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# Submission on the Budget Policy Statement 2018

To the **Finance and Expenditure Committee**

**This submission is from:**

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**Child Poverty Action Group (CPAG)** is an independent charity working to eliminate child poverty in New Zealand through research, education and advocacy. CPAG believes that New Zealand's high level of child poverty is not the result of economic necessity, but is due to policy neglect and a flawed ideological emphasis on economic incentives. Through research, CPAG highlights the position of tens of thousands of New Zealand children, and promotes public policies that address the underlying causes of the poverty they live in.

## Submission

We wish to make the following submission to:

**[The Budget Policy Statement \(December 2017\)](#)**

**We request that our submission is heard orally.**

## Summary

Child Poverty Action Group (CPAG) is pleased to see that some of the issues raised in CPAG's 2017 [Submission](#) have been acknowledged:

- Surpluses of the previous Government were generated in large part by underfunding of social provisions of all kinds.
- Families have been badly impacted by failing income support policies with clear evidence of family distress. For example, the real value of Working for Families (WFF) tax credits for children had been markedly eroded.
- The proposed tax cuts by National were inadvisable.
- The social deficit in health education and housing required urgent fixing.
- The minimum wage needed to be raised at a significantly faster rate than the previous two years.
- The outcomes of poverty reduction measures needed to be properly measured and monitored.

The new Government has committed significant additional spending to reduce child poverty and is reversing some of the deliberate reductions and neglect of WFF during the last nine years.

However there are some important issues that were raised by CPAG in the 2017 Submission that have not been addressed:

- The need for fair indexation of WFF (yearly by the CPI, with a link to wages as is the case for New Zealand Superannuation (NZ Super)).
- The need to remove the discrimination in the In-Work Tax Credit eligibility criteria.
- The need to address the harsh cumulative effects of abatement for low-income families.

Other important issues that should be addressed:

- Existing student debt
- The wisdom of restarting contributions to the New Zealand Super Fund (NZSF) and failure to count NZSF assets in the calculations of net debt.
- The complexity of the new changes.

It is also noted that there is no discussion in the Budget Policy Statement of the need for a substantial overhaul of the welfare system. CPAG urges the Government to begin this process with a serious rethink of the purposes and principles section of the social security act - see [CPAG Further Fraying of the welfare safety net](#).

In particular the needs of people, especially children, should be at the heart of the system not paid work. The relationship basis of welfare payments, punitive sanctions, and the definition of what is considered to be income need urgent reform along with attention to benefit levels and the need to increase the allowable extra earned income that is not subject to steep abatements.

## Legislative change

The Budget Policy Statement says:

*Too many children live in poverty and, in a lot of cases, without adequate food, healthcare and housing. Evidence shows that childhood poverty, particularly in the early years, costs the country significantly each year. More importantly, it is unjust. Households on low and middle incomes are struggling to get ahead. Home ownership rates are the lowest in over 60 years and rents are rising. More than half a million New Zealanders did not go to a doctor last year because of the cost. This Government is committed to addressing these social deficits, **starting with putting child wellbeing at the heart of what we do** (Budget Policy Statement, p. 5).*

And:

*Our economic strategy, to be set out more fully alongside Budget 2018, will reflect the fact that wellbeing is determined by sustainable, productive and inclusive growth. (p. 7)*

CPAG is pleased to see therefore the intent to introduce legislation that requires:

- *Greater focus on the issue of child poverty across government and society more generally.*
- *Transparent and robust reporting on the levels of child poverty and material hardship in New Zealand.*
- *Greater commitment to action on the part of current and future governments, and:*
- *Governments to be held accountable for the results they achieve. (p. 8)*

Critical to the success of sustained child poverty reduction policy CPAG also welcomes this statement:

*We will change the Public Finance Act 1989 so that in every Budget New Zealanders will hear about how many children have been lifted out of poverty and we can all see clearly what more needs to be done. Budget 2018 will be the first Budget to report on this. (p. 8)*

## Fair indexation of WFF

Labour's Families Package is summarised [here](#) and its fiscal impact in the table below

Fiscal year (\$ millions)

	2017/18	2018/19	2019/20	2020/21	2021/22 & outyears	Total
<b>Total revenue impact* (repeal of tax cuts)</b>	<b>(486)</b>	<b>(1,904)</b>	<b>(1,904)</b>	<b>(1,993)</b>	<b>(2,077)</b>	<b>(8,364)</b>
Working for Families	(97)	540	530	520	510	2003
Best Start	-	80	231	373	451	1,135
Winter Energy Payment	-	443	448	455	465	1,811
Other expenses**	17	94	100	177	190	578
<b>Total expenditure impact</b>	<b>(80)</b>	<b>1,157</b>	<b>1,309</b>	<b>1,525</b>	<b>1,616</b>	<b>5,527</b>
<b>Total fiscal impact</b>	<b>(566)</b>	<b>(747)</b>	<b>(595)</b>	<b>(468)</b>	<b>(461)</b>	<b>(2,837)</b>

CPAG notes with concern:

- The reduction in WFF tax credits of \$97m in the year to June 30 2018. This compounds the severe erosion and arises from delaying implementation of the Families Package to 1 July 2018. This is unjustified.
- The decline rather than increase in nominal spending on WFF tax credits projected out to 2021/22. In real terms this is a significant decline.
- The decline for Best Start is not apparent only because it is a programme that is phased in over this period.
- The Winter Energy Payment is very expensive and poorly targeted so that much of the cost (around 70%) is because older people can have it automatically. See St John, S (2018) [Use of Nudge theory: The Winter Energy Payment](#).
- There is no distributional analysis of the extra spending on Paid Parental Leave. This is a tax-funded, non-means tested payment that is not well targeted and has little to do with reducing child poverty.

It is concerning that there is no commitment to annual Consumer Price Index (CPI) inflation adjustments let alone adjustments to movements in the net average wage as occurs annually to NZ Super.

The rule for an inflation adjustment only when cumulative inflation passes 5% was not eliminated by the Families Package. Under this rule there had been no adjustment since 2012 and the most recent inflation forecast from Treasury indicated that that would most likely not occur until April 2019.

While the Families Package effectively brought the date for inflation adjustments forward nine months to 1 July 2018, and at the same time reset the indexation clock to 1 July 2018, the latest inflation forecast from Treasury also indicates that the next 5% breach (following the 1 July 2018 reset) is likely to occur in March 2021. This means there will be no adjustment until April 2022.

The 5% cumulative rule is very disadvantageous to low-income families in times of low-inflation and has no justification except as a cost saving measure. Politically it can be

manipulated by governments to claim credit for what looks like a big increase when the adjustment is finally made - but that is only because families have had to wait so long for the overdue inflation catch-up.

It is unclear why the Government has chosen to use the CPI (less tobacco) series. This is far from easy to use on Statistics New Zealand's [Infoshare site](#).

The indexation affects not just the real spending power of the maximum WFF tax credits, but lack of adjustment to the thresholds means an additional serious erosion of WFF for low-income working families.

The Government will raise the threshold from its projected value in 2018 of \$35,000 to \$42,700 helping low-income working families retain more of their entitlements. CPAG welcomes this as an essential change but points out that \$42,700 is well below the threshold applying in Australia (A\$52,706) and represents only a partial catch-up. The threshold was first set at \$35,000 in 2005 and a CPI adjustment means that it should be around \$45,000 in 2018. Ideally it should be adjusted annually in line with movements to net average wages.

Without proper annual price (and, where relevant, wage) indexation of most forms of social assistance sustained reductions in child poverty/material deprivation, will not be achieved.

## Removal of the discrimination of the In-Work Tax Credit

CPAG cautions against third way rhetoric that see social inclusion in terms of paid work only. For example:

*Social inclusion and participation: investments that support increased social inclusion through effective training, work preparation and support that enables more people to fully participate in work and society. (Budget Policy Statement, p. 13)*

Policies based on a certain kind of paid work like the In-Work Tax Credit (IWTC) are anachronistic and damaging. If the Government is serious about lifting the lowest-income families out of poverty, the most cost-effective way is to add the IWTC to the Family Tax Credit (FTC). Far too many children are on incomes under the 40% poverty line and will remain there. It will prove too expensive to tackle this deep poverty with the FTC as any increase goes a long way up the income scale unless draconian and damaging abatement rates are instituted.

The Families Package missed the opportunity to remove the extra per child payment of \$15/week of the IWTC for families with four or more children. The very significant rise in the second and subsequent child's FTC risks over compensating working large families while ignoring the light of those poorer smaller families who do not qualify for the IWTC.

## Harsh cumulative effects of abatement for low-income families.

CPAG is alarmed at the lack of attention to Effective Marginal Tax Rates (EMTR). While Labour has acknowledged the need to increase the threshold for abatement of WFF, it has not adjusted the tax thresholds and has compounded the EMTR problem by increasing the

rate of abatement of WFF to 25%. In addition it has placed more emphasis on the Accommodation Supplement (AS) that abates alongside at 25%. It has ignored the effect of student loan repayments from a very low level of income.

A family earning another \$5000 over the new threshold of \$42700 may lose:

Tax + ACC	(18.7%)
Student Loan Repayment	(12%)
KiwiSaver:	(3%)
Loss Working for Families	(25%)
Loss Accommodation Supplement	(25%)

**A total loss of nearly 84% of that extra \$5000 leaving only around \$800 in the hand.**

There may be other losses incurred as well such as the loss of the community services card and child support payments that can leave the family worse off than before they earned the extra.

A family earning an extra \$5000 over \$48,000 could face an EMTR of 95% because the tax rate has been kept at 30%.

In the short-term CPAG suggests an immediate return to a 20% abatement for WFF. Longer term a move away from use of AS is required, and a complete overhaul of student debt policy. Then abatement of Best Start from incomes of over \$79,000 adds an unnecessary and overlapping layer of abatement.

## Existing student debt

### The BPS states:

*The Government will reduce the level of net core Crown debt to 20 per cent of GDP within five years of taking office. Reducing government debt will give future generations more options and provide a buffer to help manage future risks or shocks. New Zealand has low government debt by international standards but is vulnerable to shocks, such as natural disasters, and household debt has been increasing to record levels.*

CPAG suggests that the Government needs to concentrate on making sure that household debt is reduced—if it generates surpluses to reduce net debt by forcing households to borrow to fund social provision (as has been the case recently) there is little gain.

## Contributions to the NZ Super Fund

### The BPS says:

*The Government will prioritise investments to address the long-term financial and sustainability challenges facing New Zealand. Responsible investments that enhance the long-term wellbeing of New Zealanders will be prioritised – such as restarting contributions to the New Zealand Superannuation Fund (NZS Fund). In addition, we will invest in infrastructure to support our growing population,*

*develop our regions and reduce the long-term fiscal and economic risks of climate change.*

CPAG urges the government to delay restarting the contributions to the fund and divert the funds to alleviating the poverty of the worst-off families who still miss out on the full WFF package.

## Complexity of the new changes

The 100 Day Plan has many welcome features but will make family assistance more complex: Simplicity should be a goal of Budget 2018 along with an intent to act swiftly on the poverty of those families who are inadequately helped in the Families Package, many of these remain under the 40% poverty (After Housing Costs) line.

### **CPAG recommends:**

- Join the IWTC to FTC for first child as a matter of urgency.
- Remove additional per child payment for the IWTC.
- Join Best Start to the FTC for children under three years of age.
- Index annually (automatically) as for NZ Super.