

CHiLD
POVERTY
ACTION
GROUP

CPAG 2017 Budget Analysis - 26 May 2017

Summary: "A trickle not a tide"

This Budget does not deliver enough for all the children in poverty in New Zealand. Given that we have budget surpluses, this is a lost opportunity. Surprisingly small gestures have been made despite the Government's loud claims to be putting children at the centre of policy. Unlike people on NZ Superannuation, people on benefits are not assisted by the tax cuts, but are assisted by the increases in Working for Families. We also note that the Government's definition of 'social investment' appears to include over $1 billion on new operating and capital spending on prisons, money better spent on providing adequate support for children and their families.

There are currently 85,000 children in severe material hardship. The Family Incomes Package increase will lift 35,000 children out of severe housing stress. This is less than half the number of children in desperate need of the greatest assistance. Much more needs to be done to reduce child poverty in New Zealand.

Economic Outlook

- Government spending is decreasing as a share of GDP which means less social provision. Health and education spending are below what is needed to maintain existing services.

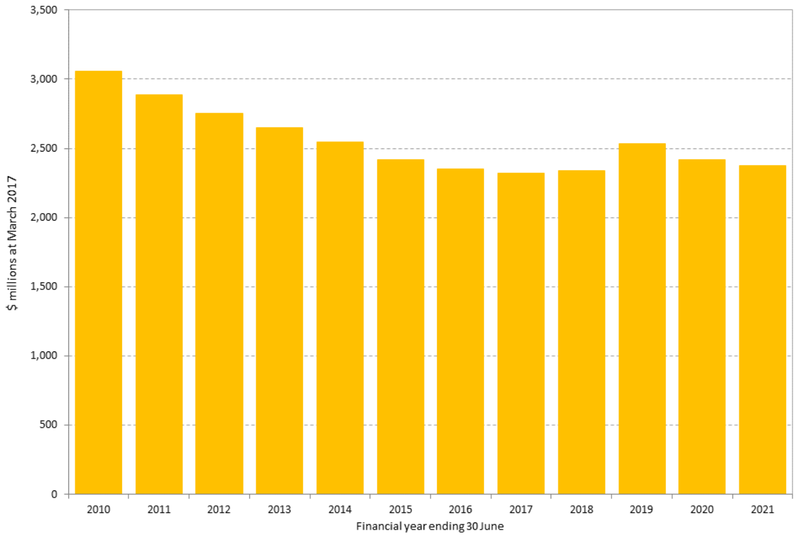
Fiscal outlook

- Increased spend on infrastructure is welcome but the fixation on paying down government debt which will move soon to be the lowest of any OECD country means less money is available for badly needed social provision.
- Leaving the government debt levels the same could free up around $5billion a year which would deliver world class health and education systems, address the housing crisis and reduce child poverty substantially.

Income Support

People on benefits are not assisted by the tax cuts, but are assisted by the increases in Working for Families.

Real spending on Working for Families – in March 2017 $



For the first time there has been implicit acknowledgement by this government that there are severe problems with the Working for Families package. The budget begins with some welcome simplification of rates. Instead of a confusing proliferation of rates based on age, there will be two rates: $102 for the first child and $91.25 for subsequent children. For some low income young families there will be a significant increase in weekly assistance and it is pleasing that the increase is not conditional on paid work by parents. A small number of children (50,000) under the 50% median income poverty line will be raised above it.

The graph shows how WFF is increased in 2018/9 but projected to steadily erode out to 2021. CPAG have argued that $700m per annum was required to restore the spending on WFF to 2010 levels, this budget does nothing like that. Worryingly the government has increased the abatement rate to 25%, and reduced the abatement threshold to $35,000. This means that low paid working families will experience very tough clawbacks.

The government may argue that families will also benefit from the tax threshold adjustments, but they were needed by all workers. Children's needs are over and above any tax reductions for adults. WFF needs to be properly adjusted and indexed like NZ Super. The threshold needs to be around $44,000 not $35,000 and the abatement rate reduced to 20%.

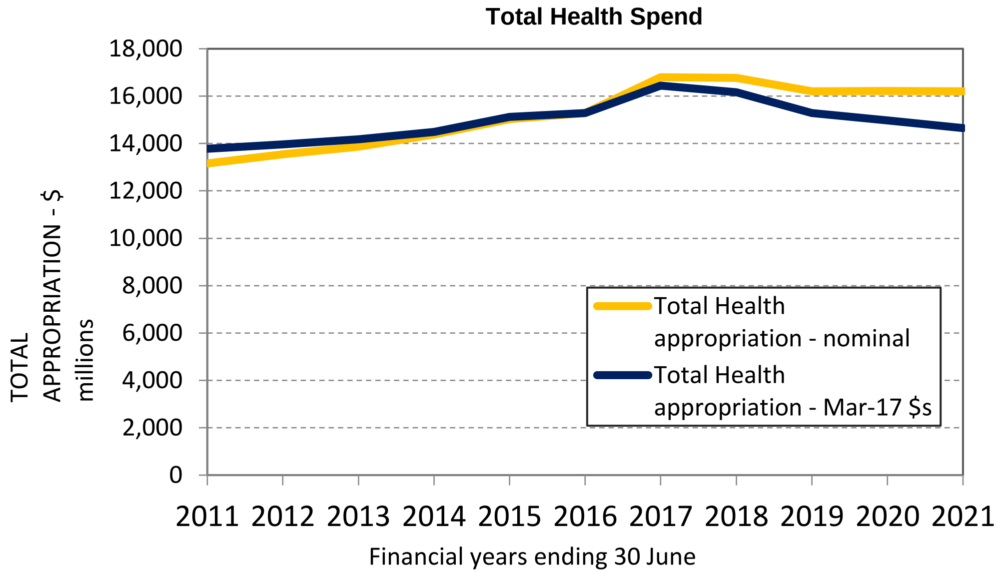
The maximum payment rates of Accommodation Supplement are increased for a two person household by between $25 and $75 a week, and for larger households by between $40 and $80 a week. This will help some low income families but in large part it will be offset by lower entitlement to supplementary assistance and by any increase in rents.

Students are all but ignored in this package.

Health

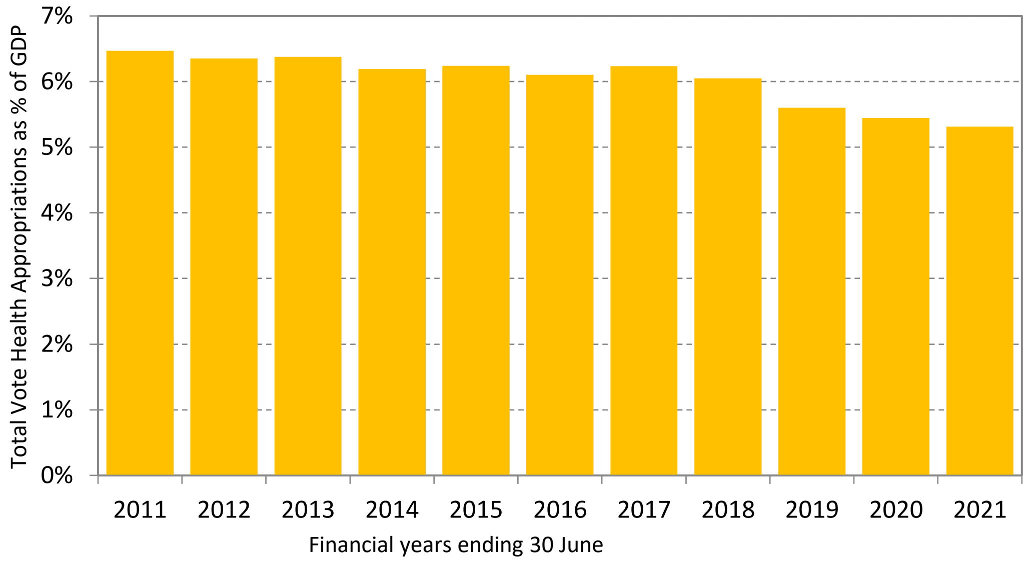
Health is getting $3.9 billion invested over 4 years. However this represents a real fall, taking into account inflation and demographic pressures.

The graph below shows that the Total Vote Health dollars will fall in real terms over the next five years, and there is no real change from 2011 to 2021.



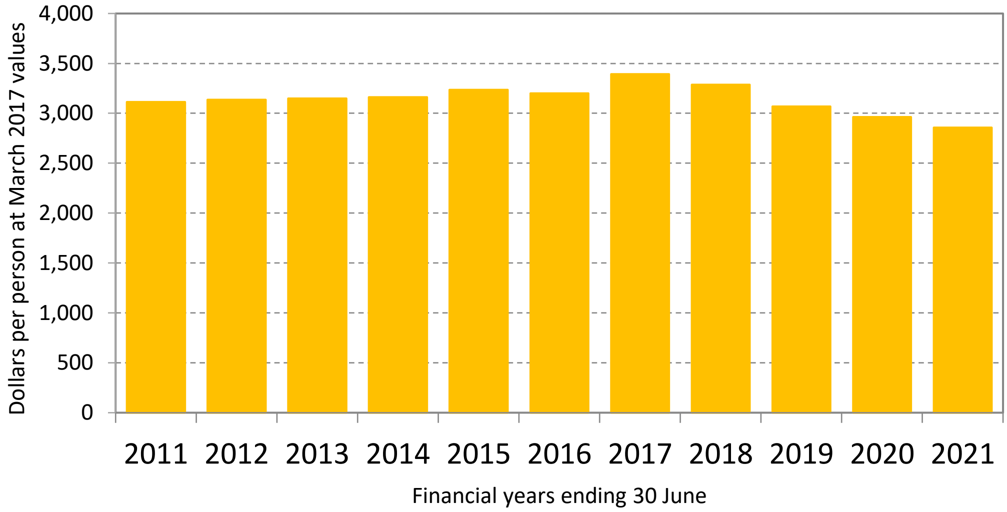
The graph below shows that the amount of health spending is falling relative to GDP, despite the population increasing.

Health spending relative to GDP



Spending on health per person progressively falls from this July to 2021: fewer actual dollars per person each year mean an even greater real cut per person per year.

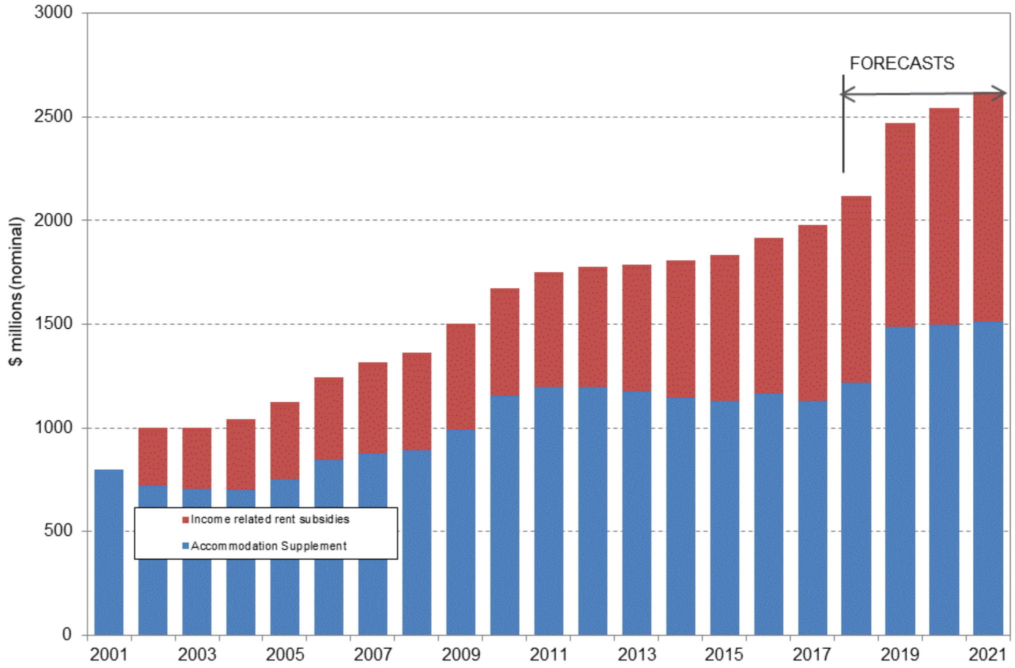
Spending on health per person per year 2011 - 2021



MISSING: There is NO extension of free GP visits and prescriptions to children aged 13—17 years, who will continue to have to pay for these.

Housing

Nominal spending on housing subsidies – 2001 to 2021



There has been a significant increase in allocations for housing assistance – the total budget has risen $700 million between 2016 and 2021 – a real increase of almost 24%.

The **Accommodation Supplement** budget is forecast to rise from $1.16 billion in 2016 to $1.52 billion in 2021 with the significant increases kicking in from 2019. These adjustments are overdue given that the thresholds and maximum provisions under the AS has not been adjusted since 2007. It will be interesting to see if these increases lead to further rent inflation

Vote Social Housing is a new Vote established with effect from 1 July 2017. Spending announced in the 2017 Budget includes:

- approximately $901 million on the purchase of social housing
- over $51 million on social housing outcomes support
- nearly $49 million on the emergency housing response
- over $20 million on community group housing
- nearly $4 million on social housing provider development.

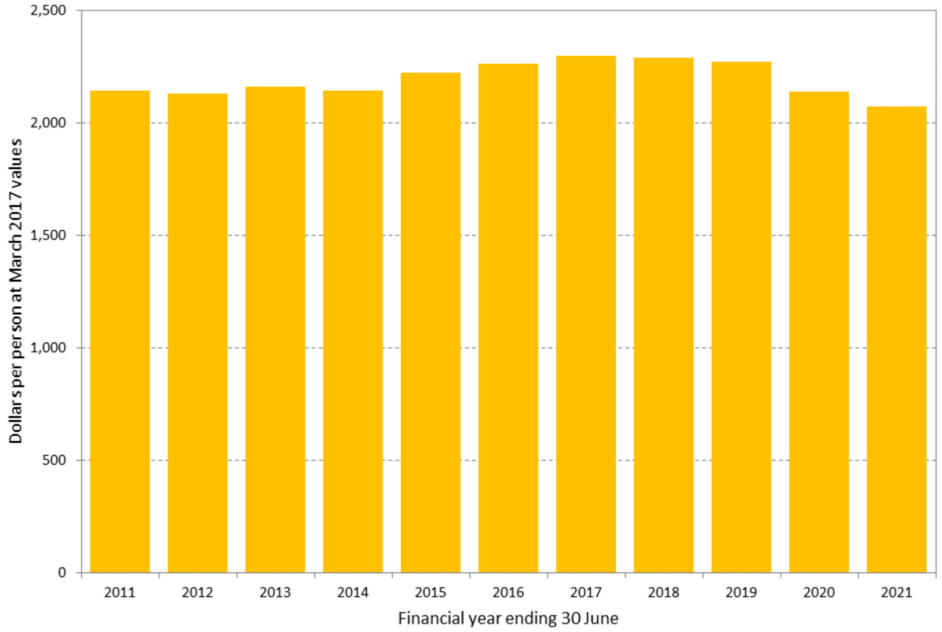
The budget for **income related rents** for social housing – the bulk of which are owned by Housing New Zealand, is forecast to increase from $755 million in 2016 to $1,105 million in 2021 – a 46% nominal increase. This increase clearly supports the Governments proposals to modestly expand the numbers of social housing units through increasing operational subsidies rather than capital grants. The numbers of additional housing units liable to be supported by this increase are not known.

Accommodation Benefit increases weekly payments by up to $20 for students to reflect increasing housing costs. About 41,000 students will benefit from the change, including around 26,000 students living in Auckland, Wellington or Christchurch will receive a $20 increase per week.

Education

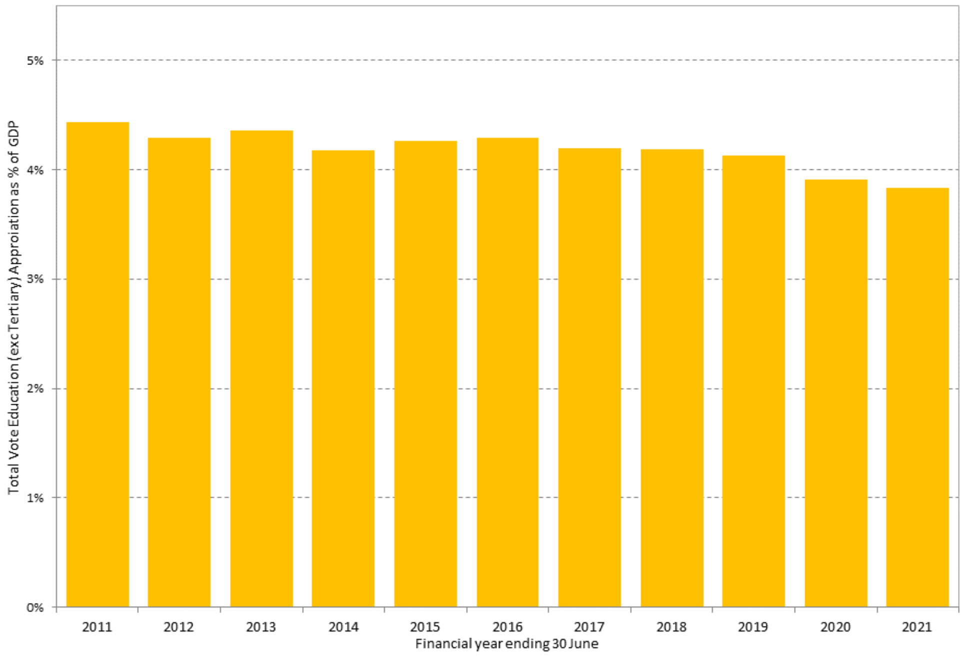
Despite the funding announcements in the 2017 Budget, the real per capita spending per child continues to decline.

Real per-capita spending on education per child 2011 – 2021 (projections 2017 – 2021)



Similarly, education spending as a share of GDP continues to decline.

Education spending as share of GDP 2011 – 2021 (projections 2017 – 2021)



Budget 2017 has an additional $1.1 billion of new operating funding over the next four years, plus an additional $392.4 million of capital funding. Nearly $500 million of this is an investment in new schools and school buildings. $7.6 million has been allocated for Māori language curriculum resources. Approximately $63 million of operating funding over the next four years has been allocated to support students with additional learning needs.

There are a number of major investments as part of the new funding which include:

- Early childhood education providers will receive an additional $386 million of operating funding over the next four years. This will provide a further 31,000 early learning places over the next four years, as well as $35.5 million targeted toward supporting children most at risk of under achievement.
- Primary and secondary schools will receive $458.9 million of additional operating funding over the next four years, largely to meet increasing student numbers.

The bulk of "new" funding for education is to cover roll growth. The 1.3% increase in operations grants will barely cover inflation and certainly won't "catch up" the freeze in the operations grant last year.

The TARF (targeted at risk kids funding) is an increase of just over $2 per child per year on the 2016 approximately $90 a year per child who meets the Treasury IDI criteria.

Social Services

There is a significant increase in the Ministry for Vulnerable Children/Oranga Tamariki for the coming year but the projections of expenditure through the next four years indicate that by 2020/2021 the budget will be at almost the same level as for next year.

There is no specific reference in the Budget speech to funding for NGO and community agencies. These groups have managed under increasingly tightening contractual arrangements which place substantial pressure on agencies to meet the growing demands which they face.

Social investment is identified as a recurring theme in the Budget. A new departmental agency, the Social Investment Agency, has an appropriation totalling $8.804 million in 2017/18, and is hosted by the State Services Commission. The new Social Investment Agency is receiving $25.8 million operating funding over four years to deliver social investment tools, analysis and advice to support the on-going implementation of the social investment approach. $12 million operating funding over two years and $4.8 million of capital funding will fund the new data exchange infrastructure.

Media Release - 2017 Budget: “A trickle not a tide”

The Budget announced today shows some slight change in the weather for families in poverty, but it is not the sea change that is required for many, says Child Poverty Action Group (CPAG).

While the small offerings show some improvement for around 50,000 children in severe poverty, another 100,000 to150,000 children will not benefit enough from the changes.

The increases to the Accommodation Supplement (AS) will benefit many of the lowest income families, but without adjusting the income thresholds, the after-housing disposable income of working families living in poverty, paying for a private rental will still be unfairly squeezed.

Working for Families (WFF) increases are a long-awaited improvement that signals some relief for low-income working families and beneficiary families, benefitting a family with three under-16s and an income of less than $35,000 per year by around $54 per week. But the increase in the abatement rate and threshold reduction for maximum entitlements means that a family earning any more than this will have their Working for Families entitlements reduce sharply.

“While the reduced tax rates may benefit those in work, the same is not true of beneficiary families. Income support benefits for families are net of tax and therefore they will not see any tax benefits, as the gross figure will be reduced accordingly; in contrast superannuitants clearly will benefit from this tax cut with an increase in their weekly net incomes,” says Associate Professor Susan St John, CPAG economics spokesperson.

“Furthermore, without a plan to properly index WFF going forward, the small benefits will quickly be swallowed in cost increases.”

The increases in the Family Incomes Package will lift only 35,000 children out of severe housing stress, meaning that less than half of the 85,000 children known to be suffering severe material hardship will see no improvement in their situation.

Importantly, none of these changes come in until April 2018.

Professor Innes Asher, CPAG spokesperson for health, says, “Making children, who are cold, hungry and sick right now, wait this long is negligent.

“Given there is a budget surplus there is a surprisingly small gesture for the children in New Zealand who are suffering the worst effects of poverty - and it won’t go far to reduce the number of hospital admissions due to preventable diseases, a target set by the Government itself earlier this month.”

“We estimate that even with the small changes in this budget there are around 100,000 to 150,000 children who will continue to suffer severe hardship because the changes aren't big enough nor do they have far enough reach to significantly lift them out of poverty. These are the children whose mental and physical health is most at risk.”

CPAG says that these moves by the National government must be encouraged - but there is a lot more work to do to change the tide for children in poverty in New Zealand.