



28 FEB 2017

On 1 February 2017 you emailed the Ministry requesting, under the Official Information Act 1982, the following information:

Regarding CPI Increases for beneficiaries. For the last few years the department has been deducting a % from the CPI increase that relates to tobacco tax. For each year that it has done this I require to know the following.

- 1. The CPI increase (gross)*
- 2. The amount deemed to apply to tobacco tax that has been deducted from the increase.*
- 3. The actual percentage increase granted to beneficiaries.*

As you are aware, the majority of benefits administered by the Ministry of Social Development are adjusted on 1 April each year, based on the percentage movement in the Consumer Price Index (CPI) over the previous year ending 31 December. In 2010, Cabinet decided that from 2011 to 2021 (inclusive), the increase is to be based in the *All groups less cigarettes and tobacco products* CPI figure, to avoid the continuing 10% tobacco excise tax from being included in the adjustment. This reinforces the objective behind increases in tobacco excise: to reduce smoking prevalence by reducing the affordability of tobacco products.

Statistics New Zealand calculates the CPI on a quarterly basis, and includes the subgroup 'all groups less cigarettes and tobacco' in the publically released reports. Statistics New Zealand have a helpful article explaining the sources and methods used to compile the cigarettes and tobacco subgroup of the consumers price index (CPI), including the external influences on prices, which is available on their website at the following address: http://www.stats.govt.nz/browse_for_stats/economic_indicators/CPI_inflation/alcoholic-beverages-tobacco-in-the-cpi.aspx.

Table 1 overleaf details the yearly percentage change, rounded to two percentage points, of both the 'All Groups' CPI and the 'All Groups less cigarettes and tobacco products' subgroup. Please note that the Ministry has used unrounded figures for increases since April 2015.

Table 1: Consumer Price Index numbers and percentage change for 'All Groups' and 'All Groups less cigarettes and tobacco products' subgroup, broken down by year.

Quarter	All Groups		All Groups less cigarettes and tobacco products	
	Index number	Percentage change from December quarter of previous year	Index number	Percentage change from December quarter of previous year
December 2009	1093	1.99%	1093	1.96%
December 2010	1137	4.03%	1133	3.66%
December 2011	1158	1.85%	1153	1.77%
December 2012	1169	0.95%	1160	0.61%
December 2013	1188	1.63%	1176	1.38%
December 2014	1197	0.75%	1182	0.51%
December 2015	1198	0.08%	1179	-0.25%
December 2016	1214	1.34%	1192	1.10%

Deriving the majority of benefit increases involves a straightforward calculation, increasing the current net rates by the yearly percentage increase in the CPI (All groups less cigarettes and tobacco - unrounded), rounded to the nearest cent.

The calculation of increases to certain rates is more complicated. For example, New Zealand Superannuation and Veteran's Pension rates are indexed to the Net Average Ordinary Time Weekly Earnings (NAOTWE). Increases to these benefits are calculated so that the married rate continues to equal 66 per cent of the average net wage.

As an example of how the calculation works, table 2 overleaf demonstrates the effect that the annual adjustment has had on the Jobseeker support net weekly rate for a single person, 20 to 24 years of age, after tax at 'M'.

Because the Government agreed in 2010 to amend the CPI calculation for the April 2011, 2012 and 2013 adjustments from the CPI All Groups to the 'all groups less cigarettes and tobacco' subgroup, you will note that the increase effective from 1 April 2011 is based on a combination of the percentage change in the CPI all groups from the December 2009 quarter to the March 2010 quarter, and the percentage change in the CPI 'all groups less cigarettes and tobacco subgroup' from the March 2010 quarter to the December 2010 quarter. The overall percentage change, calculated by linking the 'all groups' and 'all groups less cigarettes and tobacco subgroup' series at the March 2010 quarter, is an increase of 3.75 percent. Further information on this calculation can be found on the New Zealand Statistics website at the following address: http://www.stats.govt.nz/browse_for_stats/economic_indicators/CPI_inflation/ConsumersPriceIndex_HOTPDec10qtr/Commentary.aspx.

Table 2: Amount and adjustment from previous year of net weekly rate for single, 20 to 24 years of age, after tax at 'M', of Jobseeker support, known prior to 2013 as the unemployment benefit rate, broken down by year.

Date increase effective	Net weekly rate for a single person, 20 to 24 years of age, after tax at 'M'	Increase from previous year	CPI index increase is calculated on
1 April 2010	161.76	1.96%	All Groups
1 April 2011	167.83	3.75%	All Groups linked to 'all groups less cigarettes and tobacco' at March 2010 quarter
1 April 2012	170.80	1.77%	All groups less cigarettes and tobacco
1 April 2013	171.84	0.61%	All groups less cigarettes and tobacco
1 April 2014	174.21	1.38%	All groups less cigarettes and tobacco
1 April 2015	175.10	0.51%	All groups less cigarettes and tobacco
1 April 2016	175.10	0%	All groups less cigarettes and tobacco

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 shortly. The Ministry will do this by publishing this letter 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, 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.

Yours sincerely



Sacha O'Dea
General Manager, Working Age