



CHiLD POVERTY ACTION GROUP

CPAG 2015 Budget Analysis - 22 May 2015

Summary

The annual Budget is an opportunity to focus policies on the wellbeing of children and the general health of communities. In a time of recovery the children must be the first priority, so it is heartening to see in Budget 2015 the first real increase in beneficiary incomes since 1972. The changes are part of a \$790 million package which targets up to 200,000 of the worst off families and includes extra cash for beneficiaries with children and some families on Working for Families. This increase recognises families reliant on benefit income have fallen behind other households. More money is welcome. An increase of \$25 a week will make a real difference to a family's ability to provide the basics for their children.

This is an acknowledgement that income is important to lift children out of poverty. We know parents prioritise their children and this extra money will be spent to meet their needs. It is a shame this promise will not be delivered until April next year. It is also a shame that the thresholds for access to Accommodation Supplement, income-related rents and supplementary assistance have not been adjusted. This means that much of the increase in incomes will be instantly eroded. CPAG is also concerned about the increased work requirements on sole parents. However, this increase in basic benefits is a welcome small first step in the right direction. Much more needs to be done to reduce child poverty in New Zealand.

Economic Outlook

- The government is claiming an economic expansion but projected per capita economic growth is lack lustre.
- There is a risk of adverse impacts from the high NZ dollar, sluggish global growth and falling dairy prices.

Fiscal outlook

- The fixation on debt management/reduction and surpluses has continued.
- The planned new nominal expenditure is not keeping up with inflation.
- There are diminishing levels of spending on health, education, but working for families is holding constant

- The impact of the budget on economic activity is likely to be contractionary, with increased private sector spending relied on for economic growth.

Income Support

- Benefits will be increased by \$25 per family but not until April 1 2016. Some of this new income will be offset by reductions in entitlement to the Accommodation Supplement, income related rents and supplementary payments.
- A growing proportion of welfare spending is in NZ Superannuation. Projected increases in NZ Super greatly exceed the amount budgeted for increased benefit payments.
- Working for Families is boosted by an increase in the In Work Tax Credit of \$12.50 a week. This just compensates for the erosion in its value since it was introduced. For families on incomes over the \$36,350 threshold Working for Families abates faster at 22.5% instead of the current 21.5%.
- There is no extra help for newborns in families on benefits.
- Some 4,000 families may gain extra help of \$12 a week from the Minimum Family Tax Credit
- The Budget assumes that benefit numbers will at worst be stable or decrease slightly.
- It is likely that the increase in childcare subsidy will only meet the cost of increased childcare fees.

Health

- Total Health budget \$15,868 million and is planned to fall.
- The policy of free doctors visits at all hours for children under 6 years has been taken up by all but 11 General Practices.
- GP Visits for children under 13 years begins this year. This has been heralded, and is very welcome. It will be a voluntary scheme, and it has been predicted that wilt will reach only 80% of practices. We hope that it will be extended to all practices.
- Prescription charges are often unaffordable for families who may not pick up their medicines or have to choose between them. Currently prescription charges apply to all children. In this budget prescriptions will not be charged for any child up to 13 years, and this is really welcome.
- The combined funding for the free GP visits and free prescriptions is \$30million each year. This is most welcome. This amount is not planned to be increased in subsequent years.
- This extra funding may help to address the high rates of admissions for asthma, and for preventable diseases such as pneumonia, serious skin infections, and rheumatic fever.
- CPAG has been urging free visits and no prescription charges up to 18 – so we hope that will be the next step.
- A slight increase in funding for National Child Health Services increase from \$82,704,000 to \$87,048,000, a 5% increase which is also welcomed.
- The remainder of the health budget is not tied to children's health. In the New Zealand population the proportion of adults, especially those over 65 is increasing and the proportion of children is declining. It seems likely that children will be easily overlooked without specific measures.

Housing

- The government initiatives to address issues of affordability and availability of housing in Auckland are at best vague, and show no evidence of any tangible commitment.
- Spending on housing assistance subsidies is expected to rise by 14% over the next 5 years, up to \$2.1billion. The Government is placing increasing emphasis on income related rents subsidies for social housing, fulfilling its promise of providing more social housing units. The number of new units will probably number only in the hundreds when thousands are needed.
- Spending on the Accommodation Supplement remains unchanged over the next 5 years, meaning that households renting in the private sector will be squeezed even harder by static incomes and rising rents.
- Thresholds for the Accommodation Supplement have not changed since 2007, and over the years since, rents have risen by 15% more than wages and salaries.

Education

- It is good to see increased capital expenditure for school buildings.
- We note a small increase in early childhood education spending.
- The insignificant increase in Special Needs support will not address past, current or future need.

Social Services

- Assumptions need to be made to make comparisons because of changing expenditure categories but initial calculation shows little change to total spending on community social service sector and effectively less than inflation rate.
- Care and protection funding increases marginally, but Youth Justice spending is virtually unchanged.
- Disability support is significantly reduced.
- Investment discussion thus far has emphasised importance of spending on children and families at risk, but funding directions suggest that if there is to be additional spending on these families then resources will be shifted from other families.

Maori

- Maori are proportionally more reliant on benefits, so the benefit increase is likely to have a measurable economic impact in Maori communities.
- \$49.8 million for Whanau Ora over the next four years has the potential for significant impact.
- Despite the extra funding, a third of Maori children are in poverty with a significant proportion experiencing severe hardship and this needs urgent attention.

Overall

This Budget signals an important change in the approach to child poverty in New Zealand, as it recognises that the best way to help children in poverty is to give more income to low income families. The long term effectiveness of the changes will depend on the development of a comprehensive plan to build on the changes signalled in the Budget.

Media Release - 2015 Budget signals important change in approach to child poverty

Child Poverty Action Group says it is heartening to see the first real increase in beneficiary incomes since 1972 announced in Budget 2015. CPAG is pleased to see the government begin to honour its commitment to tackling New Zealand's high rates of child poverty. However, while this is a good start, there is still much work to be done and it is concerning that there is no immediate relief for poor children. They must wait another year before anything changes for them.

Spokesperson Associate Professor Mike O'Brien says, "This budget signals an important change in the approach to child poverty in New Zealand, as it recognises that the best way to help children in poverty is to give more income to low income families.

Mike O'Brien, says, "This increase recognises that families reliant on benefit income have fallen behind other households over many years. Even a small increase in family income will make an enormous difference to the food on the table. We know that the increased money which goes to parents will be spent on their children, in both beneficiary households and those in paid work."

It is worrying that the range of assistance families currently receive will reduce the effect of the benefit increase. Where families receive entitlements such as the accommodation supplement or supplementary hardship assistance, this will erode the value of the benefit increase. In real terms, \$25 may become \$10-\$15 for many families. These families are likely to be in the poorest circumstances and will effectively remain in significant poverty.

The changes to Working for Families impose more complexity on an already complex system and do not address the discrimination against children in beneficiary families whose parents cannot meet the required work expectations.

CPAG is concerned that, in a challenging work environment, where many regions have high levels of unemployment, the increased work expectations will be difficult for many families and are not necessarily in the best interests of children.

The budget provisions are an important first step, but they are only a first step. The long term effectiveness of the changes will depend on the development of a comprehensive plan to build on what has been signalled in the Budget.