Aide-mémoire

Cabinet paper

Date: 23 November 2017 **Security Level:** Cabinet Sensitive

For: Hon Carmel Sepuloni, Minister for Social Development

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Families Package

Cabinet Committee	Cabinet
Date of meeting	Monday 27 November 2017
Minister	Hon Grant Robertson, Minister of Finance
Proposal	This paper seeks Cabinet's agreement to the Government's Families Package and seeks agreement to issue drafting instructions for the Families Package legislation.
Key issues	As part of the group of Ministers responsible for the Families Package, you have made a series of decisions about the components of the Families Package. Agreement to these decisions is now being sought from Cabinet so that legislation can be drafted and then introduced to the House before Christmas. The Ministry of Social Development (MSD) will be administering many of the components of the Families Package including the Winter Energy Payment, which with around one million eligible recipients will be the largest supplementary payment that MSD administers. The Families Package will result in significant implementation costs to MSD of $17.973 million over the five-year Budget forecast period, above the existing $4 million contingency established as part of Budget 2017. This includes on-going costs of $12.482 million over the forecast period. Cabinet will consider establishing a contingency for MSD for these costs. More detailed information about these costs is provided in this briefing. The distributional analysis, prepared by the Treasury and provided in the Cabinet paper, only shows the impact of the Families Package compared to the previous Government's Package. This means that it does not show the actual impacts on peoples' incomes (i.e. what they will experience) from the Families Package, only what they will receive compared to what they would have received under the previous Government's Package. We think that showing the actual impacts on people is important and we understand that Treasury will be estimating these actual impacts at a later date. The analysis of the impact of the Families Package on child poverty has also been updated since the Prime Minister's Speech from the Throne, and

suggests a smaller impact on child poverty than previously estimated.

The Cabinet paper is also seeking agreement to further advice on a permanent opt-out option for the Winter Energy Payment. This advice will need to be provided (and decided on) in the week of 27 November in order for it to be reflected in the draft legislation. We note that there is a limited ability to include further variations to the legislation if it is to be introduced to the House in the week of 11 December.

Our advice

MSD's role in the Families Package

MSD will administer the Accommodation Supplement, Accommodation Benefit, Winter Energy Payment, transitional assistance and Orphan's Benefit and Unsupported Child's Benefit components of the Families Package.

MSD will also administer, on behalf of Inland Revenue, Best Start payments and the Family Tax Credit payment rates increases, for most people receiving a main benefit. The arrangement for Best Start mirrors the current arrangements for the Family Tax Credit, and means that most people receiving a main benefit get their main financial support payments through a single agency. This group will also include any carers receiving the Orphan's Benefit or Unsupported Child's Benefit and a main benefit, who are eligible for Best Start.

MSD's Implementation Costs

Total costs

MSD's total implementation costs, across the forecast period, are estimated to be $21.973 million. Less the existing $4 million contingency, this leaves $17.973 million in additional implementation costs. These costs are shown in Table 1 below.

Table 1: MSD's implementation costs for the Families Package

Description ($ million)	2017/18	2018/19	2019/20	2020/21	2021/22 & out-years	TOTAL
One-off costs	5.411	0.079	-	-	-	5.669
On-going costs	1.628	2.852	2.653	2.675	2.675	12.482
TOTAL	**7.039**	**2.931**	**2.653**	**2.675**	**2.675**	**17.973**
Existing contingency	4.000	-	-	-	-	4.000
TOTAL	**11.039**	**2.931**	**2.653**	**2.675**	**2.675**	**21.973**

These costs are higher than provided in the Fiscal Implications Report provided at the Families Package meeting on Monday 20 November as an additional forecast year (2021/22) has been added to the forecast period (as required for the Half Year Fiscal and Economic Update (HYEFU)).

More information on these costs is provided below.

Previous contingency

The $4 million contingency provided as part of Budget 2017 was informed by the following estimates of costs in 2017/18:

- $2.567 million in IT costs
- $0.583 million in project delivery costs
- $0.671 million in contingency (around 15%)[1]

The bulk of this cost relates to changes to the Accommodation Supplement, Accommodation Benefit and Family Tax Credit, which are being retained or expanded in the Families Package.

MSD are seeking to retain this contingency for the work still to be completed on the Accommodation Supplement, Accommodation Benefit and Family Tax Credit changes.

Additional one-off costs

In addition to the existing contingency, MSD has identified the following further one-off costs in 2017/18 in the table below:

Description	**Cost (2017/18) - $ million**
IT – Best Start*	1.700
IT – Winter Energy Payment (WEP)*	1.700
Project delivery^ (more detail below)	0.970 (less 0.179 from contingency) = 0.791
Initial letter – WEP (NZS/VP only[1])	0.745
Limiting overseas entitlement to WEP	0.075
Update calculators (more detail below)	0.400
TOTAL (2017/18)	**$5.411 million**

* Includes a 15% contingency
^ Includes a 20% contingency
[1] An initial letter to all those on main benefit was included in the project delivery costs in the original $4 million contingency, so is not included here

There is also one further one-off cost in 2018/19 of $0.079 million for project delivery as support for implementation continues for a short period in the next financial year.

This brings the total for one-off costs to $5.490 million over the forecast period, in addition to the original contingency of $4 million.

Project delivery

1 NZS/VP refers to recipients of New Zealand Superannuation and Veteran's Pension. Note that $0.179 million was not committed in the contingency and has been contributed to the one-off project delivery costs of the Families Package.

Service Delivery is estimated to require an average of 10 additional FTE until August 2018 to implement the Families Package. The two delivery dates for the changes, 1 April and 1 July, lead to higher costs. This work involves:

- updating and creating new processes for staff to follow
- communication of these changes to staff and clients through a range of channels
- developing and delivering training to frontline staff, and
- a small number of people to support staff in regions, contact centres and processing units after delivery of each of the changes in 1 April 2018 and 1 July 2018.

Update calculators

Updating calculators includes two updates of MSD's internal calculator, so that staff can estimate changes in clients' entitlements on 1 April and 1 July, and an update to MSD's external (i.e. public) calculator for the Accommodation Supplement and Childcare Assistance on the Working for Families website.

This figure also includes the cost of a more fundamental update to the Accommodation Supplement and Childcare Assistance calculator, as its functionality has not been upgraded since the mid-2000s. Further advice will be sent to you on this calculator as part of broader advice on the communications strategy for the Families package.

<u>Additional on-going costs</u>

The on-going administration of the two new payments, Best Start and the Winter Energy Payment, create costs as shown in the table below:

Description ($ million)	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22 & out-years**	**TOTAL**
Best Start	0	0.072	0.072	0.072	0.072	0.288
WEP – in NZ	0.026	0.356	0.356	0.356	0.356	1.450
WEP – opt-out	0.240	0.240	0.240	0.240	0.240	1.200
WEP - enquiries	1.362	0.901	0.682	0.682	0.682	4.309
WEP - letters	0	1.283	1.303	1.325	1.325	5.235
TOTAL	**1.628**	**2.852**	**2.653**	**2.675**	**2.675**	**12.482**

The total costs, for on-going costs across the forecast period, are $12.482 million. These are described in more detail below.

WEP – in New Zealand

This requirement means that MSD must stop WEP when people have been overseas for more than four weeks continuously, and must resume WEP if people return to NZ within the eligibility period.

- We have assumed that around 20,000 clients (2.6%) receiving New Zealand Superannuation (NZS) will be overseas for more than four weeks in winter and have their WEP suspended.

- This requires 5.5 case manager FTEs and 4 processing FTEs to administer, over five months, including overheads.

WEP – opt-out

This means that clients can opt-out of the receiving the WEP each year.

- We have assumed that 7,500 (1%) of NZS clients will choose to opt-out (or discuss it with us).
- This requires 5.7 phone staff FTEs and 0.5 case manager FTEs, over five months, including overheads.

WEP – enquiries

This assumes that around 150,000 NZS clients (20%) will enquire about either the letter they receive or their payment rate changing due to WEP in the first year.

- 70% of these enquiries are assumed to be by phone, with 16% face-to-face and 14% online.
- This requires 32.6 phone staff FTEs (plus 2 service managers) and 2.9 case manager FTEs over the first winter, including overheads.
- The number of enquiries is expected to drop to 15% in the second year and 10% in the third year, with corresponding decreases in cost.

WEP – letters

This assumes that all recipients of WEP are sent a paper letter twice a year. Encouraging increasing take-up of online communications is a priority for MSD. However, superannuitants currently have low levels of take-up of online channels and the current costing reflects this. We will work towards decreasing this cost.

Distributional analysis

The current distributional analysis, prepared by the Treasury in the Cabinet paper, shows the impact of the Families Package <u>only compared to the previous Government's Package</u>. This means that any people identified as "financially disadvantaged" are only disadvantaged compared to what they would have received under the previous Government's Package.

Treasury's analysis has identified a potential group of relatively low-income families with children who may be financially disadvantaged compared to the previous Government's Package. Note that, compared to their current incomes, everyone in this group will be better off as a result of the Families Package. They will just not have benefited by as much as they would have under the previous Government's Package. We will work with Treasury to identify this potential group in our administrative data, and will provide further advice to Ministers shortly.

It is important to note that the analysis completed to establish the transitional assistance fund is different, and identifies people who are actually financially disadvantaged, i.e. their income drops between 31 March and 1 April as a result of the Families Package changes (due to interactions between different payments). It is these people that the compensation payment is intended to cover, not anyone with theoretical losses compared to the previous Government's Package. 9(2)(g)(i) [redacted]

We understand that Treasury intend to provide further distributional analysis, of the actual impacts of the Package, at a later date. This will be important to inform communications to the public about the expected impacts on peoples' actual incomes, i.e. how much better off they will be on 1 April and 1 July 2018. This is likely to include both aggregate numbers (i.e. this number of families with children will benefit by this much on average each week) and scenarios (i.e. a family with two children renting in South Auckland and earning the minimum wage will be this much better off).

Impact on child poverty

The Prime Minister referred to the impact on child poverty of the Families Package in her Speech from the Throne. This impact was based on initial estimates from Treasury's modelling.

Since then, Treasury has updated its estimates of the impact of the Families Package on child poverty to be based on the latest policy decisions, updated economic assumptions and clarification of the policy parameters in the original Families Package.

These estimates use the 50% and 60% Before Housing Cost (BHC) moving line low income poverty measures, which mean that the income thresholds are relative to the median income.

- The estimated impact on the 50% BHC moving line measure is now more like around a 61,000 reduction in the number of children in low income poverty, rather than the 80,000 estimated previously.
- Treasury cannot identify the impact of the individual changes on the overall number, but it is likely that the biggest impact is due to phasing of the Best Start policy. The previous estimates assumed that Best Start applied to all eligible children under 3 from 1 July 2018, rather than to those born on or after 1 July 2018. This reduced the number of households receiving Best Start and reduced the number moved over the respective low income thresholds.
- For these moving line measures (relative to the median income), Treasury's forecast of rising median household incomes means that the initial impact of the Families Package tends to erode over time in relative terms. This means that that low income poverty rates rise again, all else being equal.

Winter Energy Payment – permanent opt-out

The Cabinet paper seeks agreement to allow people to opt-out each year for the Winter Energy Payment (WEP). Ministers have also requested further advice on an option for people to be able to permanently opt-out of receiving the WEP.

Our initial judgement is that this variation will likely need to be reflected in the primary legislation. This means that decisions on this will be needed by the end of the week of 27 November, in order for them to be reflected in the draft legislation. The advice will be provided to Ministers as soon as possible in the week of 27 November.

We note that there is a limited ability to include further variations to the legislation if it is to be Introduced to the House in the week of 11 December.

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