



CHILD
POVERTY
ACTION
GROUP



Budget 2015: Susan St John and Alan Johnson

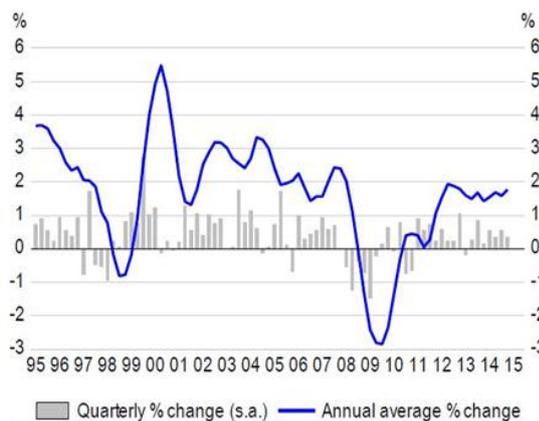
Post Budget Breakfast 22 May 2015
Auckland
Speech by Susan St John

Morena,
The Budget is titled “A Plan that’s working”

The term ‘working’ in the title gives the political slant. At the heart of this and other social and welfare reforms in recent years is the supremacy of paid work. But is this budget *really* a *plan* that is working?

Let’s start by acknowledging that this is a budget that like no other in recent memory actually talks about children families and hardship for children as if these things mattered. We salute all the hard work done over many years by all those in the children’s advocacy space. This has resulted in the politicians actually seeing a glimpse of the social disaster in front of them. It has been tiresome in the extreme to wade through budget after budget, year after year and find children invisible and only crumbs or nothing at all for them.

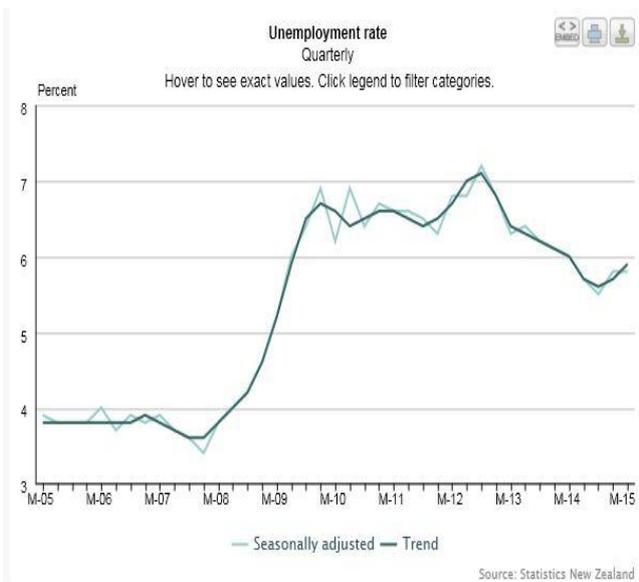
Production GDP per Capita Growth



The journey has begun but there is **so far** to go.

We have heard a lot about the Rockstar economy. Government says ‘New Zealand’s economic expansion has continued to strengthen’ but if we take the increase in population into account and look at per capita growth it looks like this is as good as it gets. In fact we may have past the peak of this shallow recovery, much of which has been driven by the





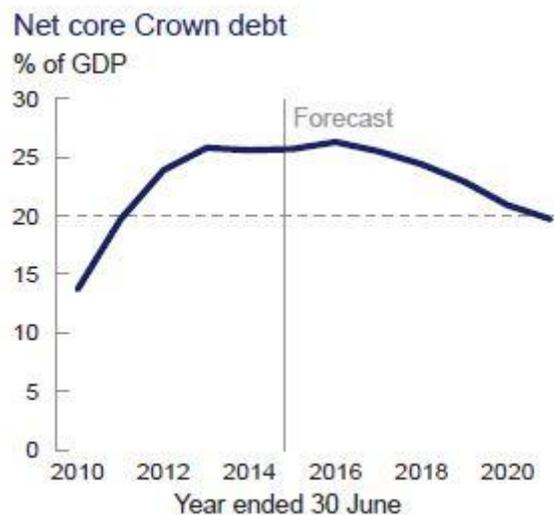
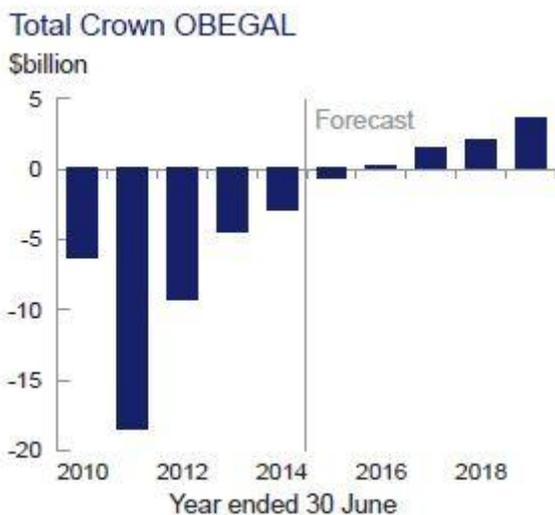
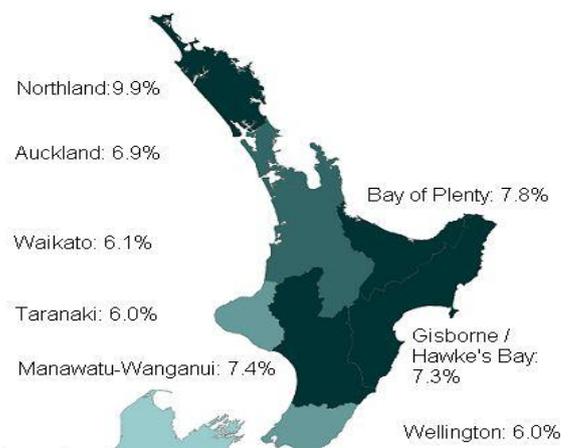
require.

Specifically we know the regions are hard hit with the dark areas of northland and the east coast are the worst for chronic unemployment.

When we examine the emphasis on beneficiaries finding work in this budget we should bear this in mind. The worry is that the economy faces uncertainty especially from an overvalued exchange rate and falling dairy prices. Have we built in sufficient protections for our families in this budget?

Christchurch rebuild, leaky building repairs and speculative residential building.

It is very important to make sure that there is a sharing of whatever meagre fruits there are- if we can't do it now will never do it. The problem is that even at the top of the cycle unemployment is stubbornly high. And, while the overall rate is currently 5.6% the pain is uneven. Many people do not have the quality or hours of work they



The achievement or not of the budget surplus has been a fetish and a total distraction. We can see the deficits that are to change into surpluses and the debt that will be repaid. Net debt is extraordinary low, falling to 20% and this is without counting the war chest of assets held in the New Zealand Superannuation Fund. However this is not the deficit or the debt we should be worrying about. The growth of overseas indebtedness as the current account

widens is the more important debt and deficit issue. But even more than that is the disastrous social deficit.

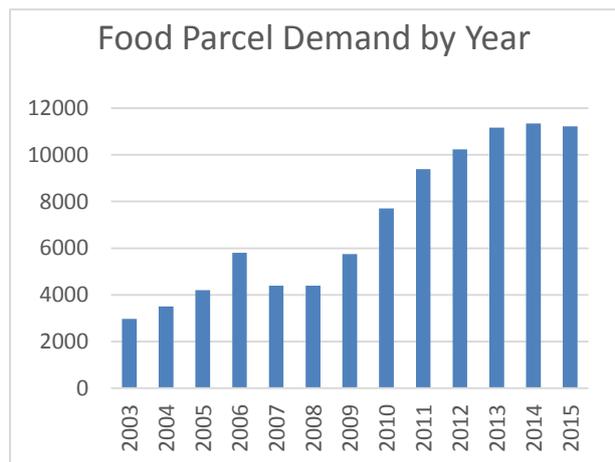
The fact is the government could still generate surpluses by taxing and spending more. There is a huge reluctance to tax more and the government is still pointing to possible tax cuts in 2017. The recession and earthquake post the Global Financial Crisis and the tax cuts pushed the tax/GDP ratio to very low levels. There is plenty of room to raise taxes to meet the required social spending to address the social deficit

Tax to GDP Ratio



The social deficit is clearly represented by the 260,000 children under the 60% median income after housing costs poverty line and the 180,000 children in hardship. Other indicators of the social deficit are the appalling rates of Domestic Violence. Let's not forget on average 14 women, six men and 10 children are killed by a member of their family every year. New Zealand has the fifth worst child abuse record out of 31 OECD Countries. On average one child is killed every 5 weeks. Most of these children are under five and the largest group is less than a year old. An overworked and under-resourced Child Youth and Family receive around 150,000 Reports of Concern a year.

We know the Long term effects of poverty are serious. For example referring to the Dunedin longitudinal study Innes Asher says in her [AUT policy briefing](#) "children who were disadvantaged in preschool years had poorer health as adults. At 26 years they had poorer cardiovascular health, increased periodontal disease, caries and substance abuse."



cardiovascular health, increased periodontal disease, caries and substance abuse."

We know that the demand for food at foodbanks is continuing unabated. The Auckland City Mission figures are a barometer of distress. Just a few short months ago the Commissioner Diane Robertson reported:

"This Christmas was busier than ever. We experienced record demands for assistance. Families were queuing from

3am in the first day that we provided our emergency Christmas assistance. They continued to queue from 3 am every day right up December 24th. It was a dismal picture especially given the unseasonably cold wet weather that prevailed through the first weeks of December"

So bearing that in mind what did the budget offer?

\$790 million child hardship package

“This package strikes a balance that offers more support to low-income families with children, while ensuring there remains a strong incentive for parents to move from welfare to work.”

The first point is that this centrepiece package is over 4 years.

The second is that Work is still the centre of the thinking not the needs of young children. It reflects the core belief that getting people off benefits is good in itself. In essence by focussing on numbers off benefits it is implied that if

people (mothers) are off the benefit all their problems and society's will be solved.

On the positive side it is good to see a move away from the excessively targeted approach signalled prior to the budget, where only the vulnerable children in highly complex dysfunctional families were expected to be assisted.

This is a remarkable turnaround. It says that the government has recognised that money matters and that people are the best judge of how they spend that money. Instead of going after the vulnerable children in highly complex families and only helping them as we feared the government has sensibly seen that giving families more money is more effective.

Raising benefit rates for families.

Benefit rates for families with children will rise by \$25 a week after tax. This is the first time since 1972 that core benefit rates have been increased by more than inflation.

Yes. It is the first time that benefits have increased by more than inflation but remember they were cut in 1991 and many on benefits had then cut back again in 2005 when Working

TABLE 1

How much additional weekly family income is needed on top of current welfare benefits to get over four poverty lines

	BEFORE HOUSING COSTS		AFTER HOUSING COSTS	
	50% of 2012 median	60% of 2012 median	50% of 2012 median	60% of 2012 median
Sole parent, one child	\$0	\$30	\$82	\$148
Sole parent, two children	\$0	\$78	\$111	\$194
Couple, one child	\$0	\$69	\$156	\$244
Couple, two children	\$0	\$110	\$184	\$286

for Families introduced.

Remember too they are adult benefits and the increase is more than needed by all adults on benefits not just those with children. The change of \$25 may seem surprising but it reflects how far out of line benefits have got with wages growth and growth in New Zealand Superannuation. BUT nothing is paid for a year – why do they do this? They can cut

KiwiSaver kickstart by \$1000 overnight but the poorest families must wait a year.

It is clear that many will get far less than \$25 once there have been offsets to accom and income related rents and temporary additional support and the extra costs of more work demands.

Reflecting the couple basis of our welfare system a couple gets a max of only \$25 ---far less than needed to lift them to the lowest poverty line. The figures produced by Jonathan Boston and Simon Chapple shows how woeful the \$25 is. To reach the lowest 50% after housing costs poverty line, a couple with 2 children requires \$184 more and \$286 more if we are aiming for the 60% line.

But there is no free lunch not even one that doesn't get eaten until next year. The govt wants its pound of flesh even in jobs markets that are not bouyant and done need extra pressure from new entrants.

It is outrageous that some women are told they have to have a paid job of 20 hours when children are still very young. It is unfair to employers. The health of the mother and the child are likely to suffer and any extra



the benefit system”

- ..Poverty and inadequacy of income is the main problem for people on benefits.
- ..There is an inherent imbalance of power between beneficiaries and the government department that makes decisions about their entitlements at both the institutional and individual case manager levels.

Strengthening work obligations for beneficiary parents.

Most sole parents, and partners of beneficiaries, will have to be available for part-time work of 20 hours a week once their youngest child turns three.

benefit will

quickly disappear in travel and childcare costs. Why oh why did they have to spoil what could have been a good move with this work first ideology ? There is no appreciation that our young mothers on benefits are time poor and worryingly there will be more and more beauracatic interventions in their lives, meeting and hassles and threats of sanctions.

Community law have just written a 200 page report in which they say beneficiaries are terrified of WINZ. These new work requirements intensify the control and surveillance. Why cant we just give mothers more money? Inadequate income is the main issue for most. The report lists two key findings under “Experience of

Increasing Working for Families payments.

Lower-income working families not on a benefit will get up to \$12.50 a week extra from Working for Families, and some very low-income working families will get \$24.50 extra.

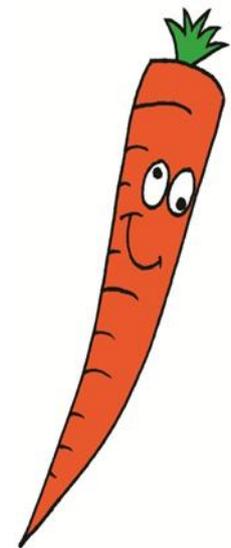
It is worse actually. Lets see what is behind the other trumpeted bit of the new found generosity to so called ' working' families: increases to the In Work Tax Credit and the Minimum Family Tax Credit in Working for Families. The game plan is to move sole mothers off the benefit. But at what cost?

Earning an extra dollar	cents lost
tax	17.5
acc	1.4
Loss net benefit	70
Repayment student loan	12.5
Total	101.4

If, while on Sole Parent Support, mothers work 20 hours at the minimum wage they can earn \$295 gross. How disheartening for them because every dollar over \$200 a week produces a loss of just over a dollar. That is, earning the last \$95 dollars ie working the last 6.4 hours actually makes them worse off.

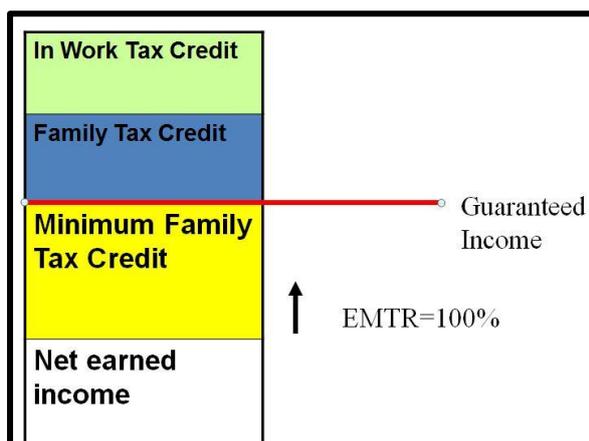
The situation can be even worse for couples on say the jobseeker or Supported living payment who begin to lose their combined benefit from just \$80 between them.

Going back to the sole parent. Government is effectively saying to her "here is a carrot to leave the benefit system." She cant live on just \$295 gross a week but she will can be topped up with another payment called the Minimum Family Tax Credit (MTFC). This tax credit has been increased by \$12 a week and is confined to those earning under \$27,000 per annum She can also get the In Work Tax Credit which has been increased by \$12.50 a week. This will be withdrawn at a faster rate if she gets more than \$36350



The problem is they have taken the most complex convoluted system imaginable and made it more complex. This is why have been working so hard over so many months. To craft onto a complex system a few dollars

extra and then subtly extract it was no mean feat.



So she has very young children but manages 20 hours. She can give up her part benefit and get a Minimum Family Tax Credit that tops her up to net \$23,036 (up by \$624 from 1 April 2016) and then she can get the IWTC on the top.

The changes have been instead of a principled review of Working for Families. They further cement in a complex convoluted

unfair system

Only 4000 families are expected to get up to the \$12 extra per week from the MFTC. Those who do go off a benefit and onto this very weird tax credit will find life is much less secure and the incentives are utterly perverse. The State may pay her more than they would if she remained on a part benefit (ironic in itself) but her situation is precarious. She is only entitled to the MFTC and the IWTC so long as she maintains 20 hours per week. The kids

get sick or there is a downturn she loses the security of income and will have to fight her way back onto a benefit.

CPAG believes that the government needs to spend \$1 billion per annum on fixing Working for Families to make the step change needed. The changes will simplify this important scheme and make it fairer and far more effective in addressing child poverty: See [Step change for children](#).