

Resetting Benefits benchmarks for adequate minimum incomes

Abstract

New Zealand's successful management of the Covid-19 pandemic has emphasised the value of evidence-based policy. Government policy on income support payments is also changing significantly in response to the Welfare Expert Advisory Group's 2019 report. This article examines the report's recommendations in the context of international and local research, considers whether benefit increases in the 2021 Budget deliver on those recommendations, and discusses the impact of high housing costs on welfare reform options.

Keywords benefit adequacy, minimum income, budget standards, evidence-based policy

The Welfare Expert Advisory Group (WEAG) concluded in its final report that New Zealand's income support system was both inappropriate and inadequate, with households facing weekly shortfalls of between \$66 and \$356 across a range of family types and benefits (WEAG, 2019a). In response, the Ministry

of Social Development began internal work to address the report's recommendations, with the most significant changes to date becoming public in the 2021 Budget. According to Finance Minister Grant Robertson, 'By April next year we will have moved all main benefit rates to the level recommended by the WEAG and

in the cases of families and whānau with children, beyond those rates' (Robertson, 2021, p.9). On the other hand, Michael Fletcher, an economist who advised the group, reviewed the 2021 Budget changes and concluded, 'all of these households still face substantial weekly deficits' (Fletcher, 2021). Why are these two well-informed voices so far apart?

Both are correct, but they are referencing different recommendations in the WEAG's *Whakamana Tāngata* report. Grant Robertson refers to recommendation 20: 'increasing main benefits by between 12% and 47%' (WEAG, 2019a, p.23), while Michael Fletcher refers to recommendation 26: 'Increase, as soon as possible, overall income support to levels adequate for meaningful participation in the community, as defined by the minimum income standard' (ibid., p.24). The difference here is between the advisory group's recommendations for immediate monetary increases, to be implemented urgently but constrained by the limitations of the current benefit system, and their recommendations for an adequate minimum income, which would require systemic review and changes.

But there is much more to unpack in New Zealand's current measurement of minimum income adequacy. Statistics New Zealand, in accordance with the Child Poverty Reduction Act 2018, publishes data for nine separate measures of poverty annually, including three primary measures

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(Stats NZ, 2021). The majority are variants of the OECD measure of poverty, which is set at 50% of median equivalised household income, with the balance measuring material hardship. These income measures collectively provide a reliable public indication of trends in poverty over time, but they are not accurate enough to evaluate which household types face the greatest hardship. Hirsch et al. (2021) found that the modified OECD equivalence scale used in Statistics New Zealand's reports underestimated the costs of children compared to adults in all four countries studied, and the costs of singles compared to couples in three of the four countries. They concluded: 'These results have high policy relevance ... While no single equivalence scale can be universally accurate, making use of evidence based directly on benchmarks such as MIS [minimum income standard method] can help inform public priorities in tackling low income' (Hirsch et al., 2021, p.1).

The WEAG's supplementary paper 'Example families and budgets' developed detailed family budgets to provide more accurate estimates of income adequacy in New Zealand (WEAG, 2019b), an approach which draws on the latest international research.

Contemporary budget standards methodology

To measure poverty, researchers choose one or more measures which are best suited to their particular research question. These may include absolute and relative income benchmarks for poverty; well-being, deprivation and capabilities matrices; outcomes analysis, and more. Among these many approaches, budget standards¹ are being adopted in a growing list of national studies because they provide a credible and robust evidence base (Saunders, 2018, p.7). Carefully considered budgets are developed for each household type, tenure and employment status to support a specified standard of living. This ensures consistency across different circumstances, including benefit types. Budget estimates can be validated using multiple sources of evidence: behavioural (survey) data on the spending patterns of relevant families; expert (normative) advice on how much is needed to achieve the specified living

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standard; and experiential (focus group) input on how real families budget and live. The WEAG incorporated all three of these.

Major budget standards studies include Vranken (2010) and Goedemé et al. (2015) in Europe and Davis et al. (2018) in the United Kingdom. Australian research has been particularly thorough, with their extraordinary, 670-page foundation report published in 1998 (Saunders et al., 1998), followed by a comprehensive review and update in 2017 and extension to estimate the costs of children in 2018 (Saunders and Bedford, 2017, 2018). In the United Kingdom, the Centre for Research in Social Policy publishes annual minimum income standard reports. 'Participatory social minimum standards' to enable healthy lives and include a modest level of participation in society have been widely discussed there (Davis, Hirsch and Padley, 2017). Another notable inclusion in UK budget standards is a specific category for those receiving age pensions. While many nations have traditionally provided very different levels of support for working-age and retired households, the increasing use of evidence-based budgets may encourage some future convergence.

In addition to consistency with this growing body of international research, the WEAG's implementation of budget standards allows some flexibility in their application. Budgets were separately specified for core living costs and limited

social participation, which provides two options depending on political and budgetary constraints. This ability to vary its underlying components and assumptions is a key advantage of budget standards that no other approach shares, according to Saunders and Bedford (2018, p.26). Budget standards will never be the only approach used to understand poverty, because it measures only income and expenditure. Other approaches add vital supplementary evidence about experienced hardship, barriers to health services or learning, non-cash transfers and more (Saunders and Naidoo, 2018). However, budget standards is the only poverty methodology which transparently generates consistent benchmarks across different household types and circumstances, making it uniquely suited to the complex task of reviewing social support benefits.

Minimum incomes: how much is enough?

In concluding that New Zealand's benefits were inadequate, the WEAG relied on example case studies and assumed that each household received their full entitlement to secondary payments, paying lower-quartile rents in a dwelling size appropriate to their family type. In real life, recipients pay a wide range of rents and may not receive their full entitlements. My research analysing administrative data on benefit recipients in private rental housing provides a check on the WEAG estimates by replacing their example households and normative assumptions with the average received incomes of and rents paid by real households.

Table 1 summarises the results for the full range of household types and benefits, using extrapolation to extend the WEAG's six example families² (Waite, 2021). The average amounts for secondary payments (the accommodation supplement, temporary additional support and family tax credits) prove to be lower than the WEAG's estimates of entitlements. Bond records of the rents paid by benefit recipients also show that in large centres like Auckland with diverse suburbs and housing stock, the WEAG's assumption of 25th percentile rents is reasonably accurate, but low-income households in smaller regional centres are less able to secure

Table 1: Benefit adequacy measured by administrative data on income and rent, recipients of full benefits (jobseeker support, sole parent support and the supported living payment) with no earned income and living in private rental, June 2019

Benefit, ¹ household type	Shortfall ² (\$)	Shortfall (%)	Benefit & allowances	Budget after housing	Household rent	Accommodation supplement ³	Family tax credits ³	Temporary support ³
JSWR, single	-279	-84%	333	302	310	84	–	27
JSWR, couple	-308	-55%	565	494	379	137	–	49
SLP, single	-183	-47%	386	312	257	74	–	30
SLP, couple	-217	-34%	631	515	333	118	–	43
Various, adult only sharers	-188	-24%	781	636	333	177	–	38
SPS, single 1 child (all ages)	-199	-33%	611	433	377	141	81	39
SPS, single 2 children	-241	-35%	684	518	407	185	127	25
SPS, single 3+ children	-257	-34%	764	597	425	185	215	17
JSWR, single 1+ children	-277	-43%	649	530	396	154	111	34
JSWR, couple 1 child	-311	-46%	679	626	364	154	99	22
JSWR, couple 2 children	-361	-47%	769	700	430	186	148	30
JSWR, couple 3+ children	-514	-68%	758	818	455	174	164	16
SLP, single. 1 child	-212	-33%	634	483	364	129	72	41
SLP, single 2 children	-234	-32%	730	570	394	176	130	25
SLP, single 3+ children	-212	-25%	840	620	431	191	237	13
SLP, couple 1 child	-269	-36%	740	662	347	140	92	15
SLP, couple 2 children	-287	-33%	880	762	405	163	204	17
SLP, couple 3+ children	-461	-56%	823	901	384	154	162	11
Various, sharers + children	-184	-16%	1157	929	412	246	175	41

Source: Statistics New Zealand Integrated Data Infrastructure (IDI) 30 June 2019 (8,100 households). Includes rental bonds lodged in the 24 months to June 2019; excludes households with earned income.

Notes: 1. SLP is supported living payment, JSWR is jobseeker support work ready, SPS is sole parent support. 'Full benefit' excludes recipients on reduced rates due to earned income, but includes sole parents with deductions of \$22 per child plus \$6 after 13 weeks for refusal to identify the second parent (sanction removed on 1 April 2020). WEAG budgets are inflation adjusted using CPI groups for June 2018–2019.

2. Weekly shortfall = benefits + allowances – (budget costs + rent), using WEAG 'basic living with minimal social participation' budget; all figures are averages.

3. Accommodation supplement, family tax credits and temporary additional support payments are shown separately at right for information, but also included in benefit & allowances total. Total includes winter energy payment but excludes Best Start tax credit, as this payment covers first-year costs not specified in WEAG budgets.

properties below the market median (ibid.). Despite these differences in incomes and rents, the final estimates for weekly household deficits are still broadly consistent with the results presented in the *Whakamana Tāngata* report. No household type received enough financial support to afford, on average, the WEAG's 'basic living with minimal social participation' budget. Average weekly shortfalls are higher for most household types, ranging between \$183 and \$514 per week, or between 16% and 84% of household income (ibid.).

Analysis of this administrative data set also reveals the diversity of household arrangements among income support recipients. Just 24% of households receiving only benefit income are in the formal private rental market, with bonds held by Tenancy Services. The remaining 76% live in less formal tenancies without bonds, live in state housing, share with family or friends, are homeowners or are homeless.

Michael Fletcher's analysis of the 2021 Budget also used the WEAG's example family budgets as his benchmark when assessing the announced increases to main benefit rates. After allowing for inflation for both benefit rates and household budgets since 2018, he concluded:

[A]ll of these households still face substantial weekly deficits. Even looking just at 'core' expenditure, only the sole parent with one child family comes close to even; the others are between \$56 and \$150 per week in deficit. Include participation allowances and these households will be between \$74 and \$286 per week short. ... you might feel you are able to trim \$20 – or perhaps even \$30 – per person off the weekly budget but making the budgets balance is going to require deep cuts and, unless you have savings or some other income to fall back on, serious hardship. (Fletcher, 2021)

Finally, the latest biennial OECD economic survey of New Zealand provides comparative international evidence in favour of increasing benefits, noting that the country's 'income distribution is more unequal than the OECD average, reflecting lower than average redistribution through taxes and transfers, and is more skewed towards high-income households' (OECD, 2019).

The announcements in the 2021 Budget suggest that the current government has accepted the WEAG's urgent recommendations for increases to main benefit rates and annual indexing to keep pace with wages. Broader recommendations, including reform of Working for Families and the accommodation supplement, are yet to be addressed. Competition from other government priorities and budget constraints may stretch the timeline and limit the scope, and the composition and policies of governments will change, but the landmark status of the *Whakamana*

Tāngata report does appear to have shifted the political centre.

Systemic complexity

The WEAG noted clawback mechanisms in the current benefit system, where secondary payments reduce as a result of increases to primary benefits (WEAG, 2019b, p.26–7). The Ministry of Social Development responded to media coverage by advising that its internal modelling estimated that those on main benefits would receive an average of \$19 a week more in assistance from the \$20 1 July increase (Rashbrooke, 2021). Further reductions may occur over time as recipients are required to reapply for temporary additional support payments, most of which are to meet ongoing high housing costs (McAlister, St John and Johnson, 2019, p.35). This artificial separation between core benefit payments and additional payments adds to the complexity faced by clients and has led to calls for increases in main benefits and simplification of temporary payments (Rashbrooke, 2021).

New Zealand's social support system uses the accommodation supplement as its primary tool to address the very large differences in rents between major cities, regional centres and rural areas. The payment meets only part of higher rents, covering 70% of the rent above a minimum (set at 25% of base benefit) and below maximum thresholds which vary across four areas and by household size. The partial nature of this subsidy ensures that households in regions with higher rents, such as Auckland and Wellington, have higher average weekly income shortfalls.

The WEAG recommended the following changes to accommodation supplement payments: increasing the government contribution from 70% to 75%, increasing the maxima to the median regional rental rates, and annual indexing to maintain relativity with housing costs (WEAG, 2019a, p.115). This would certainly reduce poverty, but Grant Robertson has expressed doubts about the accommodation supplement and flagged a review (Satherley, 2021), while weekly accommodation supplement payments rose sharply from \$17.02 million in December 2016 to \$32.5 million in December 2020 (Edmunds, 2021).

Table 2: Weekly income shortfall (\$) by region and bedrooms, benefit recipients in private rental, June 2019

Benefit, household type	1 bed	2 beds	3 beds	4 beds	5+ beds
Northland	-153	-191	-225	-284	
Auckland	-184	-226	-260	-314	-448
Waikato	-155	-185	-243	-342	-498
Bay of Plenty	-166	-203	-278	-379	
Gisborne	-140	-159	-265		
Hawke's Bay	-124	-239	-264	-369	
Taranaki	-145	-176	-218	-201	
Manawatū-Whanganui	-154	-174	-232	-288	-313
Wellington	-175	-226	-293	-453	
West Coast		-178	-213		
Canterbury	-137	-209	-241	-291	-395
Otago	-148	-217	-240	-299	
Southland	-134	-180	-220	-309	
Tasman			-203	-311	
Nelson	-168	-203	-342	-294	
Marlborough		-160	-259		

Source: Statistics New Zealand Integrated Data Infrastructure (IDI) 30 June 2019 (8,100 households). Includes rental bonds lodged in the 24 months to June 2019; excludes households with earned income.

Note: Estimates based on fewer than 20 households removed under confidentiality rules.

A consistent approach to annual adjustments is also needed across the benefit system. Without this, very low benefit-abatement thresholds for earned income of \$80–\$100 per week remained unchanged from the 1980s until 2020 (Child Poverty Action Group, 2018, p.2) and there were no updates to accommodation supplement maximum payments between 2005 and 2018 (McAlister, St John and Johnson, 2019, p.18). Looking to the longer term, a regular independent review would provide consistency with the minimum wage setting process.

Intersections with economic trends

In New Zealand, low-income privately renting households are the fastest-growing group living in poverty (Perry, 2018; Hick and Lanau, 2018). If rents continue to rise faster than income, this relatively non-negotiable budget item will form a larger share of weekly costs, increasing the number of unsustainable tenancies. Internationally, New Zealand ranks as the sixth worst nation in the OECD for low-income rental affordability, behind the United States, Great Britain, Spain, Greece and Chile. New Zealand and the US provided non-standard affordability figures calculated on gross rather than

net income, so unaffordability was underestimated and our true ranking is probably worse (OECD, 2019).

New Zealand regularly ranks at or near the top in global rankings for unaffordable home purchase (Cox, 2021; Thomson, 2021). Nominal property prices in New Zealand have risen by an average of 9.5% per annum between 1980 and 2019³ (Waite, 2021), primarily driven by speculative, debt-fuelled investment which treats housing as an asset for financial gain (McArthur, 2020). Over the same period, rent increases have averaged 5.6% per annum, much less than house prices but more than the 4.5% average change in household incomes, and the 4.2% annual increase in the CPI (Waite, 2021).

And the final outcome of our past policies is still to come, because New Zealand's housing market is not in a stable equilibrium. Landlords have accepted lower rent increases while they got untaxed capital gains which frequently exceeded full-time annual salaries (Bell, 2021a, 2021b). Capital gains on property must eventually reduce to keep home purchase viable. When that happens, investors will need to derive their return primarily from rents.

To illustrate the consequences of declining capital gains, consider the annual

return from capital gains and rent on a \$1 million investment property in Auckland of around 12.3%. This illustrative scenario assumes a typical property investment model of 40% equity, interest-only 25-year loan, 2020 median Auckland purchase price, median rents, four weeks vacant and 8% management fee, using the Westpac rental investment calculator. Compare that with a future scenario where housing, immigration, tax, interest rate and/or pandemic policies shift to encourage constant real house prices. The 2020 Auckland median rent of \$589 for a three-bedroom house would need to rise to \$707, an increase of 20%, to give future investors a net return of just 5.6%. Every extra half percentage point increase in investor returns above 5.6% would require an additional 5% rise in rents (Waite, 2021). When New Zealand's house price curve flattens, rent increases may be dramatic.

After the Budget, where to next?

I have argued here that the Welfare Expert Advisory Group's example family budgets provide the most robust benchmark for the adequacy of New Zealand's social support system. The strengths of this approach have been outlined above: fitness for purpose; accuracy and specificity in relation to varied household circumstances and benefit types; transparency; and flexibility in both method and application. It is worth restating here the two minimum budgets developed by the WEAG: one for core or basic costs, and a slightly higher level that allows for some relatively minimal social participation. These provide an evidence base for public and policy discussion about what level of income support is appropriate. While recent changes to benefits, indexing and abatement thresholds have been significant, incomes will still not meet the lower WEAG benchmark in June 2022, and do not deliver equivalent support across the three main benefits (Fletcher, 2021).

This is particularly important as the 2022 changes were the first benefit-specific increases, after flat additions of \$25 in 2020 and \$20 in 2021 to all benefits. These changes were in response to the WEAG's short-term recommendations, limited by weaknesses in the current system, but they are a critical first step to creating a fit-for-purpose welfare system.

What we know is that high house prices relative to incomes are contributing to rapid declines in our home ownership rate.

A further review of the accommodation supplement has been announced, but there will be no easy policy solutions. If the WEAG recommendations are accepted, annual costs will be much higher and become increasingly less affordable for the state as long as rent increases continue to outpace earnings and tax revenue. The review will include consideration of alternative initiatives, such as rent to buy (Satherley, 2021). But rent subsidies have one key advantage: they can deliver large-scale targeted assistance. Accommodation supplements were paid to 351,912 people in June (Ministry of Social Development, 2021), distributing \$1.7 billion of assistance in the 2019/20 financial year (Edmunds, 2021). Scaling back that support and redirecting it to alternatives may mean reducing effective assistance to many, with higher-cost assistance to a few.

An alternative approach, recommended by the Child Poverty Action Group, is to increase core benefit rates and Working for Families payments to 'cover all basic necessities (for example, housing, food, power, clothing, transport and social inclusion) without requiring supplementary income assistance in all but the most extraordinary circumstances' (McAlister, St John and Johnson, 2019, p.8). With large differences between rents in urban and rural locations, this would create

a financial incentive to move to rural areas with limited employment opportunities. New Zealand's excessive housing prices also undermine other major policy options. High costs for scarce land, labour and materials undermine new-build affordable housing and reduce government's capacity to grow and renew an ageing social housing portfolio.

For 40 years, nominal house price growth has averaged 9.5%, rising to 21% in the year to August 2021 (Bell, 2021a). In response, the bright-line limit for capital gains tax on existing residential property was increased to ten years from June 2021, deductions for interest expenses on rental properties were restricted from October, and the Reserve Bank reintroduced its 40% deposit requirement for investors from May. In its pre-Budget economic briefing, the Treasury forecast that annual house price growth would peak at 17.3% in June 2021, then ease to 0.9% by June 2022 (Robertson, 2021). Will these regulatory changes be enough to moderate long-term house price growth? Was the record-breaking 10% rise in rents for the year to July 2021 (Bell, 2021c) a response to short-term lack of supply or a taste of the future? Time will tell. What we know is that high house prices relative to incomes are contributing to rapid declines in our home ownership rate. Social change of this magnitude emphasises the need for an effective policy response to assist the significant share of our population disadvantaged by high housing costs. Unaffordable housing is ultimately a policy choice, but one which disadvantages future generations to lift the profits of today's property investors.

- 1 Budget standards are also referred to as minimum income standards in the UK and reference budgets in Europe.
- 2 Budget standards can be extended to cover additional household types by extrapolating from representative example families; see, for example, Saunders and Bedford (2018). The assumptions to extend WEAG budgets were: couples' savings for shared services were set at two thirds those for three sharing adults; cost of children as difference between household costs with and without children; children aged up to 4 are based on WEAG's budget for a child aged 2, child aged 5–11 on average of ages 5 and 8 (not separated by WEAG), 12–24 on average of ages 14 and 16.
- 3 House prices Reserve Bank of New Zealand; rent, household income and CPI Statistics New Zealand. All values are nominal, unadjusted for inflation.

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Environmental Governance and Greening Fiscal Policy

Government Accountability for Environmental Stewardship



Murray Petrie has wide experience as a public official, international civil servant, consultant, civil society activist, and academic researcher in public sector governance, financial management, and the interface between fiscal policy and the environment. He has published widely in these areas and is a member of the IMF's Panel of Fiscal Experts and the OECD Expert Group on Green Budgeting. He is a Senior Research Associate at The Institute for Governance and Policy Studies, School of Government at Victoria University of Wellington.

His book addresses the increasingly urgent question: 'How can governments be held more accountable for environmental stewardship?' It explores enhanced national State of the Environment reporting and integration of environmental outcomes in key national indicators; mainstreaming environmental goals, targets, and risks by integrating them in fiscal policy and the annual budget, a government's most powerful

policy instrument; and progressively exposing and eliminating harmful tax and expenditures policies, putting a price on pollution, and providing environmental public goods.

The book combines in-depth assessment of the latest green and climate budgeting literature and country practices with discussion of entry points for greening fiscal policy, and the role of civil society monitoring. It will be of interest to finance and budget officials, to environment agencies, oversight institutions, international organizations, and civil society organizations, and to academics and students in the fields of environmental studies, development studies, economics, public finance, and public policy.

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