. A household become ineligible when they reach the cut-out points for their Area.

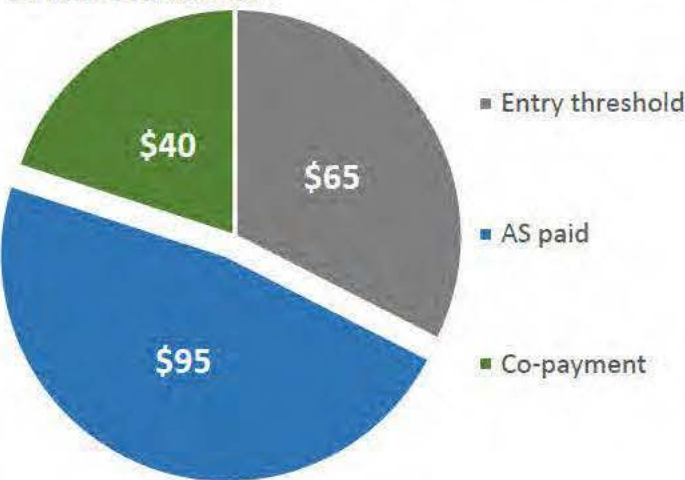
Assets over \$2,700 for a single person and \$5,400 for a couple may also affect households' AS subsidy. For every \$100 worth of assets over these thresholds, \$1 is added to their income (which may impact their AS subsidy if they are over the income thresholds). All recipients households will lose eligibility if they have cash assets over the limits (\$8,100 for a single person and \$16,200 for a couple).

Accommodation Supplement income thresholds

| Family type | Income threshold (weekly) |
|--------------------------|---------------------------|
| Single person | \$530 |
| Couple (no children) | \$751 |
| Couple with children | \$791 |
| Sole parent, 1 child | \$713 |
| Sole parent, 2+ children | \$713 |

Scenario – non-beneficiary, single, renter

Nick is single, 19 years old and rents in Wellington (Area 2). He earns \$530 per week and spends \$200 on accommodation. He is eligible for \$95 per week and pays the remaining \$105 from his income (\$64 as the Entry Threshold and \$40 co-payment).



Accommodation Supplement formula

$$\left(\text{housing costs} - \text{entry threshold} \right) \times 70\% \text{ up to maxima} - \text{abatement}$$



Report

Date: 24 June 2021

Security Level: IN CONFIDENCE

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

Approach to engagement for the Working for Families and Accommodation Supplement review

Purpose of the report

- 1 This report seeks your agreement to a proposed approach for engagement with stakeholders to inform the review of Working for Families and the Accommodation Supplement.

Recommended actions

It is recommended that you:

- 1 **note** Income Support Ministers have announced the review of Working for Families and Accommodation Supplement and decisions now need to be made on the approach to engagement
- 2 **note** the short timeframe s9(2)(f)(iv) significantly limits the range of options which are possible for engagement this year, and advice in this report is based on this constraint
- 3 **note** officials view that effective engagement would involve sharing the key objectives and constraints for the review with stakeholders to inform their feedback
- 4 s9(2)(f)(iv)
- 5 **note** there are two main options for engagement this year, which are not mutually exclusive. These are:
 - 5.1 Targeted engagement with a limited number of experts and key stakeholders, through a small number of face-to-face meetings and workshops
 - 5.2 Public written submissions, accompanied by short guidance material on key objectives

6 **agree** to an engagement approach to discuss with Income Support Ministers:

6.1 Targeted engagement with experts and key stakeholders

AGREE / DISAGREE

AND/OR

6.2 Public written submissions

AGREE / DISAGREE

7 **note** Ministers are due to discuss objectives for reform of the Accommodation Supplement at a meeting on 29 June 2021, and you may wish to discuss engagement as part of the meeting

8 s9(2)(f)(iv)

9 **forward** this report to the Minister for Child Poverty Reduction, Minister of Finance, Minister of Housing, Minister for Children and Minister of Revenue.


Polly Vowles
Policy Manager
Income Support Policy

24/06/21

Date


Hon Carmel Sepuloni
Minister for Social Development and
Employment

28/6/21

Date

An engagement approach needs to be agreed for the Working for Families and Accommodation Supplement review

- 2 In April 2021, the Ministers for Child Poverty Reduction (the Prime Minister), Finance, Social Development and Employment, and Revenue ('Income Support Ministers') agreed to bring forward the review of Working for Families (WFF) in light of the Government's commitment to reduce child poverty, and the changing labour market and income support context [REP/21/4/383 refers].
- 3 Income Support Ministers agreed that the review would cover WFF tax credits, the Accommodation Supplement (AS), and the s9(2)(f)(iv) [redacted]. The review of Childcare Assistance and decisions on Out of scope [redacted] would be considered alongside the review. The review of WFF and AS (the Review) was publicly announced by Ministers as part of Budget 2021, which has generated significant interest and expectation.

Engagement on the Review is desirable...

- 4 Officials' view is that engagement with stakeholders is desirable as part of a review of this scale. Engagement can generate new ideas and/or allow ideas to be tested for workability and identify problems with proposals which officials may not have considered. It also allows for the voices of a wide range of clients to be captured on what the proposals would mean for them.

... however, timeframes for engagement are very limited...

- 5 s9(2)(f)(iv) [redacted], leaving very limited time for engagement. There are also limited resources available within agencies to conduct comprehensive engagement.
- 6 Given the condensed timeframes it will not be possible to do comprehensive consultation on options or specific proposals with the public in general or Māori stakeholders, through a series of face-to-face hui, which would be more consistent with best practice.
- 7 However, issues and areas for improvement of WFF and AS are relatively well understood. Recent public engagement through the Welfare Expert Advisory Group included some feedback on these. We have also proactively engaged with stakeholders on WFF and AS over recent years and some stakeholders have published their views and analysis.
- 8 It is also not without precedent to make changes to the welfare system without public engagement. For example, when Working for Families was first introduced in 2005 there was no public engagement undertaken except for through the legislative process.

... and the key parameters agreed by Ministers have already narrowed the focus of the review, which has implications for the approach to engagement

- 9 s9(2)(f)(iv) [redacted]

- 10 Additional key parameters Ministers have agreed are:

10.1 s9(2)(f)(iv) [redacted]

10.2 options for change s9(2)(f)(iv) [redacted]

10.3 s9(2)(f)(iv) [redacted]

- 11 Objectives for the review of AS have not yet been confirmed by Ministers. These will be discussed by Income Support Ministers and the Minister of Housing at a meeting

on 29 June 2021. A clear steer from Ministers on the objectives will enable officials to convey these clearly during proposed engagement.

- 12 If key parameters agreed by Ministers are not shared with stakeholders, this will undermine the effectiveness of engagement. Sharing the key objectives of the Review, and s9(2)(f)(iv) would improve the value and perceived integrity of the engagement. The risk of sharing these parameters, s9(2)(f)(iv), s9(2)(g)(i)

Depending on the decisions of Ministers on options for reform, engagement with stakeholders could be delayed

- 13 Following further advice from officials on options for reform in late July 2021, s9(2)(f)(iv)

14

- 15 The following options for engagement presented in this report are based on the current timeframe agreed by Ministers, s9(2)(f)(iv). If timeframes change, further advice on possible engagement can be provided.

There are two main options for engagement, given timeframes

- 16 You have two main options for engagement s9(2)(f)(iv).
- 17 These options are not mutually exclusive, and you have choices around whether to choose either targeted consultation with experts, or public written submissions, or both.

Targeted engagement with experts and key stakeholders

- 18 The first option is to conduct very targeted engagement with a limited number of experts and key stakeholders. This would be through a small number of face-to-face meetings and facilitated workshops for some groups. The experts and key stakeholders would be invited to participate, based on having subject matter expertise on WFF or the wider housing system including the AS, or through representing key interests in these areas. Stakeholders who represent a broad range of views will be invited to the extent possible.
- 19 Engagement with these stakeholders will be valuable to ensure officials have identified a wide range of options and they may also be able to assist with some of the more technical aspects of options being considered, given their subject matter expertise. This approach on its own will not capture the voice of clients, except those represented by advocacy groups who may be included as key stakeholders.

20 s9(2)(f)(iv)

21

s9(2)(f)(iv)

- 22 If you choose this option, officials will provide further information on the planned approach to this engagement including lists of key experts and stakeholders.

Public written submissions

- 23 Engagement could also be conducted through public written submissions. This could occur in parallel with targeted engagement with experts or instead of. We expect experts to contribute via either process. Officials would provide short guidance material to support written submissions, rather than a discussion document. This would include information on key parameters and guiding questions to focus submissions on the identified objectives of the Review, to mitigate the risk of generating options which are inconsistent with these. Written submissions would seek to engage with a wide variety of stakeholders across a broad spectrum of views and would be open to the public.
- 24 The benefits of public written submissions are this would reach a wide range of people with different perspectives and provides for the voice of clients to be heard. Public submissions may also be the best way to reach middle-income working families who receive WFF and may be less likely to have their views represented by advocacy groups.
- 25 Public written submission, even in a limited form, would be challenging given the condensed timeframes and resource constraints. s9(2)(g)(i)
s9(2)(f)(iv)
- . There is also the risk of engagement fatigue among stakeholders, who may wish to engage on both WFF and AS review, and s9(2)(f)(iv).
- 26 s9(2)(g)(i)

In addition to any external engagement, internal consultation will be conducted by agencies

- 27 To ensure the views of Māori are captured to the extent possible, officials will set up meetings with Māori Advisory Groups, including within MSD and channels within Inland Revenue.
- 28 MSD also has a wānanga process, which is an internal process that can be used to work through options from a Te Ao Māori perspective, with a focus on whānau, hapū and iwi development and honouring Te Tiriti o Waitangi. Officials can test options for reform on WFF and AS as they become more developed through wānanga.
- 29 There are also advisory groups that agencies often consult to incorporate the views of clients, providers and/or specific populations groups such as the MSD National Benefit Advocate Consultative Group and Housing reference group. Officials will also consult with operational staff across agencies throughout the Review.

s9(2)(f)(iv)

- 30 s9(2)(f)(iv)

31 s9(2)(f)(iv)

32

Next steps

- 33 We suggest sharing this report with other Ministers ahead of the 29 June 2021 meeting, if possible. The proposed engagement approach could be discussed with your colleagues at the meeting if desired.
- 34 Based on the engagement approach you decide, we will provide you with more information on key experts and stakeholders and/or draft consultation material in July 2021.
- 35 A report to Income Support Ministers and the Minister of Housing will be provided in October summarising the key findings from submissions and/or targeted engagement with key experts and stakeholders.
- 36 Initial advice on the s9(2)(f)(iv) will be provided to Ministers in July/August 2021.

REP/21/6/614

Author: Maudie Johnson-Hunter, Policy Analyst, Income Support Policy

Responsible manager: Polly Vowles, Policy Manager, Income Support Policy

Aide-mémoire



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

Meeting

Date: 25 June 2021 **Security Level:** IN CONFIDENCE

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

File Reference: REP/21/6/673

Income Support Ministers Meeting 29 June 2021: Review of Working for Families and Accommodation Supplement

| | |
|------------------------|---|
| Meeting details | 8.00-8:30am, 29 June 2021, Prime Minister's Boardroom |
|------------------------|---|

| | |
|---------------------------|--|
| Expected attendees | Rt Hon Jacinda Ardern, Prime Minister, Minister for Child Poverty Reduction Hon Grant Robertson, Minister of Finance Hon Kelvin Davis, Minister for Children Hon Dr Megan Woods, Minister of Housing Hon David Parker, Minister of Revenue Deborah Russell, Parliamentary Under-Secretary for Revenue |
|---------------------------|--|

| | |
|---------------------------|--|
| Purpose of meeting | Income Support Ministers and the Minister of Housing are meeting to discuss: <ul style="list-style-type: none">• Overview of progress on the review of Working for Families and Accommodation Supplement (handout attached)• the Accommodation Supplement as part the review of Working for Families (paper attached)• Childcare Assistance Review (paper attached). |
|---------------------------|--|

| | |
|-------------------|---|
| Background | <i>The review of Working for Families (WFF) and Accommodation Supplement (AS)</i> |
|-------------------|---|


On 2 June 2021 Income Support Ministers and the Minister of Housing received initial advice seeking agreement to the scope and parameters of the AS review [REP/21/5/567]. These decisions will inform the next phase of advice on the options for change

s9(2)(f)
(iv)

On 24 June 2021 you received a report seeking agreement to an engagement approach for the review of WFF and AS to discuss with Income Support Ministers [REP/21/6/614 refers].


Further advice in the WFF and AS review and related work is outlined in the attached handout.

Out of scope



Other related work and context

Out of scope



Child Poverty Targets: s9(2)(f)(iv)



Key issues

General update on the review of Working for Families

We have provided a handout for the meeting on timeframes for future advice and decisions on the review of WFF and AS and related work.

Talking points:


- Advice on potential options for the WFF review will be provided in late July and separate initial advice s9(2)(f)(iv) is expected shortly afterwards, in July/August.
- I recently received a report seeking agreement to an approach for engagement with stakeholders to inform the WFF and AS review to discuss with you. This report provides options for engagement through targeted consultation with key experts and stakeholders and/or public written submissions.
- s9(2)(f)(iv) mean that the engagement options are limited.
- s9(2)(f)(iv) .
- s9(2)(f)(iv) .

Accommodation Supplement Report

We suggest your discussion with other Ministers focuses on three scope questions set out in the recommendations of the report. Clarification of these aspects of the review will assist with the next stage of advice. These scope questions are:

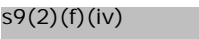

-
- What are the objectives for the AS review? (recommendation 6)
 - What are the targeting choices? (recommendation 7)

s9(2)(f)(iv)




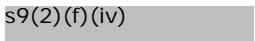
However, unless there are strong reactions against either of these option sets officials will provide advice across these options, and any others identified, to meet the agreed objectives of the AS review.

Talking points:

- We recently received advice on AS seeking direction on some key aspects about the scope of the review.
- Direction we provide on objectives, targeting s9(2)(f)(iv)  will be used to inform the next stage of advice on AS which is s9(2)(f)(iv) 



Objectives (recommendation 6)

Talking points:

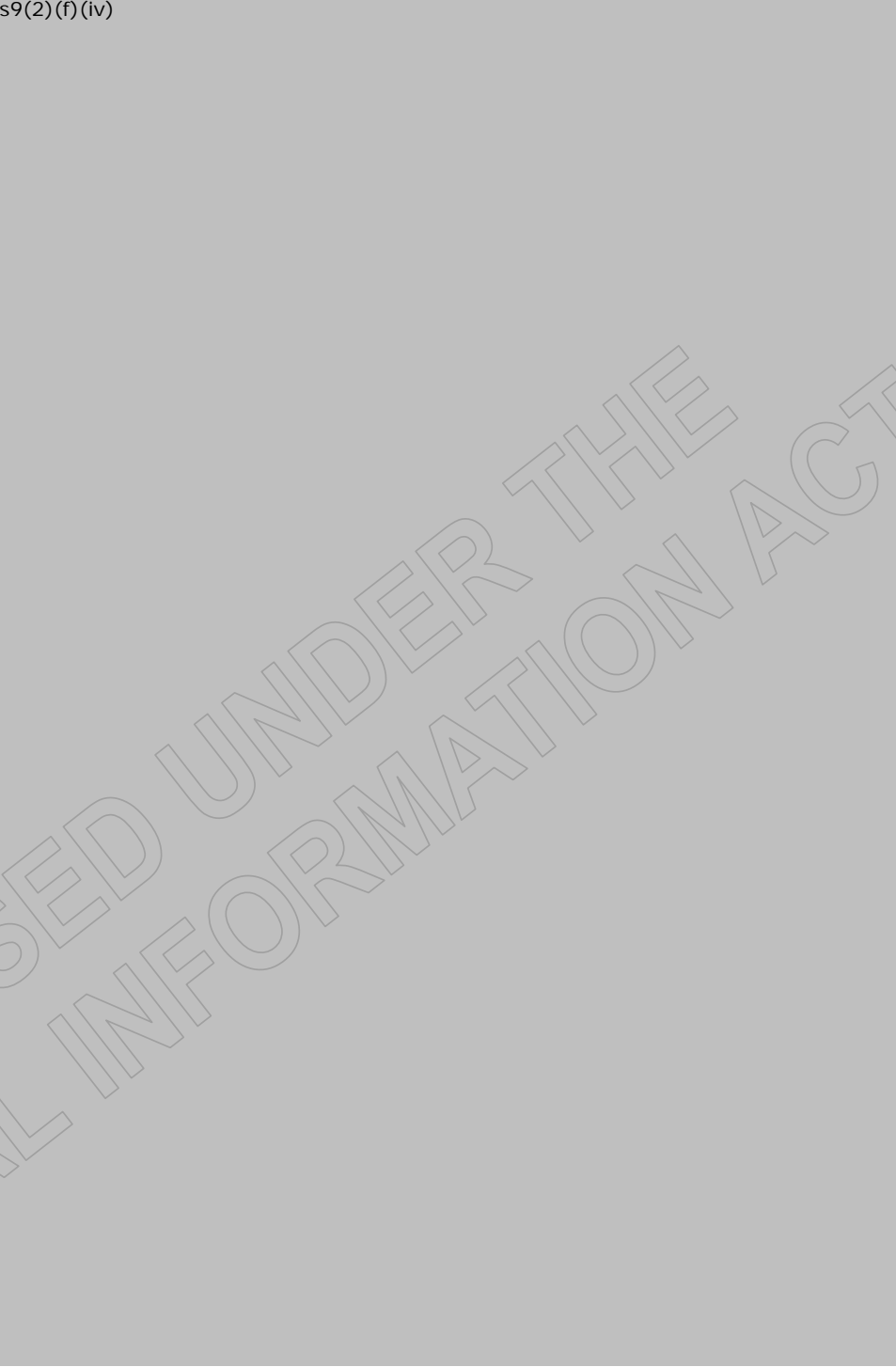
- The objectives reflect the key concerns that exist about the current settings and impact of AS.
- s9(2)(f)(iv) .
- It might be useful to discuss what s9(2)(f)(iv)  to help prioritise the objectives.

Targeting choices (recommendation 7)

Talking points:


- s9(2)(f)(iv) 
- 

s9(2)(f)(iv)

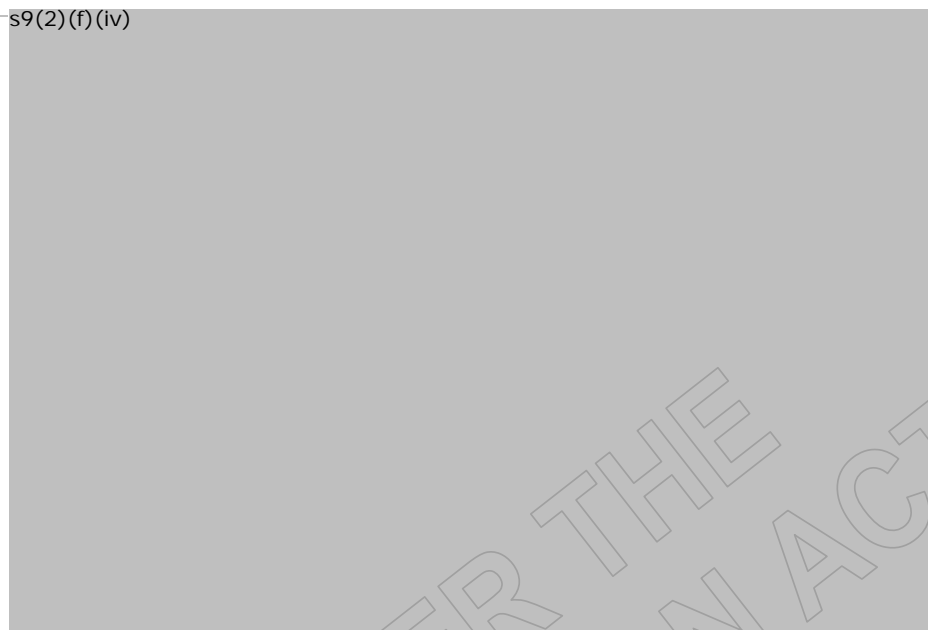


Talking points:

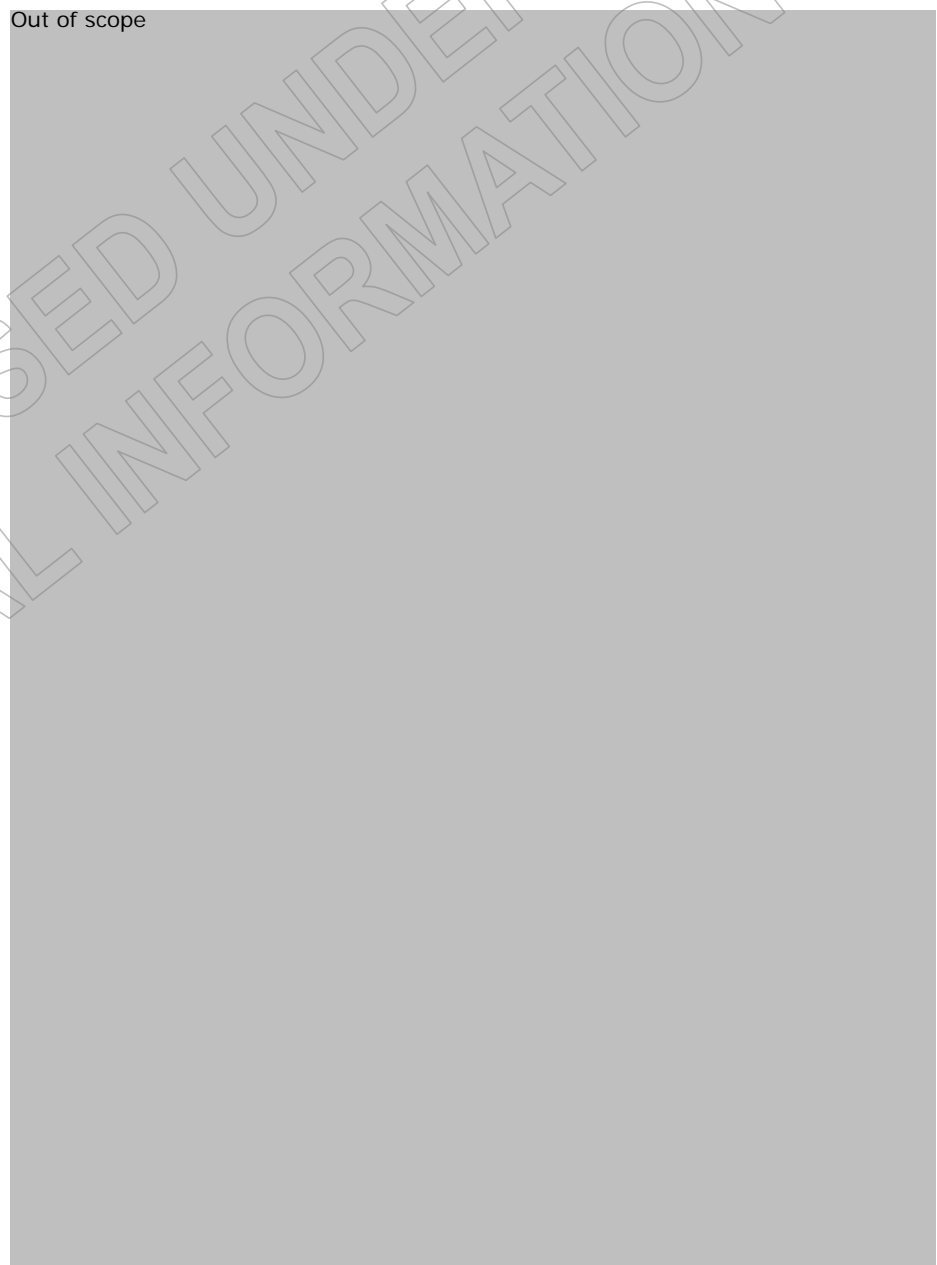
s9(2)(f)(iv)



s9(2)(f)(iv)



Out of scope



Out of scope

Child poverty reduction targets in the current fiscal environment

The next three-year targets (likely to have been agreed by Cabinet on Monday 28 June) are broadly consistent with the average rate of progress required to reach the ten-year targets.

Talking points:

-
- When factoring in the impacts of the benefit increases announced in Budget 2021, reaching the next three-year targets would require further policies that achieve reductions of around 20-25,000 children (2 ppt) on each measure.

- s9(2)(f)(iv)

-

-

Next steps

Timeline of upcoming advice

For a more detailed outline of recent and future advice in 2021, a handout has been provided.

| | |
|---------------|--------------------|
| July | WFF options report |
| August | s9(2)(f)(iv) |

Author: Kahu Te Kani, Graduate Policy Analyst, Income Support Policy

Responsible manager: Polly Vowles, Policy Manager, Income Support Policy

Appendix – Out of scope

Out of scope

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

Timeline of the review of Working for Families and Accommodation Supplement and other related work

- The review of Working for Families (WFF) and Accommodation Supplement (AS) is progressing well to provide options to s9(2)(f)(iv).
- A Governance Group of senior officials from Ministry of Social Development, the Department of the Prime Minister and Cabinet, the Treasury, Inland Revenue and the Ministry of Housing and Urban Development meets fortnightly to provide oversight and guidance on the review. There is also a working group made up of officials from these agencies.

Recent advice:

- Initial advice on the approach to the Accommodation Supplement Review, 2 June 2021
 - This paper is the main point of discussion for this Income Support Ministers' meeting and seeks agreement to the scope and parameters of the AS review.
- Approach to engagement for the Working for Families and Accommodation Supplement review, 24 June 2021
 - This report was sent to the Minister for Social Development and Employment for agreement to an approach to discuss with Income Support Ministers.

Out of scope

Upcoming advice:

| | |
|------------------|--|
| July | WFF options report |
| August | s9(2)(f)(iv) Public engagement on WFF/AS could potentially begin (TBC) |
| September | s9(2)(f)(iv) |
| October | Engagement findings report to Income Support Ministers and the Minister of Housing (TBC) s9(2)(f)(iv) |
| November | s9(2)(f)(iv) Out of scope |

- The timeframes for future advice will largely depend on the decisions made by Ministers. Provisional timeframes are indicated above. Out of scope