



# CHiLD POVERTY ACTION GROUP

## **CPAG Budget Analysis - 30 May 2019**

### Budget Summary: Improving child wellbeing? Some relief, but no transformation.

We are looking at this budget through the eyes of children in poverty. The government deserves credit for reframing the budget to reflect human wellbeing outcomes. This modernisation is well overdue. The new approach should mean there is a greater understanding of the tragic extent of the social deficits created over years of neglect.

Struggling families will certainly benefit from the extra spending on mental health, domestic violence, Oranga Tamariki, removal of donations pressures and other important changes. But, looking specifically at child poverty, and welfare benefits, there is very little to put the needed dollars into the hands of the families who are so clearly struggling now. The evidence from the social sector, foodbanks and budgeting services is that the Families Package made little difference to many families. CPAG is particularly concerned with the worst off 174,000 children below the AHC line. They have not been given the income boost needed to reverse the damage of years of neglect.

The major announcements around wage indexation of benefits, raising the threshold before abatement and sanctions removal are costed at \$541 million over 4 years. This is a long way short of the \$5.2 billion the WEAG report claimed was necessary for transformational change. None of those three measures comes into play until 2020 and are at best a very partial response to WEAG recommendations. Core benefits must be boosted, the full Working for Families (WFF) package must be given to all low income families, and the earning threshold lifted to at least \$150 per week.

It seems the Government is expecting the economy to slow, and this to some extent justifies their decision not to spend. However, this is a time to invest.

The recently announced relaxation of the Fiscal Responsibility Rules by shifting the debt target from 20% of GDP to a range of 15% to 25% would have enabled greater investment in priority areas like reducing child poverty. However, the Government has not chosen to take advantage of this opportunity to put in place a package to meaningfully raise the incomes of struggling children and families. The \$1 billion allocated to the New Zealand Super Fund would have been better spent improving the lives of these families.

## **So what does Budget 2019 deliver?**

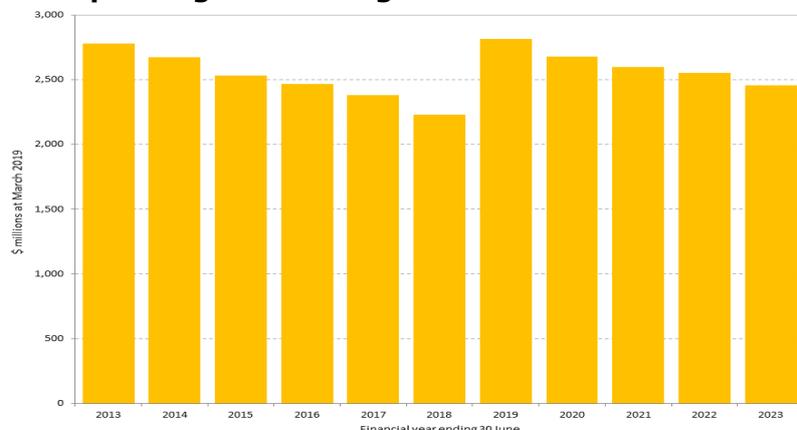
### **Income Support**

We welcome indexation of welfare benefits to wages, as is done for NZ Superannuation, rather than just the consumer price index; this is expected to cost \$320 million over 4 years, but it is not to be implemented until April 2020. It will just prevent people's incomes falling even further behind.

However to lift families out of income poverty, and to meet our child poverty targets, increased income is required and this is an urgent need. Main benefits are seriously inadequate, and their base level is not being lifted at all. Children supported by a benefit do not receive all of the Working for Families package which would help the poorest 178,000 children. There needs to be a plan for urgent allocation of funds in these two directions, as recommended by the Welfare Expert Advisory Group.

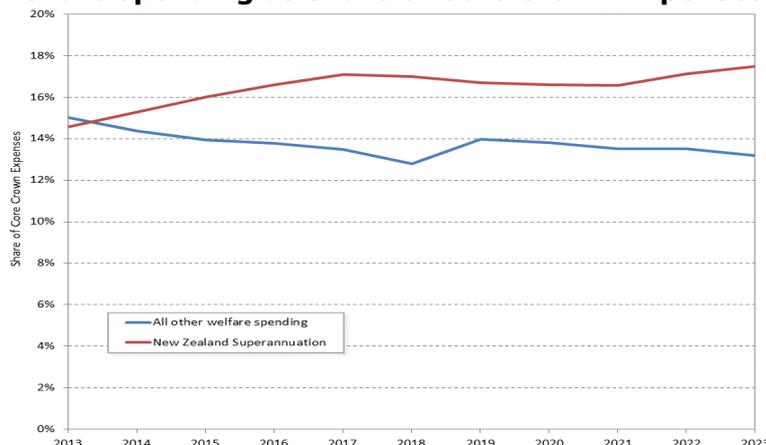
Professor Innes Asher says: “The Government’s vision is for an adequate income for people on benefits. The Welfare Expert Advisory Group (WEAG) provided the plan for that in their February report *Whakamana Tāngata*. We need now to see the Government’s plan for a staged rollout or their recommendations, starting with the urgent implementation of immediate increase in main benefits and the Working for Families tax credits improved for all families.”

### Real spending on Working for Families – in March 2019 \$ values



Following the substantial increase between 2018 and 2019 in the Working for Families (WFF) budgets, of around \$600 million, these budgets are forecast to gradually decline in inflation-adjusted terms. This decline is from \$2.8 billion during 2019/20 to less than \$2.5 billion by 2022/23. By 2023, WFF budgets will be around the same level in real dollars as they were in 2015.

### Welfare spending as share of Core Crown Expenses – 2013 to 2023



Welfare spending as a share of Core Crown Expenditure is expected to remain fairly constant over the next 4 years at around 30.6%. However, the share of this spending going to NZ Superannuation is expected to continue to rise. In 2013, NZ Super took 14.6% of Core Crown Expenditure, and by 2023 this proportion is forecast to reach 17.5%. Over the next 4 years, spending on NZ Super is expected to rise by \$1 billion per year, and will reach \$18.5 billion by 2022/23.

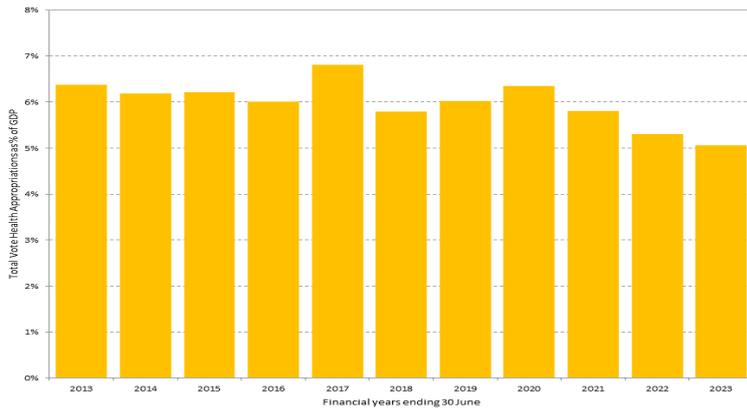
## Health

A \$1.9 billion boost to address New Zealand’s mental health crisis is welcomed. Of this \$823 million is for strengthening and improving frontline services, and \$58 million for treating drug and alcohol addiction. Poverty is one of the contributors to mental ill-health because of the stress that it imposes when the living environment is inadequate.

The \$1.7 billion allocation to the rest of the health system is too little given that \$2.3 billion was needed just to stand still. Also, while the \$12 million for rheumatic fever and St John’s Ambulance \$21 million are welcome, that is less than is needed to remedy these areas.

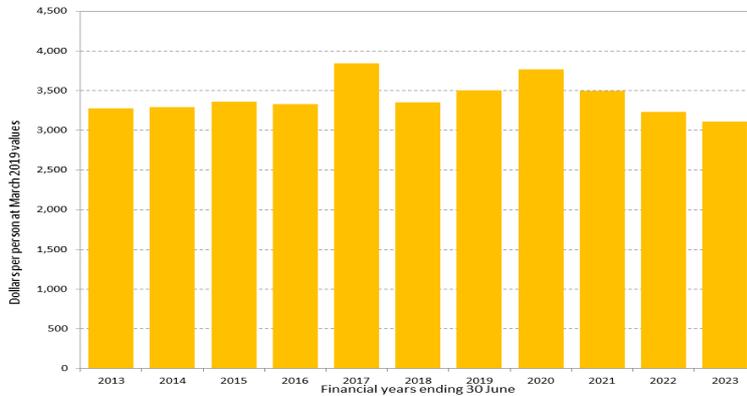
It has long been a position of CPAG that all children should have free primary care, and we have seen how successful access to free healthcare has been for children under 14, so it is disappointing that children 14 to 17 years still have to pay.

## Health spending as a proportion of GDP 2013 to 2023



Health spending as a proportion of GDP is budgeted to rise from 6% in 2019 to 6.3% in 2020, before falling to just 5% by 2023. These figures include capital spending. This decline is despite the increasing health needs of an ageing population.

## Per capita Health spending in 2019 \$ values

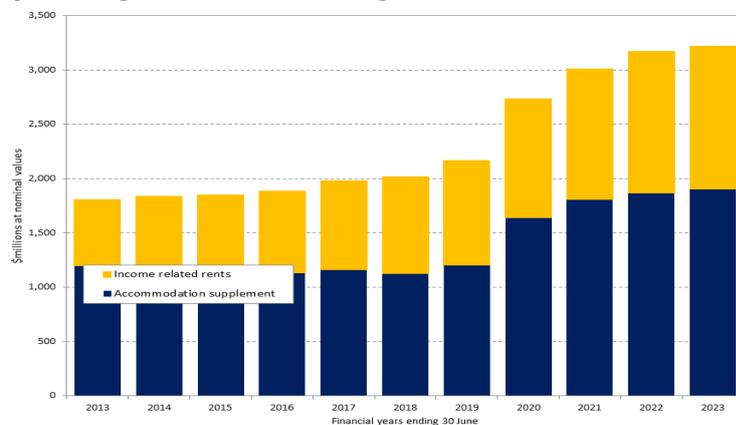


On a real (allowing for inflation) per capita basis, public health spending will decline from over \$3,700 (in March 2019 \$) in 2020 to just over \$3,000 per person in 2023. This 2023 forecast spend will be the lowest in more than 10 years.

## Housing

CPAG welcomes the \$480 million to address homelessness which will fund 1044 extra places in the Housing First initiative, increase transitional housing placements, and increase support services. It is disappointing that there are no initiatives to making housing more affordable.

## Spending on main housing subsidies – 2013 to 2023



While there is no specific capital spending provision for additional state housing in the 2019 Budget, spending on the main housing subsidies (Accommodation Supplement, and Income Related Rental

Subsidies) is forecast to grow by 25% between 2019 and 2023. This is an increase of more than \$650 million annually. By 2023, spending on these housing subsidies will be nearly \$3.3 billion.

## Education

Families of nearly half a million children at 1,700 schools will benefit from no longer having to pay school donations as a result of the Wellbeing Budget. The initiative, which will take effect from the start of the 2020 school year, is budgeted to cost \$265.6 million in the four financial years from 2019/20 through 2022/23.

All decile 1-7 State and State-integrated schools, attended by about 63 % of all students, will be eligible to receive \$150 per student per year if the school agrees to stop requesting school donations from parents. Where schools opt to continue to seek donations, those donations remain voluntary – meaning parents and caregivers are not required to pay them.

Furthermore, over 145,000 households will benefit from the removal of the \$76.70 NCEA fee that families pay every year for around 168,000 secondary school students. This initiative will save families an estimated \$70 million over 4 years.

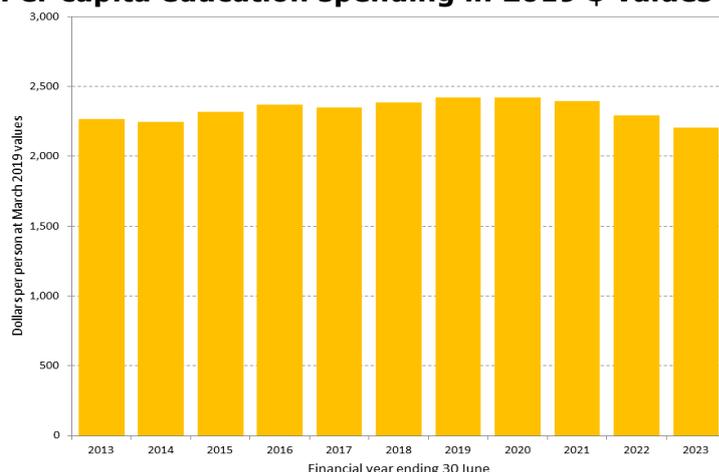
The Wellbeing Budget will invest \$42 million over three years to support Māori students to achieve success in education by addressing inequity across the system and supporting whānau to engage in their children’s learning. This initiative should boost the capability of the education workforce to better support Māori achievement, and transform the learning experiences of Māori students.

In addition, \$27.4 million spread over four years, will be provided to ensure Pacific students and their families have the skills, knowledge and equitable opportunities to pursue any education pathway. This will include investing in Pacific PowerUP, an education programme that actively supports Pacific parents, families and communities to champion their children’s learning.

We welcome the increased support for children with additional learning needs, but note that there is no substantial increase in school operational funding or provision for smaller class sizes.

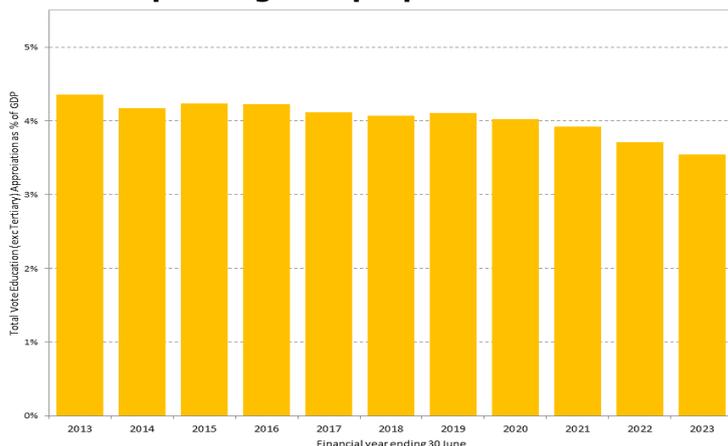
Disappointingly there is no increased funding for early childhood education, other than inflation adjustment. The 1.8 % increase in subsidy rates will only cover the cost of inflation over the past year for around 4,200 early-learning services serving about 190,000 children. The higher subsidies for ECE, budgeted to cost \$131.1 million in operating funding over the four-year forecast period, on top of the \$105 million provided for the ECE sector in Budget 2018, are also covering the cost of inflation.

### Per capita education spending in 2019 \$ values



Real per capita spending on public education (excluding tertiary) is forecast to fall 10% between 2019 and 2023. This is equivalent to \$200 per person. By 2023, the per capita spend on public education will have fallen back to 2013 levels.

## Education spending as a proportion of GDP 2013 to 2023



Consistent with this per capita decline in education spending, is the ongoing decline in the share of GDP being spent on public education. By 2023, public spending on education will have fallen to just 3.5% of GDP, the lowest level in more than a decade.

## Social Services

There is an additional \$1.1 billion support for children in state care including for Oranga Tamariki to reduce young people from falling through the cracks; funding to improve the care and youth justice systems; meet new responsibilities to tamariki Māori; build a new Transition Support Service for young people leaving care and youth justice; and pilot a new Intensive Intervention service to prevent children and young people from entering care in the first place.

A positive development has been the move from 1 to 4 year contracts for those providers in the areas of family and sexual violence. This welcome change will assist providers to more effectively plan, manage and deliver their services to families and children.

## In summary:

The interconnected relationship between poverty and social inequities sits at the centre of government initiatives across the entire fabric of the Wellbeing Budget. The measures undertaken by government in each of the priority areas of the budget are largely needed as a result of a low wage economy, inadequate welfare support, inequality and the intense personal structural pressures caused by poverty. Billions are to be spent in addressing the outcomes of social injustice but little is to be spent in transforming the actual causes of the issues.

The eradication of poverty and the provision of opportunity for all New Zealanders to improve their life circumstances are central to the creation of individual and social wellbeing. Wellbeing is dependent on a more just and equitable society. This budget fails to be genuinely transformational because its focus is on ameliorating the impacts of poverty rather than addressing its root causes.

## CPAG Media Release: Budget provides relief but nothing transformational for children in poverty

**Child Poverty Action Group (CPAG)** has said that the Government should be warmly congratulated for the reframing of the Budget to reflect human wellbeing outcomes.

“The new approach signals a greater understanding of the tragic extent of the social deficits created over many years of neglect,” says Associate Professor Susan St John, CPAG’s Economics advisor. “Struggling families will benefit from the extra spending on mental health, domestic violence, and early intervention for at-risk children. But little has been done to address the serious problem of inadequate incomes.”

CPAG says the plan to index benefits to average wage inflation is a step forward to prevent families from falling even further behind, but it doesn’t address the almost three decades of failure to index adequately. As a result of this failure, current benefit levels fall far below the real costs of living, and families who receive income from a main benefit are struggling to meet even the most basic of their

children's needs, and rely more than ever on charity to fill the gap. A substantial increase in benefits was needed.

"Children simply cannot wait until 2020 for a meagre increase based on the previous year's wage inflation - they need benefits to be based on actual and realistic costs of living," says St John.

Professor Innes Asher, CPAG's Health spokesperson says that the new spending of \$1.9 billion boost to address New Zealand's mental health crisis is a welcome and necessary initiative.

"But without addressing poverty as one of the major contributors to mental ill-health, there is a risk that we are addressing damage without adequately addressing the causes," says Professor Asher. "Mental health problems as a result of prolonged and extensive poverty can have long-term effects for children and adults. Failure to address income adequacy or to provide universal access to primary healthcare for all children is a huge concern."

The removal of education costs in the form of voluntary donations and NCEA fees will certainly provide relief for many struggling families.

"CPAG has long called for the removal of the hidden costs of a so-called 'free' public education, which many families struggle to afford," says Professor Peter O'Connor, CPAG Education spokesperson. "But there is little in the Budget to address increasing education operating costs. Many schools experience high levels of debt through insufficient funding and are terribly under-resourced."

CPAG's Social Security spokesperson Mike O'Brien applauds the new funding for NGOs supporting Oranga Tamariki.

"We are pleased that the Budget will provide \$26 million over four years for the NGOs currently providing early intervention services. This will afford agencies the ability to forward plan, and to provide continuity of their essential services for families of children. These agencies have been let down in the past by inconsistent funding and failure to adjust contracts."

But when it comes to the Government meeting its 10-year child poverty reduction targets, CPAG says a sufficient plan is yet to be revealed.

"If the Government's vision is for an adequate income for people on benefits then the Welfare Expert Advisory Group (WEAG) provided the plan for that in their February report Whakamana Tāngata," says Professor Innes Asher. "We need now to see the Government's plan for a staged rollout or their recommendations, starting with the urgent implementation of immediate increase in main benefits and the Working for Families tax credits improved for all families."

CPAG says that for very low-income families, this Budget is far from transformational.

"The three-year child poverty reductions the Government has projected are based on the Families Package that came in last year. This package did very little for the 174,000 worst-off children under the lowest poverty line (40% after housing costs)," says Associate Professor Susan St John.

CPAG says that redirecting the \$1 billion contribution to New Zealand Superannuation Fund could free up sufficient funds to improve the situation for these children.

"We should be investing now for the future rather than saving for it," says Mike O'Brien. "The savings will be realised when today's children grow up to have secure, successful futures, and the resilience that has come from a nurturing society."

Ends