

The Treasury

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- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
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- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
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- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [40] Not in scope
- [42] 18(d) - information is already publicly available or will be publicly available soon.

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Treasury Report: Final decisions on a main benefit increase in April 2022 for the Budget 2021 package

Date:	7 April 2021	Report No:	T2021/875
		File Number:	SH-3-6

Action sought

	Action sought	Deadline
Rt Hon Jacinda Ardern Prime Minister	<p>Note key considerations associated with Option 4 for the second main benefit increase;</p> <p>Confirm either a \$25 or \$30 per adult increase to student support</p> <p>Refer report to the Ministers for Social Development and Employment, Revenue, and Education</p>	8 April 2021
Hon Grant Robertson Minister of Finance		
Hon Dr Megan Woods Associate Minister of Finance		

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Laura Browne	Senior Analyst, Welfare And Oranga Tamariki ^[39]	^[35]	✓
Keiran Kennedy	Manager, Welfare And Oranga Tamariki		

Minister's Office actions (if required)

Refer the report to the Ministers for Social Development and Employment, Revenue, and Education.
Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Final decisions on a main benefit increase in April 2022

Purpose of Report

1. We understand Budget Ministers agreed to a \$20 per adult increase to main benefits on 1 July 2021 (\$432m p.a. in B21) and have made an in-principle decision to proceed with **Option 4** for the second main benefit increase on 1 April 2022, subject to receiving further advice.
2. We have previously advised on options around a main benefit increase, most recently on the \$50 per adult option [T2021/492, T2021/699 refers]. Many of those issues raised are still relevant to this increase (e.g. impact on work incentives, coverage, flow-on impacts).
3. This advice has been prepared under urgency, and draws out only the key considerations specific to the parameters of Option 4. MSD have been consulted. The main parameters of Option 4 are as follows:

Option	Budget 2022 (1 April 22 changes)	Reduction in Child Poverty in TY2023
Option 4: WEAG_19 with Child Poverty focus Initial \$20 increase, then lift to WEAG rates in April 22, with an extra \$100m for families with children	April 22: Lift remaining benefit rates to WEAG_19 (actual) and \$25 per adult increase to student support <u>PLUS</u> an additional \$15 per adult increase to main benefits for families with children \$547m p.a. in B22	22k ± 6k on AHC50 15k ± 6k on BHC50

Key considerations with Option 4

4. The rates recommended by WEAG included a range of policy changes in terms of adjusting the relativities between different benefit rates. This impacts the extent to which different beneficiary groups will gain under each option.
5. One of the key differences between Option 4 and a straight dollar increase is the extent to which additional funding is directed towards Supported Living Payment (SLP) recipients. Approximately 1 in 4 beneficiaries receive SLP – just under 100,000. This benefit is for people who are permanently and severely restricted in their capacity for work because of a health condition, injury or disability or where they are caring for someone who would otherwise need full-time care and attention, e.g. hospital or rest home-level care.
6. Currently, SLP rates are approximately 23% higher than the equivalent Jobseeker Support (JS) rates (excluding sole parent and youth rates). There are a number of rationales to justify the higher payment rate for SLP. These include:
 - a the additional living costs associated with having a health condition or disability,
 - b SLP recipients are more likely to be supported by benefits for longer periods of time than jobseekers and thus have higher costs that they cannot defer,
 - c the ongoing disadvantage in the labour market that this group faces, and
 - d less emphasis on ensuring adequate work incentives for SLP recipients given their severely restricted work capacity.

7. In making its recommendations on increases to main benefit rates, the WEAG balanced several considerations. One of these considerations was ensuring that the SLP rates did not exceed New Zealand Superannuation (NZS) rates.
8. To balance this constraint with adequacy objectives for JS recipients, WEAG recommended narrowing the gap, setting SLP rates only 14% higher than the equivalent JS rates. Some of these considerations would be different (e.g. minimum wage, NZS level) if WEAG were to make their recommendations today.
9. Option 4 still results in SLP rates being paid at a higher level than JS rates. However recipients of JS will receive a more significant increase; **the increases to JS are between \$13 and \$16 higher than for SLP recipients** (except for sole parents). In contrast, if the benefit increase were calculated on a percentage basis, the increases would be larger for SLP recipients.

April 2022 increase ¹ <u>per adult</u> by benefit category			
	JS	SLP	Difference
Single adults	+\$28	+\$12	\$16
Youth rates	+\$29	+\$14	\$15
Couples, without children	+\$34	+\$21	\$13
Couples, with children	+\$35	+\$22	\$13
Sole Parents	+\$15	+\$15	\$-

10. The appropriate relativities between any of the rates is a judgment call when considering multiple factors, including fiscal costs, impact on work incentives and poverty impacts. There is also a review underway as part of the Welfare Overhaul work programme looking at the financial assistance available for people with a health condition and disability and the levels of assistance will likely be considered as part of this review.
11. In terms of the impact Option 4 has on reducing child poverty, the impacts are broadly the same (i.e. within the margin of error) as the straight dollar increase (Option 2 - \$20 per adult), but with a higher fiscal cost. The reduction is 22,000 children ± 6,000 on the after-housing-cost measure and 15,000 children ± 6,000 on the before-housing-cost measure.

Choices around increases to student support

12. Ministers previously agreed to increasing student living support from 1 April 2022 by the equivalent per adult increase to main benefits to keep benefit and student living support levels broadly aligned [T2021/699 refers].² This was to ensure that people were not disincentivised to study and/or remain on (or apply for) a main benefit when this may not be what they want or in their longer-term interest.
13. Historically, the 'away from home' rates of student allowances were broadly aligned with the equivalent main benefit rate. Student support also has 'at home' rates which are less directly comparable to the benefit system.

¹ These increases are in addition to the \$20 per adult increases on 1 July 2021 and are in addition to wage indexation that will occur through the Annual General Adjustment on 1 April 2022.

² This earlier advice noted that there are a number of factors which mean that the systems are not completely aligned (e.g. student support is indexed to inflation).

14. In terms of the alignment between student support and benefit rates under Option 4:
 - a a \$25 per adult increase to student support would result in:
 - i most student rates being approximately **\$6-7 lower** than benefits, and
 - ii sole parent rates are **largely aligned**
 - b a \$30 per adult increase to student support would result in:
 - i most student rates being approximately **\$1-2 lower** than benefits, and
 - ii sole parent student support being approximately **\$5 higher** than SPS.
15. Increasing student support by an additional \$5 (i.e. increase student support by \$30 per adult rather than \$25) would cost an additional **\$15.889m p.a.** against the Budget 2022 allowance. This would lift the overall cost of Option 4 to **\$562m p.a.**

Key differences between Option 4 and WEAG recommendations

16. WEAG recommended a broader suite of changes to income support. This included immediate increases to main benefits, significant increases to Working for Families for families with children, changes to the way payments are indexed, and the introduction of a Living Alone Payment.
17. Option 4 will give effect to the first of these changes by lifting benefit rates to the levels recommended in 2019. It is worth noting however, that this only partially meets the WEAG's overall recommendation in relation to lifting benefit rates, insofar as it does not take into account the subsequent indexation increases (inflation and/or wage growth) that would have occurred if the benefit rates were increased immediately in 2019.
18. As noted previously, WEAG recommended that families with children receive increases primarily via the Family Tax Credit. The additional \$90 million p.a. boost for families with children (i.e. an additional \$15 per adult) provides an additional adequacy focused lift for beneficiaries with children. However, it does not provide any support to low-income families with children that are not receiving a main benefit, unlike increases to the Family Tax Credit.
19. ^[33]
20. ^[33]

Other flow-on impacts from Option 4

21. Changes to main benefits have flow-on impacts to other forms of support. In some cases these can result in people receiving less financial assistance overall due to complex interactions.
22. To address this, the Budget 2021 package includes complementary changes to Temporary Additional Support and Childcare Assistance from 1 July 2021 to remove the need for Transitional Assistance Payments (TAP) from future benefit increases. These complementary changes will prevent people who receive these payments from being financial disadvantaged on 1 April 2022 from any benefit rate increases, regardless of the option progressed.
23. Benefit increases will flow through to reductions in Temporary Additional Support (TAS), which have been included in the overall costings. These impacts were discussed extensively in previous advice [T2021/492 refers] and progressing Option 4 does not alter the impacts on different family types substantially.
24. The flow-on impacts to the Minimum Family Tax Credit (MFTC) have been costed on the basis of the partial alignment approach. We understand that Ministers have now agreed to the 'scaled WEP' option [T2021/814 refers]. This would reduce the overall cost by \$0.750m p.a. for Budget 2022. Due to time constraints, the costings in this report have not been updated. However, this decision will be reflected in the final recommendations for the Budget 2021 Cabinet paper.

Recommended Action

We recommend that you:

- a **note** that this advice was prepared under urgency and focuses only on the key considerations relevant to Option 4

Supported Living Payment

- b **note** that under Option 4, the increase to rates in April 2022 will be between \$13 and \$16 higher for Jobseeker Support recipients than for those on the equivalent rates of Supported Living Payment (except for sole parents)
- c **note** that the appropriate relativities between the Jobseeker Support rates and Supported Living Payment rates is a judgement call

Student Support

- d **note** that under Option 4, the **\$25 per adult** increase to student support would result in most student rates being approximately \$6-7 lower than equivalent benefits, while sole parent rates will largely be aligned
- e **agree** to increase student support by **\$30 per adult**, which would result in most student rates being approximately \$1-2 lower than benefits, while sole parent rates of student support will be approximately \$5 higher than Sole Parent Support, with an additional fiscal cost of **\$15.889m p.a.** to be charged against the Budget 2022 allowance, and

Agree/disagree

Prime Minister

Agree/disagree

Minister of Finance

Agree/disagree

Associate Minister of Finance

f **refer** to the Ministers for Social Development and Employment, Revenue, and Education.

Agree/disagree

Minister of Finance

Keiran Kennedy
Manager, Welfare & Oranga Tamariki

Rt Hon Jacinda Ardern
Prime Minister

Hon Grant Robertson
Minister of Finance

Hon Dr Megan Woods
Associate Minister of Finance

Appendix A

Breakdown of recipients by benefit category			
	JS	SLP	Total
Single adults	33%	20%	53%
Sole Parents	23%^	2%	25%
Couples, without children	3%	2%	5%
Couples, with children	3%	1%	4%
Youth rates^^	12%^^	0%	12%
Total	74%	25%	99%

^ includes Sole Parent Support (SPS) recipients ^^includes JS 18-19 at home

Benefit Rates in April 2022					
		No policy changes ³	B21 \$20 increase only ⁴	Option 2 (\$20/\$20)	Option 4
Single adults					
	JS, Single, 25+	\$267	\$287	\$307	\$315
	SLP, Single, 18+	\$327	\$347	\$367	\$359
Sole Parents					
	Sole Parent Support	\$399	\$419	\$439	\$434
	SLP, Sole Parent	\$449	\$470	\$490	\$485
Couples, without children					
	JS, Couple (total)	\$427	\$468	\$508	\$536
	SLP, Couple (total)	\$526	\$568	\$608	\$610
Couples, with children					
	JS, couple with Children (total)	\$455	\$496	\$536	\$566
	SLP, couple with Children (total)	\$555	\$596	\$636	\$640
Youth rates					
	JS, Single, 18-24yrs	\$227	\$247	\$267	\$276
	SLP, Single, 16-17yrs	\$269	\$290	\$310	\$304

Benefit & Student Allowance Rates in April 2022				
		Option 4	Students +\$25	Students +\$30
Benefits, Away from Home			Student Allowance, Away from Home	
	JS, Single, 18-24yrs	\$276	SA, Single, 18-23yrs	\$270
	JS, Single, 25+	\$315	SA, Single, 24+	\$308
	Sole Parent Support	\$434	SA, Sole Parent	\$434

³ I.e. Current rates plus 1 April 2022 wage indexation.

⁴ I.e. Current rates plus \$20 then wage indexation.

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