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## Submission on the Budget Policy Statement 2020

To the Finance and Expenditure Committee,

Thank you for the opportunity to submit on the Budget Policy Statement (BPS). This submission has been prepared by Associate Professor Susan St John and Alan Johnson on behalf of Child Poverty Action Group. We request our submission is heard orally.

### About us

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 child poverty.

### Summary

Along with many other New Zealanders CPAG believes all children in New Zealand should experience happy, thriving childhoods. We want public policy to deliver the best chance for all Kiwi kids. However, due to what we believe is deliberate policy neglect New Zealand has a serious child poverty problem.

While the Budget's wellbeing framework is a good idea and has long term potential, it must still deliver immediate and obvious improvements to income adequacy.

While we are encouraged to see "Child Wellbeing – Reducing child poverty and improving child wellbeing" as one of the top five priorities for the 2020 Budget, we are discouraged that many of the pressing issues raised in our 2017, 2018 and 2019 Budget Policy Statement submissions remain unacted. We continue to call for an immediate and substantial overhaul of the welfare system, including:

- Amending the purposes and principles of the Social Security Act so the welfare system is underpinned by the principles of compassion and caring;<sup>1</sup>

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<sup>1</sup> See [our report 'Further Fraying of the welfare safety net'](#) and the Welfare Expert Advisory Group's report [Whakamana Tangata report](#).



- A substantial increase to core benefits so everybody has adequate income to meet basic needs, and the pressure is removed from the supplementary assistance system;
- The fair indexation of all aspects of Working for Families. Working for Families should be indexed yearly by the Consumer Price Index, and with a link to wages as is the case for New Zealand Superannuation (NZ Super);
- Children in low-income households to be treated fairly by removing the work-based eligibility criteria for the In-Work Tax Credit and paying the full Working for Families tax credit to all children in low-income households;
- A reduction in the harsh cumulative effects of abatement for low-income families;
- An end to punitive sanctions;
- Fairer treatment of people in relationships who receive welfare assistance; and
- Increasing the allowable extra earned income so it is not subject to steep abatements.

The current Budget Policy Statement confirms 'operating allowances of \$3.0 billion in Budget 2020, \$2.4 billion in Budgets 2021 and 2022, then \$2.6 billion in Budget 2023' Over the long term, an additional \$12.0 billion in capital spending is promised. Net core Crown debt will fall to 21.5 per cent of GDP in 2021/22 and 19.6 per cent of GDP in 2023/24, while the government has adopted a goal of net debt within a prudent range of 15 to 25 percent of GDP.

We question:

- The adherence to such a low net debt target while much remains to be achieved in addressing our social deficits;
- The justification for the continuing contributions to the New Zealand Super Fund;
- The failure to count New Zealand Super Fund assets in the calculations of net debt; and
- The government's belief in continuing poorly designed universal measures for Superannuants while the majority of working age beneficiaries face undue hardship under a highly targeted and unfair regime of means tested benefits.

We urge the government to act now, and not wait until Budget 2020 to make positive action to reduce the worst child poverty. Moreover, it is essential that any measures to help families are not contingent on the government being re-elected.



## A true focus on wellbeing

CPAG applauds the focus in the budget policy process on wellbeing rather than GDP.

Having said that we note the Minister of Finance's introduction to the BPS 2020 tended to focus almost exclusively on GDP and makes only passing mention of wellbeing in terms of the Government's five wellbeing priorities. For example, Minister Robertson has highlighted the planned \$12 billion in additional Government investment in infrastructure 'is forecast to initially increase nominal gross domestic product (GDP) by a further \$10.0 billion over five years, with further positive impacts on GDP beyond that period.' Further on in his introduction the Minister highlights Crown debt as a proportion of GDP is expected to fall from 22.9% in 2017 when his Government took office to a forecast 19.6% by 2024.

These comments hardly express a wellbeing priority or indeed even a wellbeing focus. Apparently of most interest to the Minister in setting his budget priorities was the potential for increased investment in some forms of infrastructure to increase GDP and the reduction of debt as a share of GDP. Where is the wellbeing focus in these priorities? What is the likely contribution of this planned additional spending on reducing homelessness or rates of youth suicide? What is the relationship of Crown debt to the numbers of children still living in poverty?

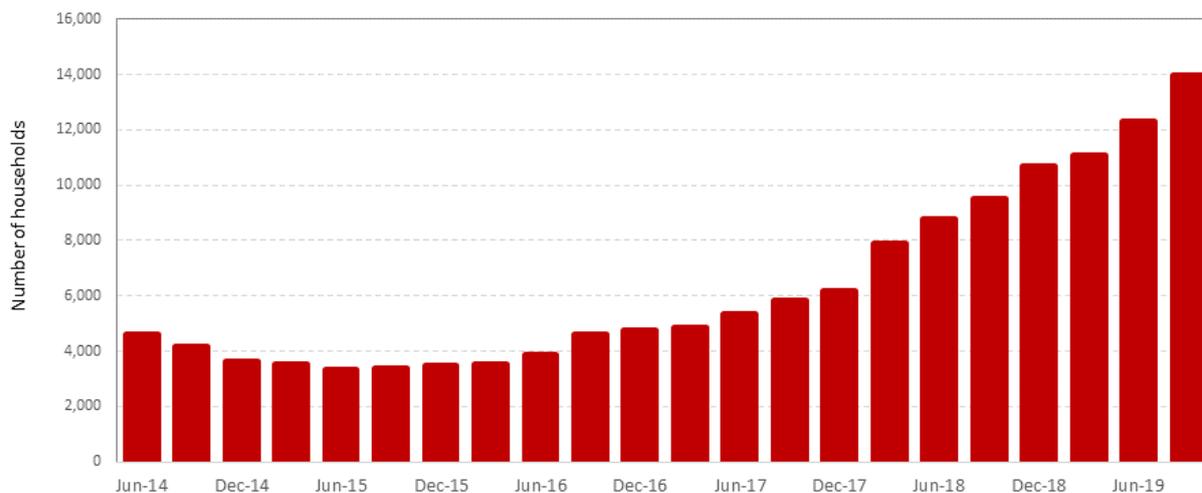
CPAG remains hopeful that a genuine emphasis on wellbeing can be brought to the budget-setting process but suggests there is little or no evidence of this in the Budget Policy Statement 2020.

There is no doubt a great deal of analysis and thinking behind BPS 2020, which is not included in the Statement itself or in related documents. However, the analysis offered in the BPS documents as indicators of our wellbeing is a little disappointing. For example, the so-called 'human capital' element of the wellbeing framework offers just one indicator – that of the proportion of adults experiencing psychological stress. Such an indicator is of course a key for determining trends in the personal and social wellbeing of New Zealanders but by itself it only tells us part of the picture. Why for example, are levels of psychological stress rising and who are the people it is rising for? Without such deeper analysis, and a related public discourse, we may be prone to believe that the answer lies mainly in curative type responses such as spending more of mental health services while not addressing the underlying causes.

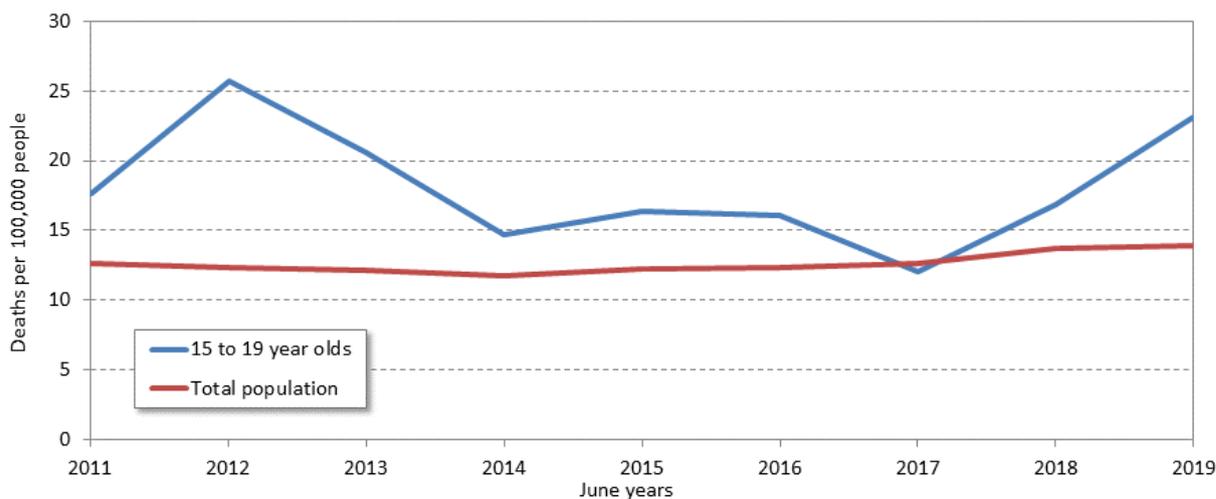
CPAG suggests future budget-setting exercises begin with a consideration of the data and trends which illustrate the lives and wellbeing of the most vulnerable New Zealanders. We offer two such indicators which should be used to shape thinking around the budget priorities for 2020. These are the social housing waiting list and suicide rates for the total population and for 15 to 19-year olds. The data is offered in the following two graphs and don't make for pretty reading. We expect the select committee members are familiar with this data so will not offer a detailed examination of it here. We simply ask, how have these trends been reflected in changes in the budget priorities expressed the BPS 2020?



### Social housing priority A and B waiting list – June 2014 to September 2019



### Suicide rates – 2011 to 2019



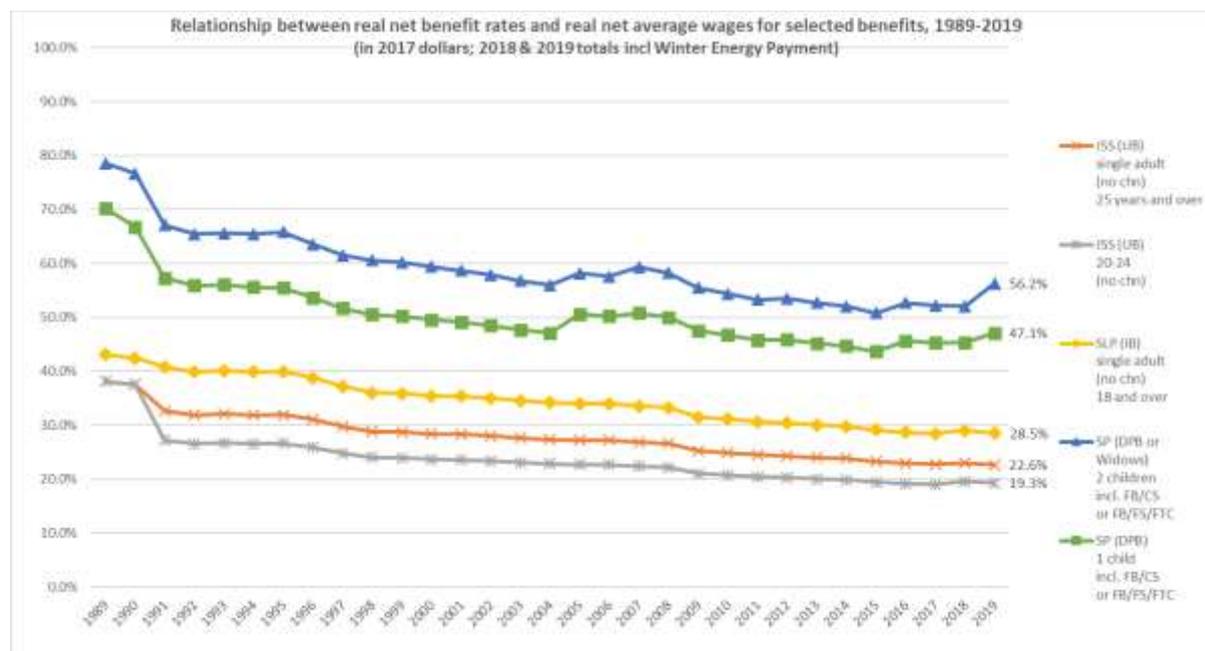
### Recommendations

- Future budget-setting exercises begin with a consideration of the data and trends which illustrate the lives and wellbeing of the most vulnerable New Zealanders such as the social housing waiting list and suicide rates for the total population and for 15 to 19-year olds.



## Adequate incomes for everyone

Since the 1980's the value of core benefits has steadily fallen compared to average wages. Despite one off policy changes, benefits have decreased in relative terms because they have been indexed to inflation and not changes in wages.<sup>2</sup> This trend is offered in the following graph:



There is an urgent need to restore the relativity of core benefits to average wages. CPAG calls for an immediate increase of at least 20% to all core benefits pending an overall assessment of adequacy of the welfare system. As well as improving the incomes of beneficiaries and their children, such an increase will take some of the pressure off the expanded supplementary benefit system.

### Recommendations

- An immediate increase of at least 20% for all core benefits pending an overall assessment of the adequacy of the welfare system.

### Fairer indexation to achieve child poverty reduction

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.

The 5% cumulative rule is very disadvantageous to low-income families in times of low inflation. There is no justification for this rule 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.

<sup>2</sup> <https://www.cpag.org.nz/the-latest/current-statistics/declining-benefit-trends-over-time/>



The indexation affects not just the real spending power of the maximum Working for Families tax credits, but the lack of adjustment to the thresholds also results in serious erosion of value to Working for Families for low-income working families.

While the Families Package effectively brought the date for inflation adjustments forward nine months to 1 July 2018, at the same time it reset the indexation clock to 1 July 2018. The latest inflation forecast from Treasury indicates 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 under current settings.

The Government raised the threshold from its projected value in 2018 of \$35,000 under National 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 current threshold applied in Australia (A\$ 54,677) 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 \$47,000 in 2020/21. Ideally it should be adjusted annually in line with movements to net average wages.

### Recommendations

- Abolish the 5% cumulative rule; and
- Adjust all aspects of Working for Families including the threshold annually in line with movements to net average wages (as occurs annually to NZ Super).

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

Working for Families tax credits are currently not given in full to the worst-off families. They are denied at least \$72.50 a week for their children. Far too many children live in incomes under the 40% poverty line (St John & So, 2018). It will prove too expensive to tackle this deep poverty by relying on the Family Tax Credit alone as any increase goes a long way up the income scale unless draconian and damaging abatement rates are imposed.

A crucial first step to show the government is serious about lifting the lowest-income families out of poverty is to add the In-Work Tax Credit to the Family Tax Credit. This means all low-income children will benefit from the full package and is very cost-effective as it boosts low incomes without affecting higher income families.

Tax credits for children based on certain kinds of paid work such as the In-Work Tax Credit are anachronistic and damaging. They perpetuate child poverty for the worst off and must be reformed.

The Welfare Expert Advisory Group's suggestion of introducing a new tax credit – the Earned Income Tax Credit – to replace the In-Work Tax Credit is expensive (\$1.2 billion) and has a number of negative consequences. We urge the government to simply add the In-Work Tax Credit to the Family Tax Credit and not to confuse it with a new work-based incentive.<sup>3</sup>

### Recommendations

- Add the In-Work Tax Credit to the Family Tax Credit (for the first child).

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<sup>3</sup> St John, S ( 2019) The Earned Income Tax Credit, CPAG Summit; Wherefrom here, the Whakamana Tangata Report, Otago medical school, Wellington 18th November 2019



## Stop the harsh cumulative effects of abatement for low-income families.

CPAG remains alarmed at the lack of attention to Effective Marginal Tax Rates. In the short-term we suggest an immediate return to a 20% abatement for Working for Families. Longer term, a move away from use of the Accommodation Supplement is required<sup>4</sup> and a complete overhaul of student debt policy.

While this government has acknowledged the need to increase the threshold for abatement of Working for Families, it has not adjusted the tax thresholds and has compounded the Effective Marginal Tax Rates problem by increasing the rate of abatement of Working for Families to 25%. In addition, it has placed more emphasis on the Accommodation Supplement that abates alongside at 25%. It has ignored the effect of student loan repayments from a very low level of income.

For example, a family earning another \$5000 over the current unindexed threshold of \$42700 may lose a total loss of nearly 84% of that extra \$5000 leaving only around \$800 in the hand:

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

There may be other losses incurred as well such as the loss of the community services card, child support payments, and childcare subsidies 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 is 30%. Then abatement of Best Start from incomes of over \$79,000 adds another unnecessary and overlapping layer.

### Recommendations

- In the short-term an immediate return to a 20% abatement for Working for Families; and
- Review other social assistance with a view to reducing other EMTR problems.

## Everyone deserves a secure and healthy home

Affordable, warm housing, without overcrowding and with security of tenure is critical to children's well-being. As stated in our previous Budget Policy Statement submissions, the divide between children who thrive and those who don't is strikingly along housing lines.

The 2020 BPS emphasis on accelerating public investment as a response to a possible economic slowdown makes sense. We note however that none of this additional investment is in social housing and that social housing is not even seen as a form of infrastructure. We note too, that the

<sup>4</sup><https://www.cpag.org.nz/assets/190503%20AS%20report%20May%202%20final%20EMBARGO%20MAY%2019%202019.pdf>



current ambition of Government to build an additional 1600 public social housing units a year has not changed since 2018. This is despite the demonstrable increases in spending on housing band aids such as transitional housing and emergency housing grants and in the social housing waiting list. CPAG urges the Government to commit to building at least 500 additional social housing units above current targets. And that these additional units and the funding which is required be targeted toward NGO and iwi-based social housing providers rather than the state monolith Kainga Ora – Homes and Communities.

Furthermore, there are fundamental problems with the Accommodation Supplement as a means to assist low-income families. Payments are insensitive to household size and the Accommodation Supplement may lead to higher rents being charged by landlords. Private rental accommodation is less well-maintained than owner-occupied housing and offers less secure tenure meaning that low-income families often find themselves having to move frequently. Coupled with overcrowding this has a significant impact on child health for low-income families.<sup>5</sup>

### Recommendations

- A greatly expanded role for social housing with rents no higher than 25% of income;
- A commitment to building at least 500 additional social housing units above current targets;
- The additional units and the funding required be targeted toward NGO and iwi-based social housing providers;
- Housing assistance shifted away from the Accommodation Supplement into higher Working for Families and other benefits over with time; and
- An increase in the allowed amount of cash assets parents can have without their Accommodation Supplement being affected.

### A healthy future

CPAG has extensively documented the impact that child poverty, low quality housing, and overcrowding has on child health. In recent years we have seen a rise of third world diseases in parts of New Zealand that can be directly attributed to these causes.

The health system has suffered greatly from underfunding, and future budgets will have to address this serious infrastructure problem. But CPAG says that much more also needs to be spent on the prevention of diseases such as diabetes and rheumatic fever. Our rates are very high for a developed country. Tackling this requires tackling the underlying causes of ill-health, such as poverty and poor housing.

### Appropriate fiscal framework

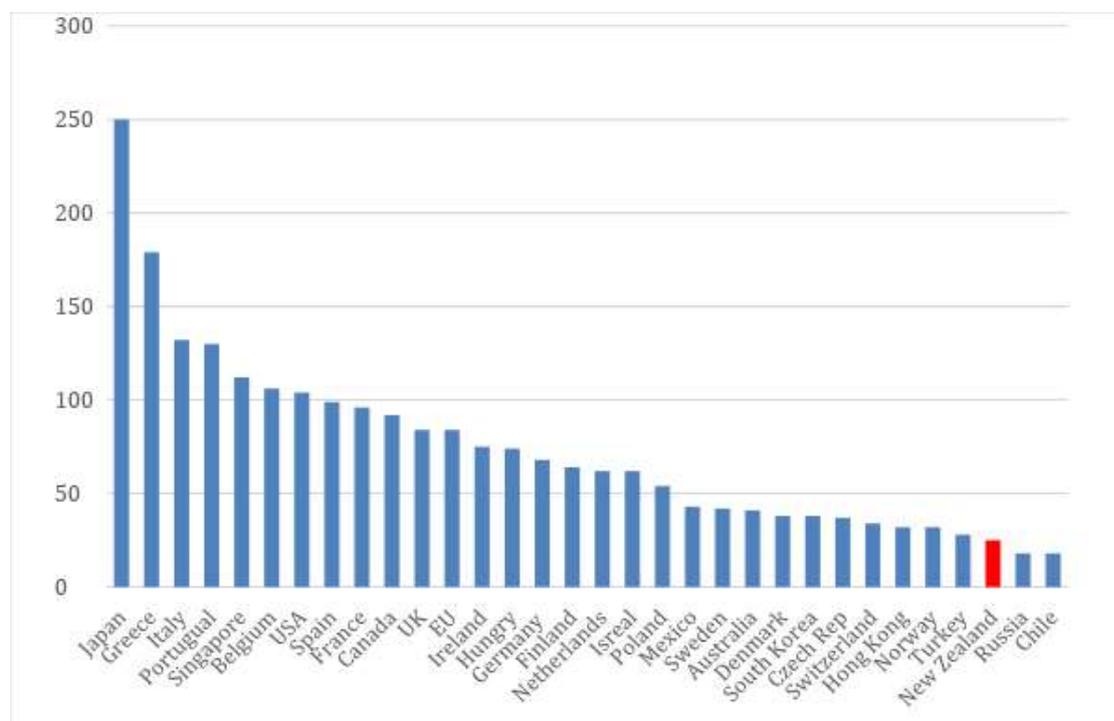
The Government has signed up to the fiscal responsibility rules which state “the Government will reduce the level of Net Core Crown Debt to 20 per cent of GDP within five years of taking office”. There is no economic argument advanced in support of this rule. New Zealand has one of the lowest government net debt levels in the OECD (as seen below). It is funding infrastructure investment through cash when standard practice is to fund long lived infrastructure through debt.

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<sup>5</sup> See McCallister, St John and Johnson ( 2019) The Accommodation Supplement: The wrong tool to fix the house (May 2019).



There is no good reason why the Government couldn't increase the debt level to the still very low level of 25% which would allow \$3.8b per year of extra spending over the next 4 years.



**Figure 1: Government debt as a percentage of GDP for OECD countries. Source: OECD**

If we consider government debt net of the Super Fund assets the government net debt is almost zero.

Working age people are paying taxes not only to fund the existing retirees' pensions but also to allow contributions to the NZ Super Fund from surpluses to help fund their own state pension. This is at the expense of the spending that is needed to invest in that same working age population and their children. We call for contributions to the NZ Super Fund to cease and the money used to address the urgent problems of child poverty and underfunding of essential services.

CPAG calls for the arbitrary fiscal responsibility rules to be abandoned with a substantial increase in government spending on health, education, social housing and child poverty funded initially by an increase in borrowing and reduced or no contributions to the NZ Super Fund. It is urgent that the government finds additional sources of revenue such as from a wealth tax. Given the capital gains tax is off the agenda, CPAG thinks there is merit in examining the role of a net equity tax.

In our view it is impossible to have a modern social democratic state that caters for the needs of all its citizens, including the most vulnerable, with anything like the extreme low levels of government spending as a fraction of GDP seen in New Zealand.

### Recommendations



- Cease contributions to the NZ Super Fund and use the money to address the urgent problems of child poverty and underfunding of essential services; and
- Abandon the arbitrary fiscal responsibility rules, with a substantial increase in government spending on health, education, social housing and child poverty funded initially by an increase in borrowing.

## Summary

CPAG recommends:

- Future budget-setting exercises begin with a consideration of the data and trends which illustrate the lives and wellbeing of the most vulnerable New Zealanders such as the social housing waiting list and suicide rates for the total population and for 15 to 19-year olds;
- An immediate increase of at least 20% for all core benefits pending an overall assessment of the adequacy of the welfare system;
- Abolish the 5% cumulative rule for Working for Families inflation adjustments;
- Adjust all aspects of Working for Families including the threshold annually in line with movements to net average wages (as occurs annually to NZ Super);
- Add the In-Work Tax Credit to the Family Tax Credit (for the first child);
- A greatly expanded role for social housing with rents no higher than 25% of income;
- A commitment to building at least 500 additional social housing units above current targets;
- The additional social housing units and funding be targeted toward NGO and iwi-based social housing providers;
- Housing assistance be shifted away from the Accommodation Supplement into higher Working for Families and other benefits over with time;
- An increase in the allowed amount of cash assets parents can have without their Accommodation Supplement being affected;
- Cease contributions to the NZ Super Fund and use the money used to address the urgent problems of child poverty and underfunding of essential services; and
- Abandon the arbitrary fiscal responsibility rules, with a substantial increase in government spending on health, education, social housing and child poverty funded initially by an increase in borrowing.