



**MINISTRY OF SOCIAL  
DEVELOPMENT**

TE MANATŪ WHAKAHIATO ORA

# Evidence Brief

The impacts of COVID-19 on one-off  
hardship assistance

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## **Disclaimer**

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## **Date of publication**

This report was completed in July 2020, and published in the MSD Research Archive website in 2020.

[www.msd.govt.nz/insights](http://www.msd.govt.nz/insights)

## Purpose

The COVID-19 pandemic has presented New Zealand with an unprecedented health, social and economic challenge. The purpose of this evidence brief is to explain how COVID-19 has affected the number of one-off hardship assistance grants made by the Ministry of Social Development (MSD).

## Key points

- One-off hardship assistance is available from MSD to help eligible people meet immediate and essential costs that cannot be met from any other income or assets.
- There are several factors that can impact the number of one-off hardship grants made by MSD, including changes in the actual material and financial hardship experienced by households, as well as changes in public awareness, acceptance and the accessibility of hardship assistance.
- Rates of material and financial hardship (as measured using nationwide sample surveys) are very sensitive to the changes in economic fortunes of a country. Reduced income as a result of reduced employment income or sudden unemployment contribute to increased rates of hardship in economic downturns, as a new group of struggling households is added to those already experiencing financial stress.
- Stats NZ have reported that filled jobs fell by a record 37,000 in April 2020, as the impacts of COVID-19 and restricted trading began to impact on the economy. The number of main benefit recipients increased by 47,000 between the end of February 2020 and May 2020. The scale of the increase in benefit numbers is much larger and faster than what we have seen before, including after the Global Financial Crisis.
- Immediately prior to the lockdown period, around 30,000 Special Needs Grants were made weekly by MSD. This increased significantly in late March and early April, peaking at around 72,000 grants for the week ending 10 April 2020. The number of Special Needs Grants made has since declined from its peak, remaining elevated but closer to pre COVID-19 levels. This increase in hardship grants reflects the impacts of the factors below.

### *Increase in underlying demand for one-off hardship assistance*

- The lockdown period presented some additional challenges to low-income individuals and families, many of whom were already struggling to meet essential living costs prior to COVID-19. Low-income individuals and families were adversely affected by movement restrictions reducing access to lower cost food sources (e.g. friends and family, school and community food providers) and bulk purchases of food due to fears of supply chain disruptions increasing food costs.
- Reduced income from reduced employment income or sudden unemployment has meant a new group of people are in financial stress.

### *Increased awareness, acceptance and accessibility of hardship assistance*

- Due to the exceptional circumstances presented by COVID-19, MSD temporarily increased accessibility to hardship assistance on 1 April 2020 by increasing the

guideline limits for how much people could receive in food grants over a six-month period by \$400. This change simplified access to financial assistance for people who had an immediate and essential need for food costs and contributed to the sudden rise in grant numbers in early April 2020.

- Increased foodbank distribution networks and the normalisation of foodbank use may have also contributed to wider community acceptance of seeking food grants from MSD and accessing foodbanks from NGO's and other community food service providers.
- There is less evidence of widespread increases in need amongst existing beneficiaries now that the lockdown period is over, and the country has returned to level one. The introduction of wage indexation of main benefits, the \$25 per week main benefit increases and the temporary doubling of the Winter Energy Payment is likely to relieve some pressure on family budgets, particularly for those already under financial stress prior to COVID-19.
- There may be some increased hardship for a new group of households experiencing financial stress due to increased job losses or reduced income because of the economic impacts of COVID-19.
- It is not possible to determine the relative or absolute size of the impact of each of the factors described above on hardship assistance.

## **There are many drivers of trends in hardship assistance**

MSD provides one-off hardship assistance to help eligible people meet their immediate and essential needs that cannot be met from other income or assets. Hardship assistance payments are income and cash asset tested to ensure that they are targeted to people with no or few additional resources.

Payments are available to meet essential costs such as food and bedding and are available for both people receiving main benefits and very low-income working families. Hardship assistance include both recoverable and non-recoverable one-off payments (Special Needs Grants, Benefit Advance Payments, Recoverable Assistance Payments) and on-going assistance (Temporary Additional Support).

Broadly speaking, trends in one-off hardship assistance payments are affected by two main factors:

- Underlying demand for one-off hardship assistance: changes in demand are driven by income and other non-income factors that affect the material resources available to individuals and families. Changes to income levels, housing costs, other essential living costs and the ability of families to manage resources can impact on hardship demand over time.
- Awareness, acceptance and accessibility of hardship assistance: this includes changes in the level of public awareness of the supports available, changes in public perception of accessing support from MSD (e.g. reduced stigma) and changes in the accessibility of supports (e.g. allowing applications to be made online rather than through MSD contact centres). Changes in operational and policy settings that make it easier (or more difficult) to access supports can also affect how many people access hardship assistance.

Because there are many drivers of trends, changes in the number of hardship assistance grants alone is not a clear indicator for how material and financial hardship has changed as a result of COVID-19.

## **Nation-wide sample surveys provide more useful information on rates of material and financial hardship**

Rates of material and financial hardship are reported annually by MSD using Stats NZ's Household Economic Survey. The material wellbeing of households is assessed in terms of households having the basics such as adequate food, clothes, accommodation, electricity, transport, keeping warm and maintaining household appliances in working order.

Nation-wide sample surveys provide more useful information on how rates of material and financial hardship are impacted by economic conditions. The impacts of COVID-19 on sample surveys are not yet available as the data is still being collected. However, looking at past experiences can provide useful insights into how economic conditions affect material wellbeing.

Rates of material hardship are sensitive to the changes in the economic fortunes of a country. This in part reflects the fact that there are many working households with incomes above standard income poverty lines whose financial circumstances are 'precarious to just OK' in normal times. They relatively easily fall into measured material hardship if there is reduced income as a result of reduced employment income, even if the household income remains above standard poverty lines<sup>1</sup>.

Sudden unemployment also contributes to increased rates of measured hardship. These previously 'non-poor' households have financial commitments that cannot be quickly or easily changed. They therefore must seriously cut back on other spending, and this shows up in standard material hardship measures. A new group of struggling households is therefore added to those already experiencing financial stress. The size of this new group can be quite large in downturns.

Analysis of material and financial hardship rates in the 3-4 years during and after the downturn associated with the Global Financial Crisis, as measured by nation-wide sample surveys, shows that:

- the more severe hardship measure (9+/17 DEP-17<sup>2</sup>) remained relatively flat. This reflects that beneficiary households' incomes were held steady in real terms at the time.
- the less severe measure (6+/17 DEP-17) increased by more, reflecting increased material hardship for those previously in non-poor households cutting back on spending due to reductions in employment and household incomes.

Detailed definitions of these measures and their trends are available in MSD's annual Material Wellbeing report. The potential impacts of COVID-19 on material wellbeing will be discussed in more detail in the next version of the report.

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<sup>1</sup> There are many factors other than current income (which is what standard income poverty measures are based off) that make a difference to the actual day-to-day living standards of households.

<sup>2</sup> DEP-17 is a well-established deprivation index developed by MSD. A DEP-17 score of 6+ is a less severe measure of material hardship, while a score of 9+ represents more severe hardship.

## The impacts of COVID-19 on hardship assistance

### The COVID-19 pandemic has presented New Zealand with an unprecedented health, social and economic challenge

The Government has provided significant support to protect jobs and incomes. This includes a range of support to help businesses to stay afloat (tax relief, credit, mortgage holiday), as well as the wage subsidy scheme to support businesses and jobs.

While these measures are having a positive effect, some people have already lost their jobs and more will continue to do so. Stats NZ have reported that filled jobs fell by a record 37,000 in April 2020 due to the effects of COVID-19 and restricted trading began to impact on the economy. At the same time, benefit numbers have increased by 47,000 between the end of February 2020 and May 2020.

The scale of the increase in benefit numbers is much larger and faster than what we have seen before, including after the Global Financial Crisis. The impact of the Global Financial Crisis took a few months to significantly affect benefit numbers, compared to the sharp impacts on the economy as New Zealand went into lockdown.

The number of one-off hardship assistance grants made during the lockdown period were unlike anything we have experienced before. Immediately prior to the lockdown period, around 30,000 Special Needs Grants were made weekly by MSD. This increased significantly in late March and early April, peaking at around 72,000 grants for the week ending 10 April 2020. The recent increases in hardship assistance have primarily come from more grants per person, rather than more people receiving a grant.

The number of weekly grants made has now returned closer to pre COVID-19 levels, though it continues to be higher than pre COVID-19 and levels seen during 2019.

**Weekly number of Special Needs Grants**



Grants for hardship assistance are likely to be affected by several factors, some of which have occurred during the lockdown period while some are expected to play out more gradually over the short to medium-term.

The analysis in this paper focuses on trends in Special Needs Grants and drivers of food grants, which is the most common type of hardship assistance. The analysis does not include or consider Emergency Housing grants.

## **COVID-19 is likely to have increased underlying demand for one-off hardship assistance for some groups**

*The lockdown period presented additional challenges for low-income individuals and families*

According to analysis undertaken by the Welfare Expert Advisory Group, many individuals and families receiving a main benefit are unlikely to have enough income to meet essential costs prior to COVID-19.

The unprecedented impacts of COVID-19 meant that low-income individuals and families were faced with some additional challenges, including:

- movement restrictions during the lockdown period reduced access to free or low-cost food sources for some people. This includes reduced access to food provided by friends and family, as well as school and community food providers. For example, KickStart Breakfast would usually provide 30,000 breakfasts weekly for school children across 1,000 schools
- temporary shortages of some food items due to supply chain disruptions. This created fear and incentivised bulk purchases of food, resulting in an increased need for assistance to meet food costs
- inflationary pressures for items such as food and power, which disproportionately impact those with the lowest incomes. Households may have experienced higher energy costs due to spending more time at home during the lockdown period. Food prices also increased 4.4 percent to the year ended April 2020, the largest annual increase in over eight years<sup>3</sup>. Early in the lockdown period there was claims that some supermarkets didn't go ahead with planned promotions due to a lack of stock in store for customers<sup>4</sup>.

Income support initiatives were recently implemented by the Government to help low income individuals and families better meet everyday living costs and reduce pressures on family budgets. Policy changes that increased the incomes of low-income individuals and families included increases to main benefits on 1 April 2020 through the introduction of wage indexation and \$25 per week increases, as well as the temporary doubling of the Winter Energy Payment on 1 May 2020.

There is less evidence of an increase in demand amongst existing beneficiaries now that the lockdown period is over, and the country has returned to level one. Because hardship assistance grants are affected by many factors, increased incomes may not always decrease the number of hardship grants made by MSD. This can also mean

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<sup>3</sup> Some of these increases will have occurred anyway without COVID-19.

<sup>4</sup> [https://www.nzherald.co.nz/nz/news/article.cfm?c\\_id=1&objectid=12320748](https://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=12320748)

trends in the number of hardship grants made by MSD do not follow trends in material and financial hardship as measured by nation-wide sample surveys.

### *Reduced employment income or sudden unemployment*

The Government has implemented measures to protect jobs and incomes, such as the Wage Subsidy and the COVID-19 Income Relief Payment. Despite this, some jobs have inevitably been lost and some people will have reduced incomes.

Filled jobs fell by a record 37,000 in the month of April 2020 and many more people are likely to have reduced working hours and/or employment earnings. Research by the Commission for Financial Capability<sup>5</sup> showed that as at 28 April 2020, an estimated 232,500 households (13%) had lost either a substantial part (more than one third) or all of their earned income as a consequence of COVID-19. A further 447,000 households (25%) had experienced a reduction in income of less than a third.

Mortgage holidays, rent freezes and no evictions for rent arrears are likely to be helping a number of people with reduced income to continue to meet essential living costs, particularly those with mortgages and other housing costs. By 18 May 2020, around 59,000 bank borrowers were making reduced repayments on their home loans, or other loans, and around 54,000 were on complete repayment holidays<sup>6</sup>.

It is inevitable, however, that some people with reduced income will struggle to meet essential costs, some may take on significant debt, and some will be unable to afford their housing costs. Survey data from the Ministry of Health shows that people who lost their jobs during the lockdown period were more likely to be struggling financially, with around 10-15 percent of those who lost their main income source struggling financially compared to around 5 percent for those who didn't lose their main income source.

Consistent with previous economic downturns, less severe rates of material hardship could be expected to increase as a result of COVID-19. There is likely to be increased hardship for a new group of households over the short to medium-term due to increased job losses or reduced employment income because of the economic impacts of COVID-19. This is because firms and households may reduce their spending, which has consequential impacts on overall levels of employment. However, there is significant uncertainty around the economic outlook.

### **The impacts of COVID-19 have also increased awareness, acceptance and accessibility of hardship assistance**

*Temporary operational changes were made that simplified access to financial assistance for people who had an immediate and essential need for food costs during the lockdown period*

As part of MSD's immediate response to COVID-19, temporary operational changes were made on 1 April 2020 to Special Needs Food Grants to ensure that those who had an immediate and essential need for food, were able to easily access financial assistance during a difficult time.

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<sup>5</sup> Impact of COVID-19 on Financial Wellbeing (May 2020)

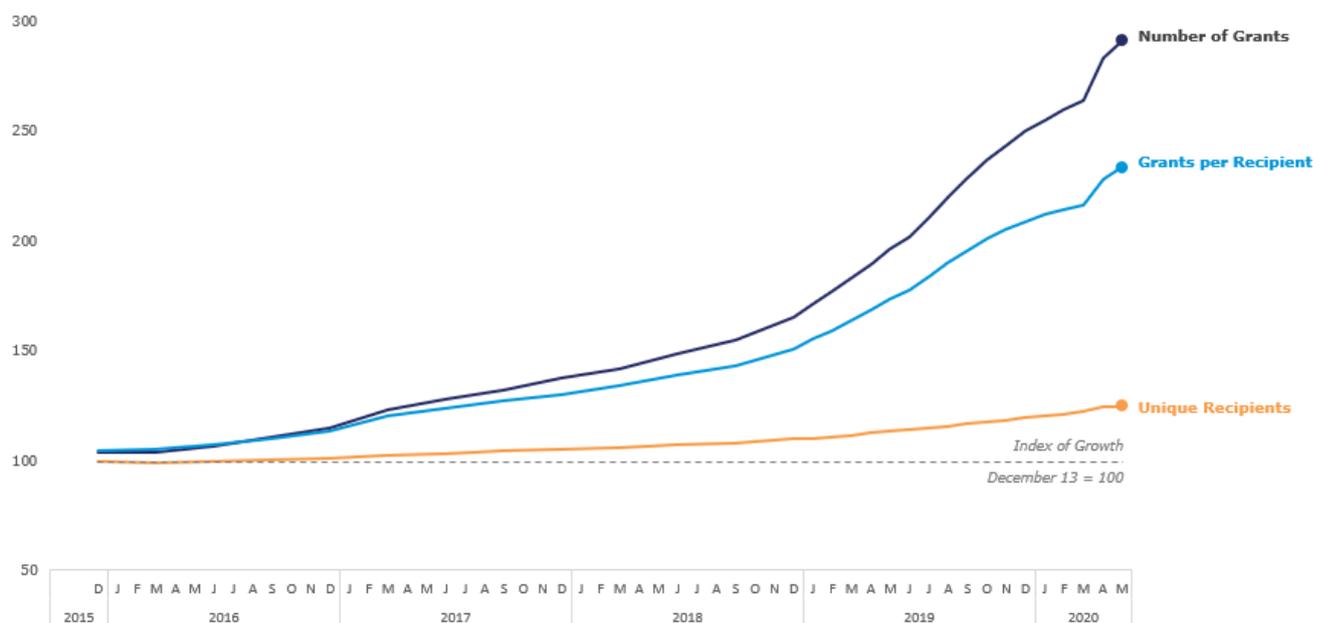
<sup>6</sup> Figures from the New Zealand Bankers' Association as reported on <https://www.stuff.co.nz/business/121558384/households-already-coming-off-home-loan-holidays-banks-say>

There are guideline limits to the amount of food grants that can be sought in a six-month period, ranging from \$200 to \$550 depending on family circumstances. If exceptional circumstances exist, the limits can be exceeded on a case-by-case basis. The guideline limits were temporarily increased by \$400 due to the exceptional circumstances presented by COVID-19.

The operational practice to determine eligibility to food grants did not change and clients are still required to meet the qualifying criteria. The change diverted some people with high food grant balances away from MSD contact centres to online channels. This meant that people could have easier and increased access to food grants than otherwise during the lockdown period.

Increases to the guideline limits is likely to have contributed to the sudden rise in grant numbers in early April 2020. This change primarily benefited people who were already receiving hardship grants, as they were now able to access more grants before being assessed under exceptional circumstances. The graph below shows how more recent increases in hardship assistance have primarily come from more grants per person, rather than more people receiving a grant. Around 60% of the growth in Special Needs Grants in April was due to more grants per person, while 40% was due to more clients getting a grant.

The number of hardship grants made by MSD has decreased in recent weeks, which could be partly explained by more people reaching the new guideline limits (and have to go back to accessing supports through the contact centre) and some of the challenges faced during the lockdown period have eased.



### *Increased use of foodbanks and other community food service providers*

The Government has provided additional funding to bolster the delivery of food and welfare assistance by local authorities and CDEM groups to help fund food parcels, and other assistance to people who contact CDEM. Some CDEM funding was directed to support provision of food parcels by foodbanks.

Increased foodbank distribution networks, normalisation of foodbank use, and use of foodbank volunteers to distribute food may have also contributed to wider community acceptance of seeking food grants from MSD and accessing foodbanks and other community food service providers. The recent trends in the number of hardship assistance grants are broadly consistent with foodbank demand seen from the Salvation Army and other NGO's.

Whether people choose to access support via hardship assistance from MSD or foodbanks and community food service providers can also depend on personal preferences and the relative levels of accessibility.

## **Conclusion**

One-off hardship grants made by MSD are affected by both changes in material and financial hardship and changes in public awareness, acceptance and accessibility. Because there are many drivers of trends, changes in the number of hardship assistance grants alone is not a clear indicator for how material and financial hardship has changed as a result of COVID-19.

The number of hardship assistance grants increased significantly in late March and early April, peaking at around 72,000 grants for the week ending 10 April 2020. The number of Special Needs Grants made has since declined, remaining elevated but closer to pre COVID-19 levels.

The lockdown period presented some additional challenges to low-income individuals and families, many of whom were already struggling to meet essential living costs prior to COVID-19. Due to exceptional circumstances of COVID-19, MSD increased accessibility to hardship assistance on 1 April 2020 by increasing the guideline limits for how much people could receive in food grants over a six-month period. This is likely to have contributed to the sudden rise in grant numbers in early April 2020.

There is now less evidence of an increase in need amongst existing beneficiaries now that the lockdown period is over, and the country has returned to level one. There may be some increased hardship for a new group of households experiencing financial stress due to reduced employment income because of the economic impacts of COVID-19.

It is not possible to determine the relative or absolute size of the impact of each of the factors described above on hardship assistance.