The Treasury

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Report

Date:	19 March 2026	**Security Level:**	
To:	Hon Nicola Willis, Minister of Finance Hon Chris Bishop, Minister of Housing Hon Louise Upston, Minister for Social Development and Employment; Minister for Child Poverty Reduction Hon Simon Watts, Minister of Revenue Hon Tama Potaka, Associate Minister of Housing		
File Reference:	T2026/507; HUD2026-009424; REP/26/3/166; IR2026/086		

Finalising components for Budget 2026 Welfare package

Purpose of the report

1 This report provides material to help ministers finalise the components of a welfare package for Budget 2026 at their upcoming Budget bilateral. The report:

- seeks to confirm the components of a welfare package for Budget 2026 discussed at the welfare bilateral on 4 March 2026
- seeks decisions on potential additional spending on the Accommodation Supplement (AS) maxima [33]
- sets out the sequence of further advice and decisions required to meet the timelines for the final Budget Cabinet paper on 28 April 2026.

Executive summary

2 Ministers have agreed to progress a targeted package of budget initiatives that makes work pay and supports New Zealanders to greater independence from both the benefit and social housing systems. The two key objectives of the package are:

- improving the incentives for people to exit benefit and enter work
- supporting social housing tenants to move to greater housing independence and improve equity between those in social housing and those in the private market.

3 [33]

4 The changes to the Temporary Additional Support (TAS) formula and Income Related Rent (IRR) are significant policy changes with direct negative financial impacts for the groups affected, [33]

Proposals to increase AS maxima [33]

would support work incentives objectives. These incentives are further supported by the changes to TAS and IRR.

5 For additional increases, this report presents a single AS proposal (including Area 2 in the scaled maxima increase at an additional cost of $42m) [33]

The AS proposal results in potential gains of between $0 and $30 per week, depending on circumstances, [33]

6 The choice among these additional components comes down to how ministers' want to balance their objectives. The AS option targets beneficiaries and working people with high housing costs in locations outside

Auckland, Tauranga, and Queenstown.[1] [33]

The AS option supports the Review of the Social Housing System (RoSH) objectives and provides some support for the making work pay objective. [33]

7 [33]

[1] Noting that some areas in Queenstown will receive a higher AS from 1 April 2027 due to the Budget 2025 initiative that adjusted area boundaries.

Table 1. Summary of impacts

	Fiscals	Impacts (using TAWA modelling only)		
	Savings (net annual allowance impact)	**Families worse off compared with current policy settings**	**Families better off compared with current policy settings**	**Change in child poverty* compared to current policy settings**
Agreed package: - Social Housing: Increase minimum tenant contribution for social housing (IRR), transitional and emergency housing from 25% to 30% - Temporary Additional Support: Reduce TAS [33] maxima to 25% (excludes NZS and Veteran's Pension recipients), and removing Child Support as an allowable cost - [33] - - Invest to Save: Sole Parents - Invest to Save: Emergency Housing - Income Charging: Additional savings - Working for Families: Income definition, residency and Customs info share - Accommodation Supplement (AS) targeted maxima increase for Areas 3 and 4 - [33] - Food Secure Communities: Food infrastructure and Kickstart	[33]			
Agreed package *plus* increases to AS maxima in Area 2				
[33]				
Agreed package plus increase to AS maxima in Area 2 [33]				

* Using After Housing Costs, fixed line measure (AHC50): The number of children in households with incomes less than 50% of the median equivalised disposable household income after deducting housing costs (AHC) for the 2017/18 base financial year, adjusted for inflation.

[33]

Table 2. Impacts across scenario families

The example families below are designed to be reasonably 'typical.' The sole parent is assumed to live in South Auckland, the single beneficiary lives in provincial NZ, and the couple lives in Christchurch. Rents are based on average rents paid by AS recipients. Employment earnings are based on the 2025 minimum wage for the sole parent and single person, and $30 per hour for the couple family.

	Total weekly income after housing costs				
	Status quo	**Agreed package**	Agreed package *plus* increases to AS maxima in Area 2	[33]	Agreed package *plus* increase to AS maxima in Area 2 [33]
1a Sole Parent with 1 child, benefit, private rental in South Auckland, AS Area 1: no offsets from agreed package by additional packages	$504	[33]			
1b Sole parent with 1 child, benefit, social housing: no offsets from agreed package by additional packages	$661				
1c Sole parent with 1 child, in work (25 hours at minimum wage), private rental in South Auckland, AS Area 1	$685				
2a Single person, on benefit, private rental in AS Area 3: no offsets from agreed package by additional packages	$266				
2b Single person, working (40 hours at minimum wage), private rental in AS Area 3	$499				
3a Couple, 4 children, on benefit, private rental in Christchurch, AS Area 2	$919				
3b Couple, 4 children, on benefit, social housing: no offsets from agreed package by additional package	$1,177				
3c Couple, 4 children, working (1 partner works 40 hours at $30 per hour), private rental, in Christchurch, AS Area 2	$1,149				

Notes: These comparisons use MSD's Effective Marginal Tax Rate (EMTR) model to illustrate impacts on common household types. They use the same assumptions about family circumstances as in previous advice. The scenarios are modelled as at 1 May 2030 to show full package effect as far as possible. Results have been rounded to the nearest dollar

Recommended actions

It is recommended that you:

1 **note** that this paper provides distributional and fiscal information for initiatives for the Welfare package for Budget 2026

2 **discuss** this paper at your upcoming Budget bilateral

3 **confirm** the following 11 Budget 2026 welfare package initiatives agreed at the Budget bilateral on 4 March:

Category	Initiative	Annual allowance impact	Implementation
Social Housing	1. Increase tenant contribution for social housing (IRR) and contribution for Emergency and Transitional Housing to 30%	**($92m)[2]**	1 April 2027
Income Support	2. Temporary Additional Support - Formula changes	[33]	1 April 2027
[33]			
Income Support	4. Accommodation Supplement – targeted maxima increases to Areas 3 and 4	**$40m**	1 April 2027
[33]			
Income Support	7. Income Charging Phase 2 – savings from further policy decisions	**($13m)**	1 July 2027 – 1 July 2028
Income Support – Invest-to-save	8. Invest in employment support for sole parents to reduce welfare costs and material hardship for children	**($24m)**	From July 2026

[2] Note that this does not include the savings associated with the increased contribution for Emergency and Transitional Housing. This has a small impact and will be included in final fiscal information.

[33]

Category	Initiative	Annual allowance impact	Implementation
Income Support – Invest-to-save	9. Emergency Housing – extending scaled-down support services	**($4m)**	From July 2026
Working for Families	10. Simplifying income definition, eligibility settings and improving information sharing with Customs	**($11m)**	1 April 2027
Income Support	11. Food Secure Communities (Food infrastructure and Kickstart baseline)	**$10m**	1 July 2026
TOTAL	[33]		

4 **note** that officials have developed further options for enhancements to the Accommodation Supplement [33] included in the agreed package

5 **indicate** whether you would like to add Area 2 to the Accommodation Supplement targeted maxima increase at an additional annual cost of $42m

Agree / Disagree

6 [33]

6.1 [33]

6.2

6.3

7 [33]

8

9 [33]

10 **note** that responsible Ministers will receive advice on TAS (including whether additional savings could be realised from the Budget 2025 initiative) [33]

11 **note** that agencies will update fiscal information to include increased contribution rate for Emergency and Transitional Housing, and removing Child Support as an allowable cost for Temporary Additional Support.

Claire Howard	**Jeremy Steele**	**Fiona Carter-Giddings**	**Carolyn Elliott**
Unit Manager, Social Sector, Communities and Learning, The Treasury	General Manager, Social Housing and Other Supports, Ministry of Housing and Urban Development	General Manager, Welfare System and Income Support, Ministry of Social Development	Policy Director, Policy, Inland Revenue
19 March 2026	19 March 2026	19 March 2026	19 March 2026
Date	Date	Date	Date

Hon Nicola Willis	**Hon Chris Bishop**	**Hon Louise Upston**	**Hon Simon Watts**	**Hon Tama Potaka**
Minister of Finance	Minister of Housing	Minister for Social Development and Employment; Minister for Child Poverty Reduction	Minister of Revenue	Associate Minister of Housing
Date	Date	Date	Date	Date

Objectives of the Package

8 The Minister of Finance, Minister of Housing, Minister for Social Development and Employment, Minister for Child Poverty Reduction, Minister of Revenue and the Associate Minister of Housing met on 4 March 2026 to discuss welfare proposals for Budget 2026

9 From this meeting, officials understand that ministers would like to progress a targeted package of initiatives that makes work pay and supports New Zealanders to greater independence from both the benefit and social housing systems. This aligns with a key priority for your Government to create and deliver opportunities for all New Zealanders and their families to get ahead.

10 New Zealand's welfare system is broad and includes income support, Working for Families (WFF) and social housing. There are a number of ministerial portfolios that interact with the system and competing objectives for change. It is important that this system works coherently to encourage work and promote independence, while being fiscally responsible.

11 Officials understand that ministers would like to progress initiatives that support two key objectives. The first objective is to improve the incentives for people to exit benefit and enter work. Ministers are interested in achieving this by increasing the margin between benefit and work. [33]

12 The second objective is to support social housing tenants to move to greater independence and improve equity between those in social housing and those in the private market. This is achieved by narrowing the gap between support received as a tenant in social housing paying an Income Related Rent (IRR) and someone in the private market receiving the Accommodation Supplement (AS). The package delivers to this objective by increasing the IRR contribution from 25% to 30% of a tenant's income and by increasing the AS maxima to ensure people in the private market have more assistance for their housing costs.

13 [33]

The package supports efforts to make work pay, reduce benefit dependency to reduce material hardship for children and to support the objectives of the Review of the Social Housing System (RoSH).

Confirmed components of the package

14 At the 4 March ministers meeting, ministers agreed that the Budget 2026 welfare package consists of the 11 initiatives set out in Table 3. Ministers also sought further advice on options for additional spending on AS [33]

Table 3. Summary of initiatives in Budget 2026 welfare package with annual average savings figures unless otherwise specified

1	Increase minimum Income Related Rent (IRR) from 25% to 30% in 2027 and increase Transitional Housing and Emergency Housing contribution rate from 25% to 30% at the same time **($92m)**[4]
2.	Reduce Temporary Additional Support (TAS) [33] reduce the maximum rate from 30% to 25% of relevant benefit (excludes New Zealand Superannuation recipients) and removing Child Support as an allowable cost [33]
3.	[33]
4.	Increases to the Accommodation Supplement maxima in Areas 3 and 4 **($40m spending)**
5.	[33]
6.	[33]
7.	Income Charging Phase 2 – savings from further policy decisions **($13m)**
8.	Invest to Save: Employment support for sole parents to reduce welfare costs and material hardship for children **($24m)**
9.	Invest to Save: Emergency Housing – Extending scaled-down support services **($4m)**
10.	Working for Families – Simplifying income definitions and residency eligibility settings and improving information sharing with Customs **($11m)**
11.	Food Secure Communities (Food infrastructure and Kickstart baseline) **($10m spending)**
	[33]

[4] Note that this does not include the savings associated with the increased contribution for Emergency and Transitional Housing. This has a small impact and will be included in final fiscal information.
[33]

15 As discussed at the meeting, officials are also re-examining the assumptions made around the impact of removing automated decision making from elements of TAS. We expect there may be additional savings able to be recognised from this Budget 2025 initiative. Detailed advice will be provided to the Minister of Finance, Minister for Social Development and Employment, and Minister of Housing on 25 March 2026.

16 As discussed at the meeting, the Emergency Housing and Transitional Housing contribution will be increased to 30% alongside the IRR increase.

Impacts

17 We have repeated the modelling undertaken for the previous advice, so that ministers have a view of the impacts of the agreed elements of the package.

18 As with previous modelling, this provides the overall fiscal savings, and a snapshot of the distributional impacts in the 2029/30 tax year, as this is the first year in which all of the changes would be in place. For the purposes of the modelling, we have defined people who gain or lose income support from a package by comparing their net financial position in the 2029/30 tax year to what they would have been receiving if there were no changes to policy.

19 [33]

[33]

[7] Because the TAWA model uses survey data, these results are subject to statistical uncertainty. Each result has a confidence interval associated which is available on request. Suppressed (s) numbers represent estimates withheld due to very small numbers.

[33]

20 [33]

[33]

Comment

21 [33]

22 Proposals to increase AS maxima [33] would support work incentives objectives. These incentives are further supported by the changes to TAS and IRR.

23 [33]

24

25

[33]

[33]

Potential enhancements to the agreed package

26 Ministers asked officials to consider possible enhancements to the AS [33] components of the agreed package. These options could strengthen the impact of the package on its key objectives:

- increases to the AS Area 2 maxima support the objective of improving pathways to housing independence and, improves in-work incomes [33]
- [33]

Enhancements to Accommodation Supplement (AS)

27 Ministers have asked for additional options to consider for increases to the AS, should a larger fiscal envelope be available.

28 In previous advice to the Minister for Social Development and Employment, MSD provided various options for an update to the AS maxima[9] (REP/25/11/989 refers). These were each based on scaling a full update to the 40th percentile of rents ($429m per year) to fit to within fiscal envelopes of different sizes (Option 1 was 15% of a full update, Option 2 was 25%, and Option 3 was 40%).

29 The Minister for Social Development and Employment opted for option 2, as it had more meaningful increases, but limited those increases to target Areas 3 and 4 only, where the AS maxima are most out of alignment and where rent growth and pressure on TAS is strongest. This is included in the agreed package, at an annual cost of $40m, highlighted in blue as option 2a in Table 6 below. It is tightly targeted to those areas with the highest proportions of people at the maxima (58-61% in 2027).

[9] The Accommodation Supplement allocates communities to four AS Areas that reflect local housing costs. Area 1 includes the most expensive areas in cities such as Auckland, Tauranga and locations like Queenstown and Wānaka. Area 2 higher cost urban areas in cities like, Christchurch, Hamilton, Napier and Wellington. Area 3 is lower cost cities like Dunedin, Palmerston North and Rotorua. Area 4 is the rest of the country, smaller centres and rural areas.

Table 6. Options for additional increase to the Accommodation Supplement

<table>
<tr><th>Area</th><th># at max</th><th>% at max</th><th>Household size</th><th>Max increase</th><th colspan="3">Options/cost per year</th></tr>
<tr><td rowspan="3">1</td><td rowspan="3">63,754</td><td rowspan="3">39%</td><td>1</td><td>$10</td><td colspan="2" rowspan="3"></td><td rowspan="12">Option 2c
$116.3m
Areas
1,2,3,4

149,000 families gain $17 per week</td></tr>
<tr><td>2</td><td>$15</td></tr>
<tr><td>3+</td><td>$30</td></tr>
<tr><td rowspan="3">2</td><td rowspan="3">67,565</td><td rowspan="3">50%</td><td>1</td><td>$15</td><td rowspan="3"></td><td rowspan="9">Option 2b
$82.3m
Areas
2,3,4
101,000 families gain $18 per week</td></tr>
<tr><td>2</td><td>$25</td></tr>
<tr><td>3+</td><td>$30</td></tr>
<tr><td rowspan="3">3</td><td rowspan="3">32,029</td><td rowspan="3">58%</td><td>1</td><td>$15</td><td rowspan="6">Option 2a
$40.2m
Areas
3 and 4
50,000 families gain $18 per week</td></tr>
<tr><td>2</td><td>$30</td></tr>
<tr><td>3+</td><td>$40</td></tr>
<tr><td rowspan="3">4</td><td rowspan="3">35,962</td><td rowspan="3">61%</td><td>1</td><td>$10</td></tr>
<tr><td>2</td><td>$25</td></tr>
<tr><td>3+</td><td>$30</td></tr>
</table>

30 For an additional $42m per year maxima in Area 2 could also be increased (option 2b in green in Table 6, at $82m per year total). This would:

- cover larger cities outside of Auckland and Tauranga (for example Hamilton and Wellington)
- assist locations that have a relatively high rate of AS recipients at the maxima (50%)
- roughly double the number of people assisted by the change
- align well with the objectives for the Budget package and for RoSH, improving pathways to independence by bringing the subsidy levels closer together.

31 Finally, Area 1 could be included, which costs another $34m per year (option 2c in Table 6, $116.3m per year total).

- There is a rationale for excluding Area 1 (Auckland, Tauranga, Queenstown and Wānaka) as part of a partial maxima update as there is a lower proportion of AS recipients at the maxima, and Auckland has seen more modest rental growth since the maxima were last updated (23% since 2018, compared with 40% for the country as a whole[10]).
- However, leaving Area 1 out would also mean that around a third of AS recipients at the maxima would not see an increase. Further, it does less to improve incentives for independence, as nearly half of social houses (~40,000 of 87,000) are in Auckland.

[10] Based on median rents in MBIE tenancy bond data.

[33]

[33]

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41 [33]

Advice on child poverty impacts as package

42 This paper shows the modelled estimates of impacts on the AHC50 fixed line measure of poverty. This measure is used primarily because it can be modelled, whereas material hardship cannot as it is impacted by a wider range of non-income factors. There is also an historical association between this measure and the child material hardship measure, so it can be seen as a proxy for likely movements in material hardship.

43 The AHC50 fixed line measure is set at 50% of the median equivalised household income as it was in the 2017/18 year, adjusted for inflation. It shows whether the incomes of the households with poorest New Zealand children are getting better or worse than they were in 2017/18. It does not move in line with middle-incomes, and the poverty threshold itself is not impacted by economic growth (but economic growth could lift individuals above the poverty line). In 2024/25 around 18% of children (210,000) were in poverty on this measure.

44 [33]

45 The impact of the variations to the agreed package are shown in Table 11. [33]

[33]

46 [33]

[33]

[33]

[33]

47 [33]

[33]

48 Some initiatives will have a greater impact on Māori families – particularly the increases to IRR. [33]

Consequential decisions and next steps

49 This paper seeks agreement to the initiatives to be included in the Budget 2026 welfare package. However, to finalise some of these initiatives, officials will need some specific decisions from relevant ministers. This advice will be provided over the next week to enable these decisions to be reflected final figures for Budget Ministers. We will also include final figures on EH/TH contribution [33]

Table 14. Upcoming advice on initiatives

Initiative	Key decisions	Ministers and due date
[33]		
Temporary Additional Support	Confirming parameters of the initiative and update on approach to ADM remediation savings from Budget 2025	Minister for Social Development and Employment, Minister of Finance and Minister of Housing (25 March 2026)

[33]

[33]

56 [33]

[33]

57 [33]

Appendix

58 Appendix 1: [33]

Appendix 1: [33]