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GROUP

CPAG Budget Analysis - 20 May 2021

Budget Summary: Income support rises welcome, but not liveable or transformational

Child Poverty Action Group welcomes the income support increases announced in the Budget. The rises will be a step towards income adequacy for many children in need, especially in those families where a couple receives a benefit.

However, few families receiving benefits will be lifted over poverty lines. The Government has put its child poverty targets in jeopardy. Māori and Pacific children are more commonly affected by poverty, so ongoing inadequacy of benefit incomes is discriminatory. Disabled children, and those in households with disabled members, are more likely to live in material hardship than others, yet have not received extra catch-up.

Actions to rectify Working For Families (WFF) are missing. The Welfare Expert Advisory Group (WEAG) recommended that all children supported by benefits should have access to all tax credits in WFF, and they should be indexed to wages.

If Government forecasting is correct and 19,000 to 33,000 children are lifted out of poverty by these changes, that will still leave 180,000 to 190,000 children in poverty. With the changes announced in the Budget, Treasury forecasts child poverty will reduce from 18.4% to only 17.0% by 2023. This is not yet the transformation that WEAG hoped for 3 years ago.

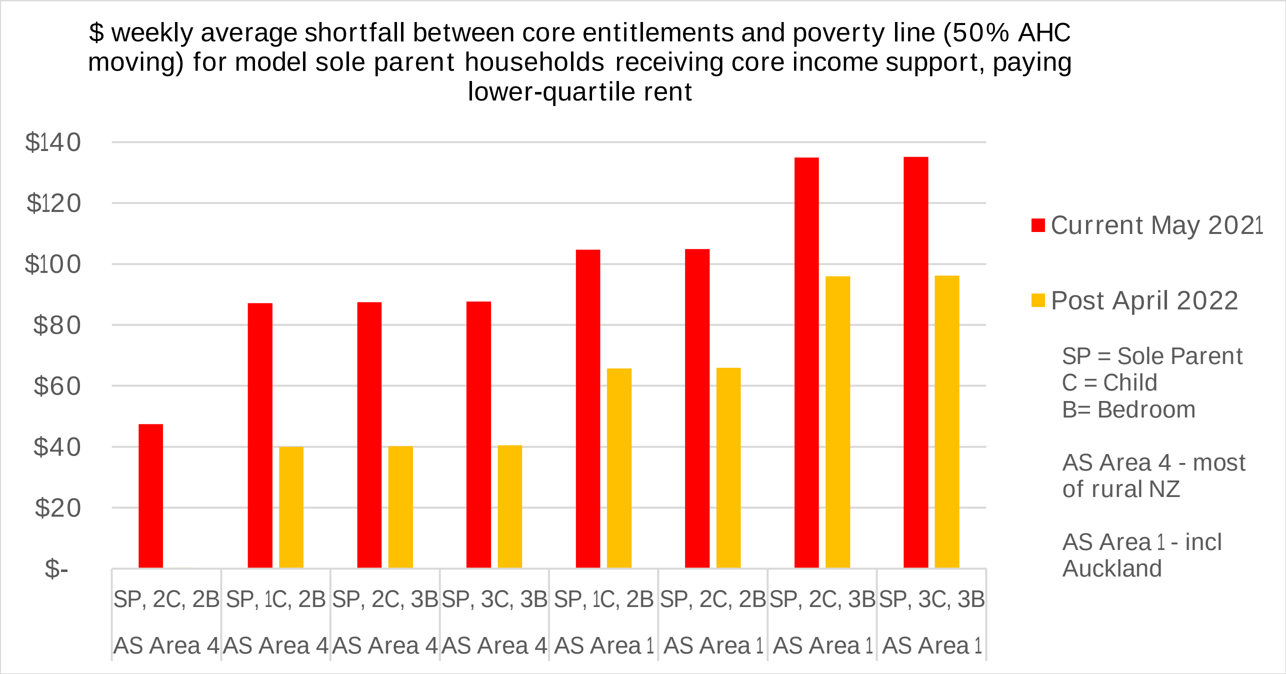
Children cannot wait. Their health and wellbeing are very sensitive to income shortages; financial stress and having to go without all the time are detrimental to children's development. Brain development is greatest in the first 1000 days, so changes which don't come fast enough or go far enough mean that children won't reach their full potential. Why aren't all the benefit increases being introduced on 1 July this year?

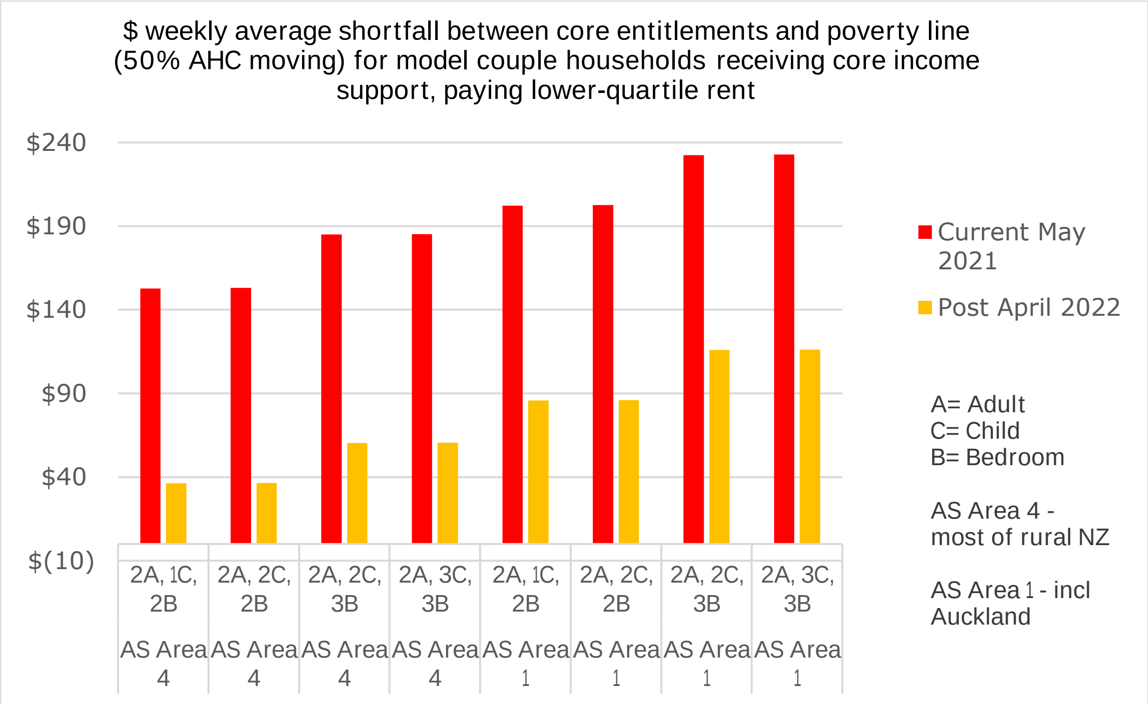
What does Budget 2021 deliver?

Small progress towards liveable incomes

The income support increases announced are insufficient to lift most families receiving benefits over poverty lines. In the coming year, from 1 July, families will benefit by just $20 per adult per week (before clawbacks). In 2022 this rises to $36 for sole parent families and $110 per couples with children (plus annual indexation). Couples gain from a per adult approach – up until now as the modelling below shows, they have been particularly poorly supported by the welfare system.

CPAG modelling shows families receiving benefits and paying low market rent require an additional $100 - $230 a week to be lifted above poverty lines. The increases announced today will mean their incomes will be boosted by around $40 - $115 a week – not enough to release them from poverty. This takes the 25% Accommodation Supplement clawback into account but not Temporary Additional Support clawback of 100%



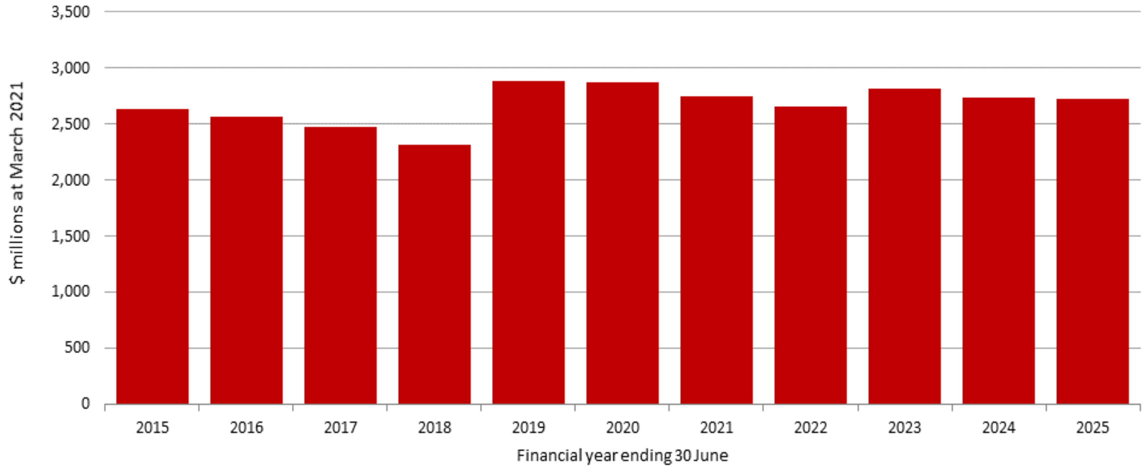


Any actions to rectify Working for Families (WFF) are missing; the WEAG recommended that all children supported by benefits should have access to all tax credits in WFF, and that all income support should be indexed to wages, but neither of these recommendations have been enacted. WEAG recommended the first child per week rate to be lifted to $170 per week and today it is $113.

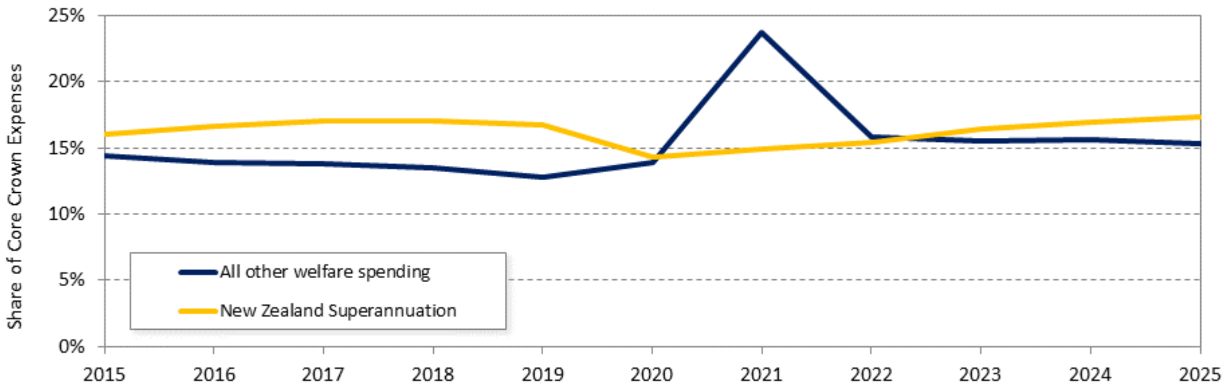
There is no relief of debt to MSD.

There are no new announcements on lifting of sanctions which harm families in poverty; WEAG recommended lifting eight sanctions, not just two.

Inflation adjusted spending on Working for Families - 2015 to 2025



Welfare spending as a proportion of Core Crown Expenditure - 2015 to 2025



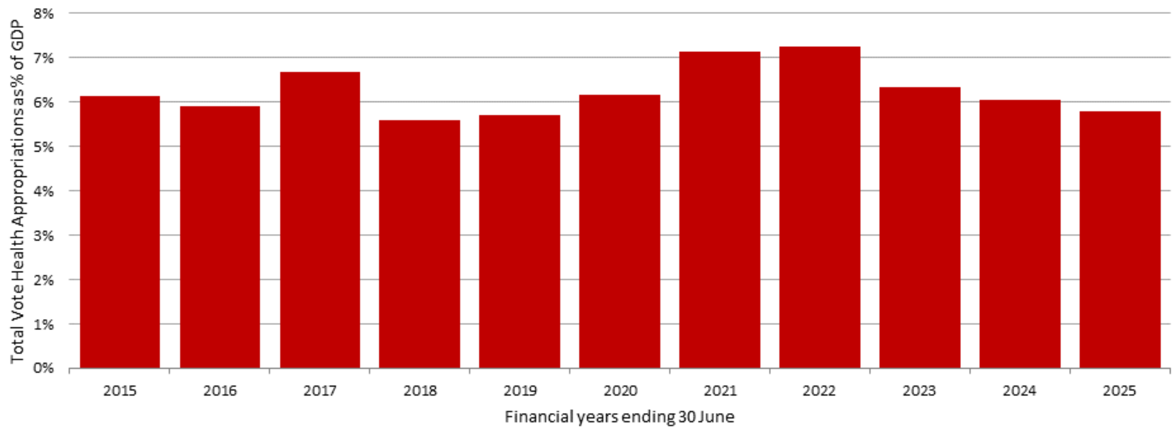
During the 2021/22 financial year, spending on New Zealand Superannuation (NZS) is expected to each represent 15.5% of Core Crown Expenditure as is spending on other income support programmes. In 2019/20 income support spending excluding NZS reached 23.7% of Core Crown Expenditure on account of COVID-19 related wage subsidies. By 2024/25 spending on NZS is expended to exceed $21 billion and be 17.4% of all government spending.

Health and Disability: Reducing Inequities

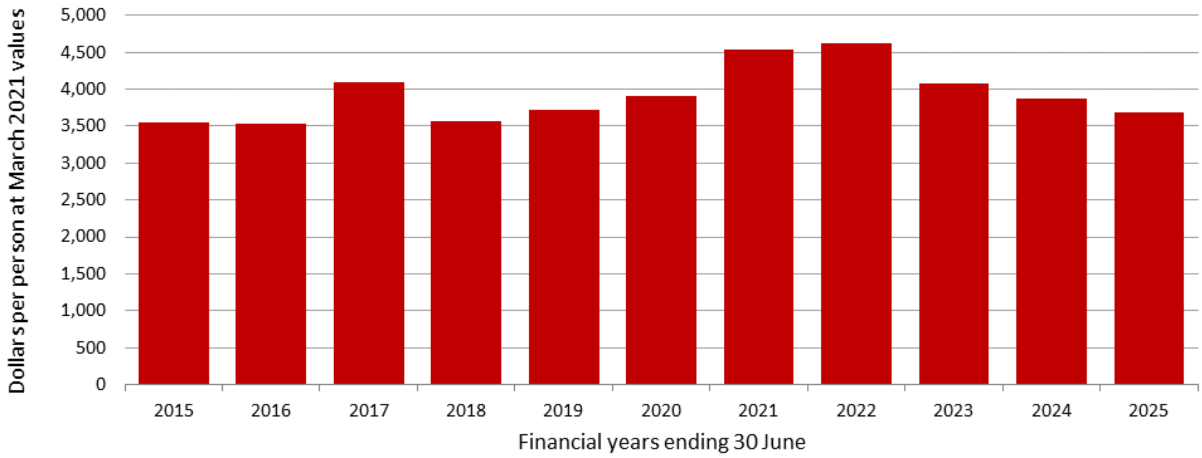
Disabled children and children living with a disabled household member are between two to three times as likely to be in material hardship. The Disability Allowance and Child Disability Allowance are currently inadequate and have not changed in this budget. The full cost of living with a disability and the full cost of accessing all the necessary treatments have not been addressed.

Children have to pay for GP visits from age 14 to 18 years. Dental care remains hard to access and sometimes costly. Families still bear the costs of purchasing spectacles if children have vision impairment. These issues have not been addressed in the Budget.

Spending on public health services as a proportion of GDP - 2015 to 2025



Real per capita spend on public health services in March 2021 $ values - 2015 to 2025



Forecast spending on public health services during the 2021/22 financial year is almost $24.4 billion which a 5% nominal increase on the previous year. The 2020/21 health spend of $23.2 billion was a 19% increase on the previous year and record spend at the time. In the 2021/22 public health spending will reach a record 7.3% of GDP and represent a record per-capita spend of $4,600. Forecast spending beyond 2022 shows falling spending levels mainly on account of expected lower capital expenditure. By 2025 public health spending may have fallen to the equivalent of $3,900 per person in 2021 dollar values and to 5.8% of GDP.

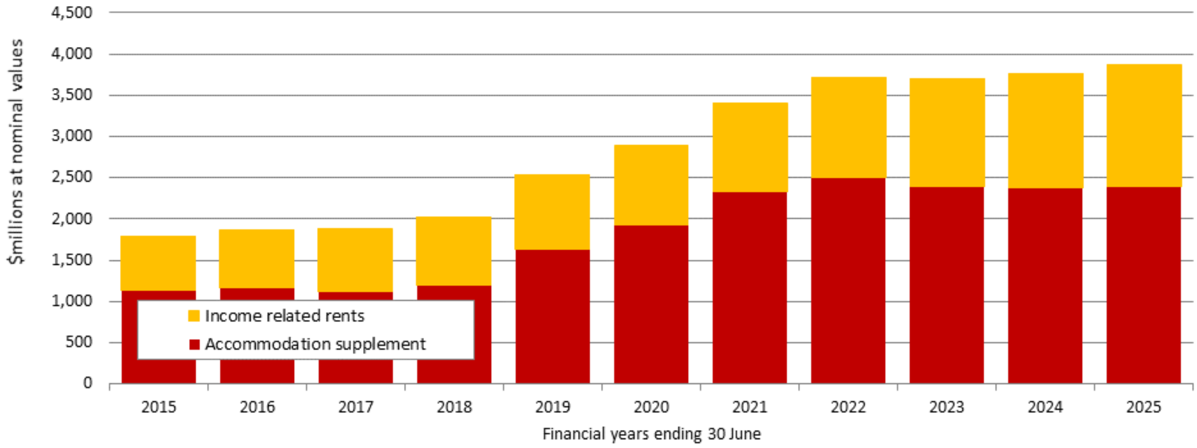
Housing

The total Vote Housing has risen 23% between 2020/21 and 2021/22 from $1.95B to $2.4B which is encouraging although some questions should be asked about the quality of some of this intended spend and of the capacity for some of the budget to be spent.

The bulk of the Vote Housing budget is spending on providing public housing through income related rents and other supports to social housing providers. The income related rent budget is forecast to increase 14% from $1.07 billion to $1.22 billion between 2020/21 and 2021/22 most likely due to the increasing numbers of social housing tenancies. The 2021 Budget offers no targets for new state housing builds which is disappointing.

Outside of the Vote Housing budget are Accommodation Supplement payments. AS payments are forecast to grow 22% between 2020/21 and 2021/22 from $1.92 billion to $2.34 billion. This means that the total value of housing subsidies is forecast to increase almost 20% from $3 billion in 2020/21 to $3.6 billion in 2021/22. Little growth beyond 2021/22 is anticipated which hardly seems credible.

Nominal spending on housing subsidies - 2015 to 2025



While it is hard to isolate all the current spending on emergency and transitional housing, it appears that these budgets are falling. Spending on transitional housing is forecast to fall $344 million in 2020/21 to $272 million in 2021/22. More broadly defined services to address homelessness appear to have fallen by $65 million or around 17%. This expectation seems rather optimistic at this stage.

Spending on Māori housing initiatives is set to almost double in 2021/22 to $69 million although this is only 3% of the total Vote Housing budget. The actual spend on Māori housing in 2020/21 was less than 40% of the budget and there may be ongoing capacity problems with delivering this larger budget.

Education

CPAG welcomes the continuation and increase in the Ka Ora, Ka Ako Healthy School Lunches programme which currently supports around 144,000 children in approximately 660 schools throughout the country.

Similarly, we welcome the provision of the previously announced $170 million intended to improve the pay of certificated teachers working in education and care services.

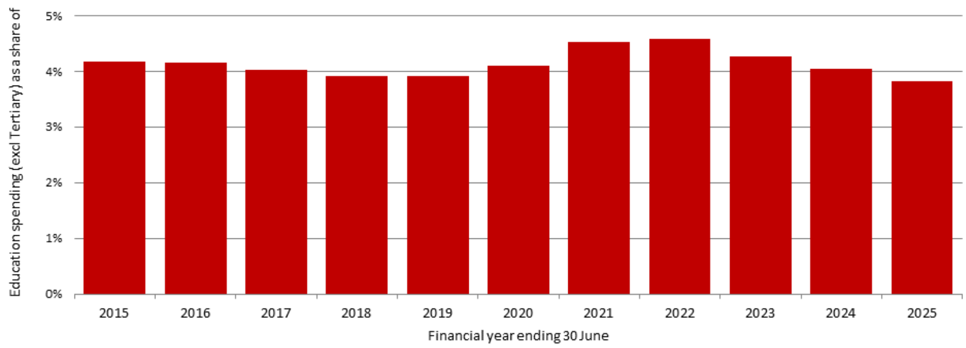
The Budget also provided a 1.6 percent increase to school operations grant next year and a 1.2 percent increase to early childhood and tertiary education subsidies. While these increases are welcome the increases will barely keep pace with inflation.

Responding to calls from the sector, the Budget delivered increases in funding for school property maintenance ($53 million in a one-off package) and children with special needs ($18 million over 4 years). For learning support, the Budget provided an increase of $67.3m to pay attendance services to work with 7500 more students, support children at risk of dropping out of school, and increase support for alternative education.

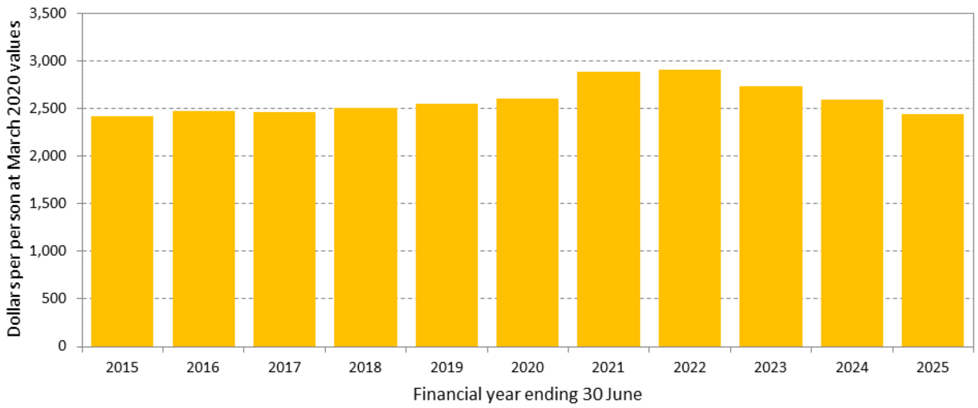
The sum of $11.6 million was allocated to expand the Reading Together Te Pānui Ngātahi Partnerships and Duffy Books in Homes programmes. Pacific bilingual programmes also received funding to the sum of just over $12 million over 12 years.

As promised prior to the election, the Government will be supporting 16,000 people (including sole parents) to retrain, gain higher skills and transition into new careers by bringing back the Training Incentive Allowance for higher-level qualifications.

Spending on education (excl tertiary) as a proportion of GDP - 2015 to 2025



Real per capital spend on education in March 2021 $ values - 2015 to 2025



Public spending on education (excluding tertiary education) is forecast to grow by $600 million or 4% between 2020/21 and 2021/22 to $15.38 billion. In 2021/22 this spend will represent a record 4.6% of GDP and is the equivalent of just over $2900 per person which is also a record.

Social Services

Changes in overall social services expenditure are difficult to assess accurately because they are spread over a range of agencies and departments. Initial calculations suggest that there is little substantive change and social service agencies will continue to struggle to meet demands. There is still a significant gap, estimated at $630m, in the funding required to enable non-government organisations to adequately meet the social service demands they face; these demands are in the context of prolonged high levels of poverty and extremely increased housing stress. Further work on commissioning of social services is noted in the budget this year but this will not affect immediate demands. Budget allocation for foodbank and related food programmes is unchanged.

Social Insurance

Child Poverty Action Group is concerned about the impact of a social unemployment scheme. In effect, this would be a two-tier welfare system which bakes in inequity; it gives more government money to those who are likely to have more resources than most people requiring income support. Any scheme would do very little for children in poverty and their families. It assists higher-income, fulltime workers who have not taken time out to look after children or other family members who need assistance, and this particularly affects women. Given low wages for Māori and Pacific people, it will be an entrenchment of colonisation, racism and discrimination against disabled people.

If the Government is concerned that people need more assistance to retrain, they can revive their broken promise to reinstate postgraduate allowances.

In Summary

The Government's ability to act immediately and boldly to protect the livelihoods of New Zealanders was seen during the Covid-19 pandemic, but the same boldness is missing in this budget.

Increases to core benefits will provide some welcome relief to people living in poverty, however the increases fall short of what's required for families to reach government-measured poverty lines, and the recommendations given by WEAG, whose report envisaged more transformational increases of hundreds of dollars to core benefits and Working For Families three years ago. We still do not ensure all children in New Zealand have liveable, adequate incomes for basic needs.

The decision to delay the implementation of part of the benefit boosts will mean that children born today in poverty will continue to miss out on much needed household income for a substantial portion of their First 1000 Days.

Furthermore, the increases are not substantial enough to reverse three decades of government-led entrenched lack of resources. The changes announced today are a good start, but the government needs to augment and sustain the momentum of this budget if it is to meet its own set of 10-year targets in reducing child poverty.

Families with disabled members and children living with disability are left out of this Budget, with no increases to the currently insufficient disability allowances and other support.

If the Government's forecast that with this Budget up to 30,000 children will be lifted out of poverty, this still leaves 180,000 to 190,000 children in poverty in Aotearoa. These children will be from families in the deepest poverty. Much more work is needed to secure their future.