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Child Poverty Action Group

Briefing to the Incoming Government

December 2008

Child Poverty Action Group Inc (CPAG) is a non-profit group formed in 1994, and is made up of academics, activists, practitioners and supporters. CPAG has a strong education and research role that enables it to contribute to better informed social policy to support the many children in Aotearoa New Zealand living in poverty. CPAG believes that our high rate 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. If you are not already supporting CPAG and you would like to make a donation to assist with ongoing work, please contact us at the address above or through our website.

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Child Poverty Action Group Recommendations to the Incoming Government Ministers:

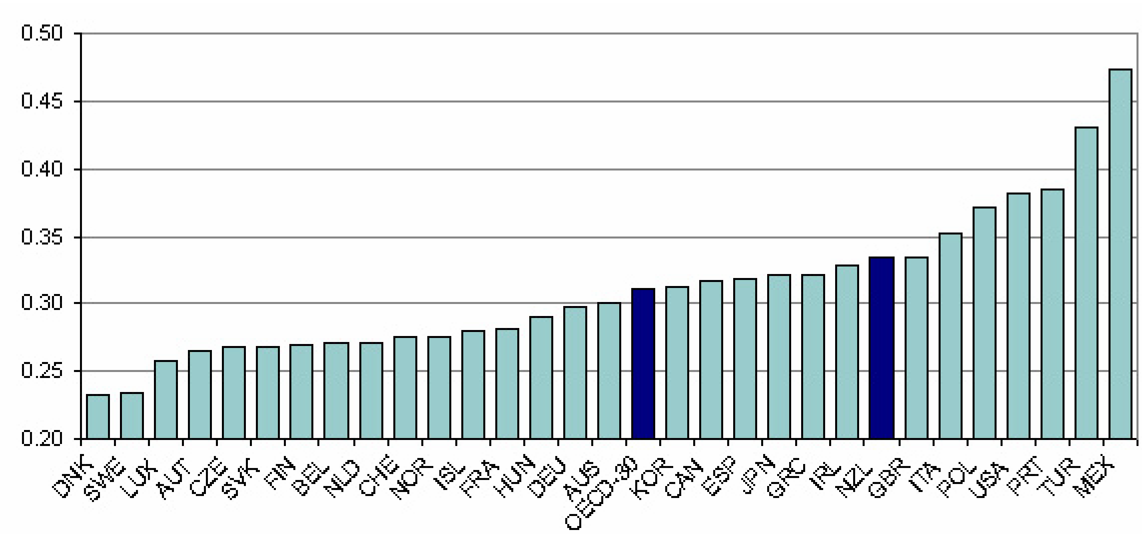
1. **Set a target to end child poverty, and audit all proposed policy and legislation for its impact on children.**
2. **Treat all children as being deserving of support and acknowledge that parenting is important work. Recognise that the 'In-Work Tax Credit' is a misnamed part of family assistance that is needed by all low-income families. Remove the discrimination by adding $60 to the Family Tax Credit (to the first child rate).**
3. **Increase social assistance payments to adequate levels.**
4. **Cease the pressure to return new mothers to the full-time workforce.**
5. **Abandon development of proposals for income splitting.**
6. **Provide free primary health care for under-18s, at all hours.**
7. **Address underfunding of primary and secondary education.**
8. **Ensure that 20 hours free ECE is extended to Playcentre, Kōhanga Reo, state kindergartens, and not-for-profit private and community-based education and care services.**
9. **Improve staffing at low-decile schools.**
10. **Introduce the risk-free rate of return method of taxing housing.**
11. **Remove the cap on state houses and with urgency address the severe overcrowding.**
12. **Ensure non-profit organizations and community services are not reliant on the proceeds of gambling to fund their activities.**

Background

Between 1982 and 2000 New Zealand experienced the fastest growing income gap in the OECD. We used to pride ourselves on our egalitarianism, but New Zealand now has a Gini coefficient (a measure of income dispersion) in the top quarter of the OECD (Figure 1), with income more unequal than Canada, the northern European economies, and Australia. The US and UK are more unequal than New Zealand, however we suggest that catching up with them is not an appropriate goal for our social policy.

Recent work by UN-Habitat suggests that socio-economic inequality in urban areas creates social and political fissures that fuel social unrest and threaten social cohesion (United Nations Human Settlements Programme, 2008). 80% of New Zealanders live in urban areas. Ensuring children feel they have a stake in society by being able to socialise with their peers and develop a sense of belonging within their neighbourhoods will be vital to restoring our social cohesion and maintaining it in the future. Creating a sustainable society requires that we not only look after our environment, but that all New Zealand children are sufficiently nurtured to enable them to meet the challenges of the future.

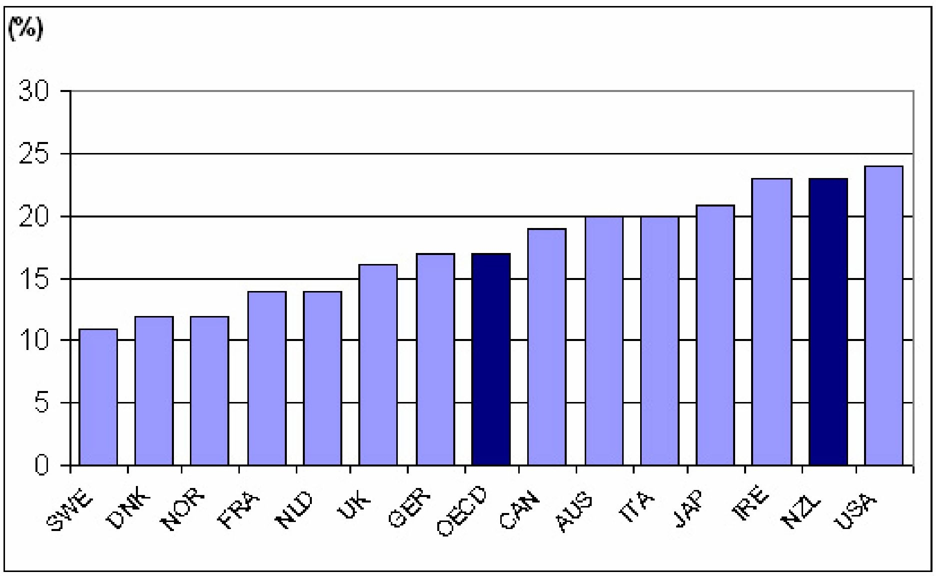
Figure 1: Gini coefficient for OECD-30 countries, mid-2000s, disposable incomes



Source: OECD, http://dx.doi.org/10.1787/420515624534

There is now a significant body of research showing that, for children, relative income is as important as absolute income. Some researchers suggest that in the absence of absolute deprivation, relative income is one of the most important determinants of health and wellbeing (Wilkinson, 2005). The burden of the income disparity that now exists in New Zealand has fallen disproportionately on children, particularly children in sole parent households. Despite a significant redistribution to working low- and middle-income families since 2004, child poverty in New Zealand remains among the highest in the OECD (Figure 2). As the OECD notes, there is no evidence that inequality is good for growth. On the contrary, greater income inequality "stifles upward mobility between generations, making it harder for talented and hard-working people to get the rewards they deserve. [This] inevitably impacts economic performance as a whole" (OECD, 2007a). CPAG submits that attention to economic growth is necessary but insufficient to lift children out of poverty, and that policies must be child-focused to ensure that all New Zealand children are given a chance to grow into capable, resilient members of the community.

Figure 2: Child poverty rates in OECD countries, mid-2000s, 60% median income



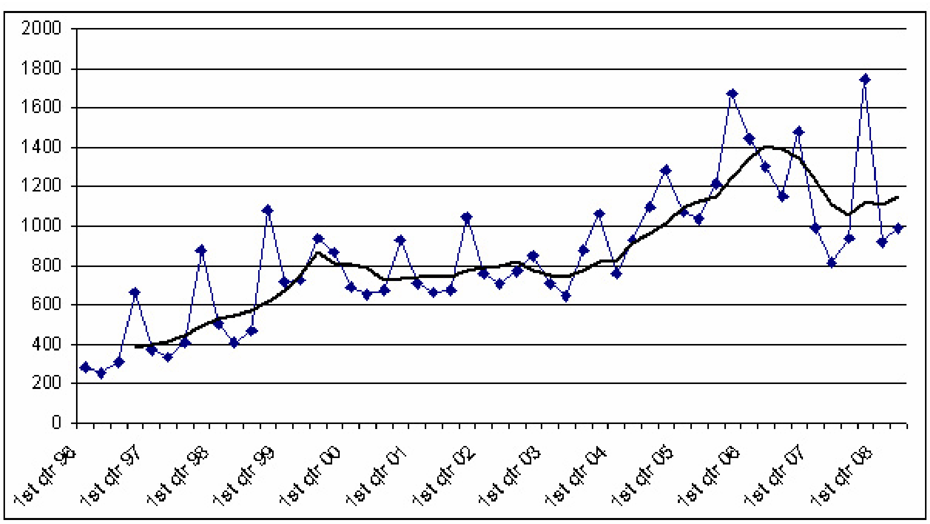
Source: OECD, http://dx.doi.org/10.1787/422525733036

The negative social and economic consequences of New Zealand's income gap are wide-ranging. Consistent with the trends observed in other Anglo-Saxon economies children in low-income households are increasingly confined to low-decile neighbourhoods, often in overcrowded or substandard housing (St John & Wynd, 2008). This spatial polarisation of households in New Zealand exacerbates the socio-economic exclusion of many New Zealand children, and research shows this has a direct impact on children's life chances (Dorling, 2001). New Zealand children have health outcomes among the worst in the developed world. Educational attainment is also influenced by socio-economic status. Maori and Pasifika students are over-represented at the bottom end of the scale, achieving significantly lower scores than the OECD average, and their Asian and Pakeha counterparts. Tellingly, a student's economic, social and cultural status has a greater effect on their academic performance in New Zealand than in any other OECD country (OECD, 2007b, p. 192).

As has been repeatedly acknowledged by the incoming government, New Zealand is likely to face a major economic downturn over the next several years as turmoil in the world's financial system impacts upon employment and growth. This comes at a time when social agencies have been reporting increasing hardship for low-income families for some months. After a short period of declining demand, the Auckland City Mission has reported an increase in the number of people seeking food parcels (Figure 3). Foodbanks across the country have reported increasing demand for their services as families struggle to cope with energy and food price rises well above the rate of headline inflation. Other social agencies report that families are attempting to cut costs by crowding into accommodation, and by parents going without food to feed their children.

This increased need for assistance has been occurring before the full impact of the global financial meltdown arrives. Contrary to the recent optimistic forecasts of the New Zealand Institute of Economic Research, the evidence suggests that the situation will get much worse over the next two years. CPAG estimates 150,000 children already live in hardship, and unless measures are taken now, this number will increase, and the hardship they face will get more acute. It is imperative that children in low-income families are given the support they need to ensure they are not left to fall further behind during what is likely to be a protracted period of slow growth and unemployment: decent, secure housing, financial support and equitable access to health services and education.

Figure 3: Number of food parcels distributed by the Auckland City Mission per quarter, 1996-June 2008



Trend line is a four-quarter moving average
Source: Auckland City Mission.

Social Development

"For too long Government has tinkered at the edges of poverty or focussed on treating its symptoms. We can and must do better."

Nicola Sturgeon, Cabinet Secretary for Health and Wellbeing
Scottish Government, 24 November, 2008

CPAG acknowledges that the Working for Families (WFF) package has significantly improved the position of many working families in real terms, after many years of falling real incomes. WFF was a substantial redistribution to low-and middle-income families who qualified, and measured child poverty in some low-income working families has fallen markedly. However, the very poorest children were largely ignored in the package as announced in the 2004 budget, and in the extension implemented prior to the 2005 election. Thus the gap between working and non-working low-income families was amplified, and the results of this can be seen in greater hardship, including higher levels of overcrowding, in beneficiary families with children, particularly those headed by sole mothers.

CPAG applauds the commitment of the incoming government to fiscal spending to counter the recession. We echo the words of the OECD, and urge that fiscal policy be used to "boost economic growth and combat poverty and inequality" (OECD, 2008). As noted by the Minister of Social Development, in a recession "the people that feel that first and feel it hardest are those that are struggling now and most vulnerable."[1] Social spending can help provide certainty and security of income – which directly impacts on children's mental and physical wellbeing – and is an immediate and effective anti-poverty measure. We strongly urge that spending focus on this area.

(1) Recommendation: Set a target to end child poverty, and audit all proposed policy and legislation for its impact on children.

This Briefing Paper provides evidence that the welfare of children in New Zealand has deteriorated as a consequence of lack of political consideration and focus on children's wellbeing. In the future all proposed policy and legislation be audited for its impact on children.

In 1999 the UK government made a commitment to ending child poverty in that country by 2020. This strong political commitment has seen child poverty rates in the UK drop substantially, although they started to creep up again in 2007. New Zealand's *Agenda for Children* (Ministry of Social Development, 2002) acknowledged child poverty and

[1] Interview on Morning Report, 18 November, 2008.

identified ending it as a key action area. Unfortunately, it was not backed up by targets, or even a strategy outlining what measures were to be taken to achieve this aim.

While New Zealand's child poverty rates have reduced since the early 2000s, they remain well above the OECD average on any measure. Along with the Office of the Commissioner for Children (Fletcher & Dwyer, 2008), CPAG strongly urges the government to make a commitment to ending child poverty in New Zealand by 2020, and outline steps to help achieve this aim. Children must regain their place as a priority for government policy; it is by now clear that child poverty will not end as the serendipitous by-product of economic growth. New Zealand is a wealthy country: all our children can and should have a rich life. Below are some practical and positive steps we can take now to end child poverty by 2020.

(2) Recommendation: Add the value of the "In-Work Tax Credit to the Family Tax Credit (old Family Support).

On 1 April 2006 the In-Work Tax Credit (IWTC) replaced the Child Tax Credit (CTC). The IWTC added to CPAG's concerns about the discriminatory nature of the CTC as it not only continued the discrimination in the CTC but was more difficult to get due to the work requirement. Tighter eligibility meant some families were potentially worse off after the introduction of the IWTC.

As noted previously by CPAG (St John & Craig, 2004; St John & Wynd, 2008), the IWTC not only unfairly sorts children into those deserving of support and those who are not, on the basis of their parents employment status, it is poorly designed as a work incentive.

On 31st October John Key announced a relief package for workers who may be made redundant in the event the recession continues and deepens. This included a "$100 boost to the maximum weekly Accommodation Supplement, to help people pay their rent or mortgage, and a Working for Families top-up equivalent to the in-work tax credit, for those families that were previously receiving it but have become ineligible because of a redundancy."[2]

CPAG welcomes this initiative, as it makes it clear that the In-Work Tax Credit is needed so that families who are out of work can pay for the costs of their children. As Mr Key observed, when families no longer meet the work requirements of the IWTC they suffer a "double blow" as they lose not only their income from work, but their IWTC as well. CPAG has always argued that, as a payment designed to assist with the costs of raising children, the IWTC should be available to all low-income families, and should not double as a work incentive. National's proposal is, we believe, an endorsement of that view. However, we submit that this proposal not only fails to address the underlying discrimination of the IWTC, it is of no assistance to those made redundant before some

[2] http://www.national.org.nz/Article.aspx?articleId=28872

arbitrarily selected date, and will create a further tier in the social assistance system. A significant number of jobs have already been lost, and it is illogical that the parents among them do not get the benefits of the proposed relief package. It is also problematic when the 16 weeks is up and the redundant worker is still not employed. At this point the income of the caregiver for the children falls by $60 or a more a week.

CPAG argues that the term IWTC is a misnomer, it is simply a part of family assistance and should be joined up to the Family Tax Credit. An extra $60 a week would then be available to *all* low-income families immediately at a cost of approximately $450 million. The administrative structure already exists to simply add it to the Family Tax Credit in the form of an increase to the first child amount. This would reverse the discrimination that CPAG claims contravenes the provisions of the Human Rights Act and the UN Convention on the Rights of the Child; and it would remove the arbitrariness that presently exists in respect of receipt of Accident Compensation payments, and will exist if the package proposed prior to the election is implemented.

The proposal would return New Zealand to the principle of treating all low income children the same, a principle that served New Zealand so well for many years, and played such an important part in reducing the marginalisation experienced by children from low-income families.

We also propose that once this is done, consideration be given to making part of the Family Tax Credit a universal payment of, say, a modest $15 per child. This would provide some security and certainty in child assistance payments. It would also promote social cohesion.

(3) Recommendation: Increase social assistance payments to adequate levels.

CPAG also notes that the new Prime Minister's relief package proposal mentioned above appears to tacitly acknowledge that current benefit and child assistance levels are too low to help families meet their financial obligations. Difficulty in meeting financial obligations is not confined just to those who lose jobs, but includes families already on benefits. The Ministry of Social Development (2007) notes that in some cases beneficiary families are on incomes "below the very stringent 40% after housing costs poverty line, where there is nothing in reserve."

During the 1991 recession – when unemployment was 11% - the National government cut benefits and social services. Benefits have never been restored and since then third tier assistance has become harder to get and more parsimonious. We strongly urge the incoming government to revisit the issue of benefits, and increase them to a level such that *all* those on benefits are able to meet their day-to-day expenses. An arbitrary dividision between those presently on benefits, and those who may soon find themselves reliant on benefits as a consequence of the economic downturn, will further stigmatise the former group, and will have repercussions for their ability to provide for and protect their children.

An estimated 200,000 children are currently in families reliant on benefit income, and these families must be given greater assistance in order to attain a minimal acceptable standard of living. CPAG strongly rejects stereotypes that suggest sole parents only spend additional cash on non-essentials. Data from the New Zealand Household Economic Survey shows beneficiaries spend less on alcohol and cigarettes than any other group except the elderly. Disturbingly, given New Zealand children's high rates of hospitalisation, they also spend less than any other group on health. Similarly, the recent analysis of Working for Families found that parents were most likely to spend additional income on food and groceries, school costs, and clothes (Inland Revenue & Ministry of Social Development, 2008, p. 35).

CPAG also welcomes the recognition that beneficiaries are also actively discouraged from work by the very high effective marginal tax rates they pay on earnings over $80 and $180. While extending the first threshold to $100 is a welcome first step, if this had been indexed to inflation it would now be something in excess of $130. We would therefore suggest the threshold be raised to $130 for all benefits, and that the 30c abatement that applies to sole parents (currently $80-$180) and invalids be standardised across all benefits (presently unemployment and sickness beneficiaries face 70c abatement rates from earnings of $80. This equates to an effective marginal tax rate of 92c in the dollar).

We are concerned at suggestions that sole parents be required to be in work or actively seeking work for 15 hours per week. This seems an odd requirement, given that the IWTC offers a so-called incentive for working 20 hours per week. Logically these measures should be coordinated into a single package that is easy to understand and administer. However CPAG remains concerned at the implicit coercion. As it is there have been administrative problems with WFF, and this appears to add a further layer of complexity, with little empirical justification. Some families will be losing jobs as the economy moves further into recession, so it seems to make little sense that sole parents should be harassed into finding that hardest of jobs – the part-time job between the hours of nine and three, that allows time off for school holidays or childrens' illness. We are also very concerned that this proposal appears to take no account of individual circumstances, for example children that require full-time attention, or other caregiving responsibilties. Arguably some sole parents who have been on a benefit for some time need additional support to reattach to the workforce, but evidence suggests it is more likely that many of these parents are caring for grown children with disabilities. These cases must be allowed for, and treated appropriately.

(4) Recommendation: Remove the pressure to return new mothers to the full-time workforce.

CPAG welcomes the new Minister of Social Development's call for a debate regarding the early return of new mothers to the workforce. We also welcome the re-introduction of policies enabling new mothers to remain in hospital for longer periods. Present social policies put a great deal of emphasis on getting parents – particularly young women – reattached to the workforce. This has been driven by a desire to boost GDP by increasing women's labour force participation, and a belief that in all cases work is the best route out of poverty. While the latter proposition is certainly arguable, CPAG has serious concerns that children are at risk as parents – particularly sole parents – are encouraged into the workforce with relatively little support.

For sole parents the main barriers to work include access to suitable childcare, the requirements of sick or disabled children, and transport. While there is now 20 hours free childcare available for three and four year olds, and the OSCAR scheme has been extended to cover all children, there remain very real barriers for parents working unsociable hours or living in low-decile neighbourhoods where the number of children vastly exceeds the available facilities.

Low wages and a shortage of secure full-time jobs often mean that two or more jobs must be worked in order to earn an adequate income. Up to 30% of children in low decile south Auckland schools report having a parent or parents working two or more jobs. For sole parents this means children are often left unattended after school and during school holidays. Alternatively, they use casual arrangements involving care by relatives and elder siblings. Such arrangements are often vague and uncertain, and provide no assurance for the parent or the child. These arrangements also impact on the schooling of older siblings left to care for their younger brothers and sisters.

Research shows that many parents want to work if and when suitable work is available. This can be seen from the number of sole parents who have left social assistance as the jobs market has improved in recent years. However, CPAG is concerned that working is increasingly seen in policy as the primary role for parents, regardless of their circumstances. Raising children needs to be recognised as a valid contribution to society in its own right. While this activity does not earn a market income, and is not measurable in terms of GDP, it provides a social benefit, both now and into the future. Monetary incentives introduced in other developed countries such as Australia and the EU demonstrate the recognition of both falling birth rates and the need for far more generous child support for all families with children. We submit that New Zealand, too, needs to recognise simple demography and support all parents and children to have an adequate standard of living.

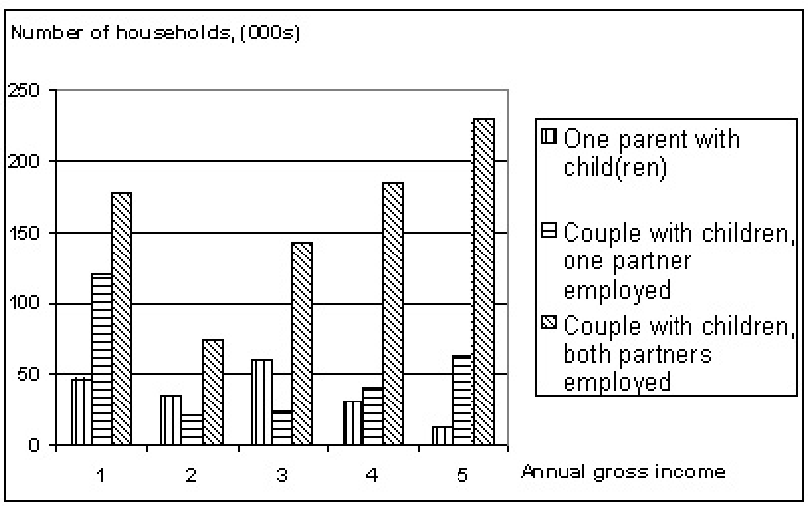
(5) Recommendation: Recognise that income splitting is an inequitable and expensive solution to addressing the costs of raising children.

Income splitting has been promoted as a means of ensuring the taxation system takes into account the costs of raising a family. Under such a proposal the income of families would be split evenly between earners, thereby lowering the marginal tax rate on income and leaving households with greater disposable income.

While CPAG endorses the principle of recognising the costs involved in raising children, we argue that income splitting is an expensive and inequitable means of doing this.

Our first concern is with vertical equity. A family with a sole earner making $25,000 per annum would receive an additional $935 per annum under this policy, assuming income was split evenly.[3] This is something in the order of $18 per week. However, a family where the sole earner earns $75,000 stands to gain an extra $5,690 per annum, or about $109 per week. This discrepancy increases as incomes increase. Thus, income splitting provides the greatest benefit to middle- and upper-income earners. Yet it is low-income earners whose children are most at risk from inadequate income.

Figure 4: Annual Household Income of Selected Family Types 2004



1	Under $9,500
2	$9,501-$16,599
3	$16,600-$28,299
4	$28,300-$43,299
5	$43,300 and over

Source: Household Economic Survey, Statistics New Zealand (2004)

In essence, because two-parent families with children and a sole earner are a small proportion of total families, income splitting excludes most families (See Figure 4). Approximately 30% of New Zealand children live in sole-parent households so will

[3] Calculated from IRD website. Assumes no student loan or KiwiSaver payments. Working for Families payments are in addition to this.

receive no benefit at all from income splitting, whether their parents are in paid work or not. Nor does it make provision for such eventualities – a significant gap given New Zealand's incidence of relationship breakdown. Of these children some 200,000 are in families with benefit income. According to the Ministry of Social Development, in cases where beneficiary families have no market income they may be struggling below the "very stringent 40% after housing costs poverty line" (Ministry of Social Development, 2007). It is this poorest group of households that face the greatest need but, as with other recent initiatives in the tax and social assistance arenas, stand to gain the least. Any policy purporting to address the additional costs of raising children must, in our view, address the needs of this group first.

While income splitting is ostensibly about recognizing the costs of raising children, when we consider the range of family structures affected it can be interpreted as a reward for conforming to some arbitrarily determined norm.

According to a recent discussion document on income splitting, the single biggest group to benefit from the income-splitting proposal would be couples where the primary earner earned $60-70,000 and the secondary earner earned $0-10,000. This group stands to gain $37 million, yet comprises only 4% of couples. The largest single group of couples has primary earnings of $50-60,000 and secondary earnings of $10-20,000, yet stands to gain a rather more modest estimated $18 million (Inland Revenue, 2008).

It is difficult to avoid the conclusion that income splitting will act as a significant tax break for those in households with a high-earning primary breadwinner and a non-working partner. In households where the partners earn similar money income splitting is of no help, as evidenced by the data in the discussion document. It is of course arguable that the benefits derived from income splitting would allow one half of a couple to give up work. While CPAG endorses the principle that parents should be supported to care for their children, it is inequitable that sole parents on benefits are compelled to work regardless of their circumstances, while full-time at-home parenting becomes a luxury available only to couples on relatively high incomes.

We note that Treasury has estimated that income splitting would cost in the order of $500 million per year. This is a significant sum of money, and it is unlikely this could be achieved without cutting services in other areas, coming as it would on top of tax cuts and extensions of the IWTC to those made redundant. Given the data outlined above, income splitting can only be construed as a further transfer to the already better-off at the expense of low-income working and beneficiary families. Hence, it is for reasons of equity that CPAG does not support proposals to introduce income splitting as a means of assisting families with the costs of raising children. Income splitting is complex, and would be expensive to introduce and implement. With the greatest benefits going to those on the highest incomes, principles of equity, as much as the cost and complexity, mean that CPAG believes income splitting cannot be justified or put forward as a solution to child poverty.

Children's health

(6) Recommendation: Free health care for under-18s

There is now clear evidence, including research from New Zealand, of a link between socio-economic disadvantage and negative effects on children's health (Shaw, Blakely, Crampton, & Atkinson, 2005). This research supports a large body of international data showing poorer children are more likely to suffer from a range of health problems including motor vehicle accidents, child pedestrian injuries, fire deaths, death from congenital conditions, SIDS and cancer. These negative effects can have lasting impacts. They reduce children's ability to participate in schooling and learn, affecting future work capability. Secondly, they can cause lasting disability, further reducing future productivity. If we expect to improve population health and long-term economic productivity then we must improve the health of our children.

The largest contributors to health inequalities in New Zealand childhood mortality rates are non-road traffic accidents and "other". The category "other" includes infectious diseases, asthma and respiratory deaths. A child from a low-income household has a 1.87 times higher risk of dying from a non-road traffic injury than a child from a high income household. For "other" causes of death a child from a low-income household has a 1.81 times higher risk of dying than a child from a high-income household. Overall a child from a low-income household has a 1.44 times higher risk of dying than a child from a wealthy household.

Bronchiolitis and skin infections are included in "other". Both are related to poor housing, overcrowding, poor nutrition and poor access to health services, and as such are indicators of poverty in childhood (Asher, 2008). NZ hospitalisation rates for bronchiolitis in children aged under one year have risen steadily in recent years, although more recent data suggests that they may be beginning to taper off. However death rates have remained relatively static at 1-2 deaths per year during the past 10 years. Infants in the lowest Decile[4] (Decile 10) have a 4.5 times higher risk of being admitted to hospital for bronchiolitis than children from the highest Decile (Decile 1). Maori infants have a 3.2 times increased risk and Pacific infants a 5 times increased risk of being admitted to hospital. Similarly, hospitalisation rates for serious skin infections have risen progressively for the last 15 years. Children from Decile 10 families are 3.7 times more likely to require hospitalisation for skin infections. Maori children have a 2.8 times increased risk and Pacific children a 4.4 times increased risk of hospitalisation.

Overall, New Zealand has the highest rates of preventable disease in children of almost any developed country. Meningococcal meningitis has been the most public of these diseases. The most important risk factor for meningococcal meningitis is overcrowding.

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[4] Note health deciles are the opposite to education deciles, with Decile 10 being the poorest.

Overcrowding is common in areas such as South Auckland where low incomes and high housing costs mean there are often several families in one house, or mothers with children living in caravans and garages. While CPAG applauds efforts to vaccinate against meningococcal disease, and is pleased that the incidence of this disease is diminishing, more must be done to address the root causes of this and other preventable diseases of poverty.

Immunisation coverage is a marker of the accessibility and acceptability of primary health care services for children. New Zealand has one of the lowest immunisation rates of any Pacific nation, and while NZ immunisation rates have shown improvement lately, they are still below Ministry of Health targets. Of particular concern is the low immunisation coverage of Maori children.

The major barrier for these children is access to primary healthcare services. While the introduction of PHOs has improved accessibility for many children in low-decile areas, as has free healthcare for children under six, there remain huge gaps, particularly in after-hours care. For some children, PHOs have resulted in reduced medical costs, but implementation has been patchy and has not made healthcare cheaper in all cases. According to the Ministry of Health, for some children enrolled in PHOs the cost of doctors' visits has actually increased. Barriers to primary healthcare continue to be reflected in admissions to hospital for preventable diseases.

Investing in children's health is an investment in the future (Belli, Bustreo, & Preker, 2005). At present children make up 25% of the population but receive approximately 15% of health funding. The deaths of poor children are not inevitable. They are the result of policies that deny them access to adequate housing and nutrition, and expose them to risk factors such as smoking, environmental hazards and social hazards. Policies across all levels of government need to be evaluated carefully to assess their impacts on the inequalities that lead to higher rates of death for children from poor backgrounds.

Given the by now substantial body of evidence linking low socio-economic status to poor health, and the potential long-term costs of childhood illness, CPAG urges that the free healthcare presently available to under-sixes be extended to all children under eighteen, and include after-hours care. Universal treatment avoids the problems that have plagued targeted assistance such as the Community Services Card.

Education

Overcoming the long tail of underachievement in education should be a high priority of this government. That requires addressing needs from the earliest years and nowhere is this more pressing than in schools and pre-schools serving low-income communities. Rather than providing extra funding for private schools, the money is sorely needed in public schools to ensure a reasonable standard of building maintenance and provision of services. Research consistently shows that poverty and low socio-economic status are linked to poor educational attainment. It interrelates with health, housing, welfare and taxation, food insecurity and so on but schools can help to provide children from families in poverty with some of their health and social needs.

(7) Recommendation: Underfunding be addressed,

Underfunding of the primary and secondary school sectors has resulted in widespread reliance on oversees fee-paying students, and parent fees or "donations" to meet operational costs. Largely, such significant revenue is unavailable to schools serving low-income communities.

Currently TFEA (Targeted Funding for Educational Achievement) is too crude a mechanism to compensate low-decile schools and resourcing should be based on a more realistic understanding of the effects of poverty on families and schools.

Some of the problems are

(1) approximately $250 million funding distributed by decile is very limited compensation for the poverty-related issues low-decile schools face including the issue of food insecurity and hunger which needs urgent attention especially in primary schools);

(2) decile funding occurs against a background of government funding decreasing as a percentage of school income over recent years;

(3) concerns about the way the decile is calculated, both the extent to which it is an accurate representation of socio-economic differences, and the way the funding is allocated across deciles. For instance, instead of the current very general approach to calculating deciles based on census mesh block data, deciles determined by the proportion of parents who are in receipt of a benefit would be a better indicator of poverty.

(8) Recommendation: Ensure that 20 hours free ECE is extended to Playcentre, Kōhanga Reo, state kindergartens, and not-for-profit private and community-based education and care services.

Early childhood education has been demonstrated nationally and internationally to have long-lasting benefits for both individuals and society. The longitudinal New Zealand Competent Children Study continues to demonstrate that children who start their ECE experience earlier and, have a longer time in a quality early childhood programme, do better educationally.

Māori participation rates in ECE continue to be below those of non-Māori, whilst the proportion of Māori children aged 0 – 4 years is expected to increase from 27% in 2001 to 30% in 2021 (Ministry of Education, 2005). Similar figures apply to Pacific children. But surveys show that communities with the greatest numbers of children, which are often decile one and two areas, have the fewest ECE services. This is of profound concern to CPAG because of the known, life-long benefits of quality ECE.

Recent changes in ECE policies have been welcomed, and CPAG also welcomes the government's pledge to extend the provision of early childhood facilities to providers such as Playcentre, Kōhanga Reo, state kindergartens, and not-for-profit private and community-based education and care services. CPAG also urges the availability of 20 hours free ECE be extended to under three year olds. This would be a valuable first step to providing parents with the support they need to enter or re-enter the paid workforce or make other contributions to their communities.

(9) Recommendation: Improve staffing at low-decile schools.

Improvements in the supply of teachers to low socio-economic schools is urgently needed. Financial incentives and/or career redesign maybe required and also more specific preparation for teachers in dealing with the challenges of low socio-economic schools. This should be seen as part of a more contextualized approach to teaching, as evidenced in the AIMHI and the Schools Improvement initiatives. Low-decile schools need community liaison officers (for example Porirua College), and either highly effective alternative education centers or additional staffing to meet the needs of students who are unable to cope in the mainstream.

Teen parenting units are an example of encouraging education while school-age young people who are at high risk of educational under-achievement are pregnant or parenting.

Housing

(10) Recommendation: Adoption of a risk free rate method of taxing housing.

Secure, suitable housing remains an issue for many New Zealand children. Too many children live in overcrowded houses, or live in garages caravans and even cars. Although the residential property market has softened, affordable housing is still some way off for families on low incomes.

The OECD has repeatedly noted that the most glaring gap in New Zealand's tax system is the exemption of housing from tax. Arguably, this exemption has resulted in investment decisions that, while good for some individuals, have been detrimental to the country as a whole (Poletti, 2007) – indeed, our lack of investment in productive activities will be a major impediment to our recovery from the recession. There is no logical reason housing should be treated any differently to other forms of saving; rather the evidence of the last few years suggests favouring housing has been enormously damaging to first home buyers who are not on an equal footing with investors buying second and subsequent homes.

In New Zealand losses on housing investment can be written off against other income, resulting in a lower overall tax bill. In addition, investors can write off expenses and depreciation against rent income, and capital gains are largely untaxed. Hence there is little incentive to invest in other, more productive, parts of the economy. Other OECD countries have some form of capital gains taxes and/or housing investment losses are ring-fenced. In New Zealand rules enabling losses to be offset against other income, and tax-free capital gains, clearly favour investment in housing.

In 2001 the first major review of taxes for 30 years recommended that New Zealand adopt a "Risk free rate method" of taxing housing instead of a capital gains tax. The merits of this were unfortunately never debated (The Treasury, 2001).

This distortion is now threatening New Zealand's long-term economic stability. New Zealand's net international liability at the end of June 2008 was $159 billion – an increase of $14 billion from the previous year – equivalent to 118% of GDP. New Zealand's current account deficit for the year ended March 2008 stands at slightly less than 8 percent of GDP, making it extremely vulnerable to the shortage of funds in overseas capital markets.

CPAG strongly urges that the risk-free rate of return method of taxing housing be revisited in order to begin to break the circuit of over-investment and speculation in unproductive housing assets, and unaffordable housing for middle- and low-income families. We are aware that the recent report from the Commerce Committee on housing affordability failed to adequately address the issue of preferential tax treatment on housing, preferring instead to view housing affordability as a land supply issue.

However, we also note that the risk-free rate of return method of taxing housing was initially put forward by the McLeod Committee and supported by the Business Roundtable. The McLeod review noted at the time New Zealand risked overinvesting in housing at the expenseof other areas of the economy.

Given the now obvious risk to the wider economy from over-investment in housing, CPAG argues that the present instability in the housing market presents an opportunity to introduce a tax on housing to bring New Zealand into line with other OECD countries, to encourage investment on other, more productive, activities, and to reduce speculation and thus improve housing affordability for families, especially families with children.

CPAG recognises that while it is appropriate to act on this matter in order to prevent the next speculative bubble it will be difficult to implement a new tax in a recession. There needs to be protections for people with modest housing equity and any revenue should be used to reduce taxes elsewhere. A full investigation of this approach is required.

(11) Recommendation: Lift the cap on state housing.

CPAG endorses the very recent decision to lift the cap on the number of state houses. In high-need areas such as South Auckland there is already overcrowding due to high rents and the lack of housing stock. In some areas the entire increase in population between 2001-2006 was accommodated by crowding into existing housing rather than occupying new dwellings (St John & Wynd, 2008). Simply increasing the number of dwellings rented from private landlords will not alleviate this situation. The issue is the lack of housing stock in low-income areas; changing the name on the tenancy agreement does not alter this.

The cap was particularly disheartening given the recent report by the New Zealand Child and Youth Epidemiology Service (2008) showing that Pasifika children are already at such high risk of living in overcrowded conditions, and this makes them vulnerable to a range of infectious, preventable diseases including menginococcal meningitis and tuberculosis. Maori are also at much greater risk of overcrowding, as are children in the bottom income quintile (Craig, Taufa, Jackson, & Han, 2008, pp. 67-71). We note that the reason given for the cap is to put money into upgrading the existing housing stock. However, there is already money allocated from the 2008 budget to insulate all state houses over the next five years, and Housing New Zealand has an ongoing programme to upgrade its houses.

Housing is crucial for children; it directly affects their health, education and relationships with family members and neighbours. Leaving children's housing to the exigencies of the market in a time of recession is a gross abdication of responsibility, and deliberately ignores everything we know about the link between housing and children's wellbeing. We strongly urge that this short-sighted policy be reconsidered.

(12) Recommendation: Review policies that have resulted in NGOs and community services being reliant on the proceeds of gambling.

Dependence on the funds from gambling harks back to the days when sports were funded by tobacco companies. The incongruity of funding community services from gambling needs to be acknowledged. Gambling is not a positive influence on society, any more than tobacco – on the contrary, there is evidence that it does considerable economic damage to the communities it purports to assist. Gambling and alcohol are both social hazards, and we need to find other, more democratic and less harmful ways of funding sports and other community activities.

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