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TO: Ministry for Social Development and Inland Revenue Department

By email: WFFReview@msd.govt.nz

FROM: Ngā Tāngata Microfinance

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Submission: Ngā Tāngata Microfinance thanks Ministry for Social Development and Inland Revenue Department for the opportunity to submit on the Working for Families Tax Credits Review.

Background: Ngā Tāngata Microfinance was established in 2010 for the purpose of alleviating poverty by building a more just and equitable society with economic and social inclusion of all those living in Aotearoa New Zealand. To achieve this vision, we provide safe, fair and affordable finance options that enable financial inclusion and capability. We address and promote awareness of structural and economic forms of financial exclusion and progress towards achieving a more equitable financial environment, advocating for Tangata Whenua and Tauīwi living on low incomes. We work in close collaboration with Kiwibank, our loan capital funder, and alongside other community agencies in the building financial capability sector. The face-to-face work with our clients is carried out in partnership with the FinCap network of budget services and financial mentors throughout Aotearoa.

It is important that Working for Families tax credits (see below) support low-income families to have enough money to live, help to reduce child poverty, and support low-income families to take up work.¹

In this statement above, the aims of WWF are clearly set out and the review asks for comment on the suitability of the present system to meet those aims. At Ngā Tāngata Microfinance Trust (NTMT) we deal daily with people who do not have enough to live on, who often have children who are living in impoverished households, and who lack the means to be able to take up 'paid work'. Our particular concern is with the debt families have built up in trying to meet their basic needs. These debts often have very high interest rates with predatory lenders, leading to extreme financial stress. On average, clients of NTMT have debt costing them 37% in nominal interest and are paying 24% of their weekly income toward debt repayment, 8% of this is debt to Government. A properly designed and funded social support system, with ease of understanding and access, would be of great assistance in reducing the need for such debt and avoiding overpayments and recoverable Government debt.

¹ <https://www.msd.govt.nz/about-msd-and-our-work/work-programmes/welfare-overhaul/working-for-families-consultation-guidance-material.html>

Naming Matters

The centrality of 'paid work' to the Working for Families package is recognised in its name. We submit that this emphasis must shift to children being at the centre of these policies. If the needs of children are centralised, then the aims of WFF as expressed above, would be more easily achieved. By centralising paid work, rather than the wellbeing of the child, the policy places undue stress on families to meet requirements that are often unachievable.

Design Matters

Policy design is of utmost importance – both in its overall aims and in the regulations that execute that design. In one of the documents about this review – it was written: “The ease of engaging with the income support system can influence the amount of support a family receives, as well as the timeliness of that support.”²

The complex design of WFF has meant rather than helping a family into some essential support, it can leave them confused and without the proper payments they should be receiving. Often debt is created because of the system itself. At NTMT we see the lack of ease in engaging with the system when families find that they owe money back and become part of a debt recovery programme -this adds to family debt and contributes to child poverty, rather than alleviating it as is the intention of the policy. The present design of the job market with so much part-time work, shift-work and casual insecure work all contribute to the difficulty families have in applying for and maintaining WFF payments. The complexities of the system make it very difficult to plan ahead in a precarious work environment and is directly at odds with the Government's key objective to reduce child poverty.

The most egregious part of this package of support is the In Work Tax Credit (IWTC). At NTMT 80% of our clients are women on a benefit, many raising children on their own. They are 'working'. The work of raising and caring for their children and others in their families, is not recognised by the design of this policy. The conditionality of eligibility for the IWTC imposes a discrimination based on the lack of recognition of the essential work of caring and parenting. It disproportionately impacts on women and on Māori and Pacific Island parents. If this payment of \$72.50 for families with 1 to 3 children (at present) was paid to beneficiary families, the impact would be significant and would reduce the need for high interest loans and hardship grants.

As the policy stands at the moment, it punishes parents for putting their parenting and caring role first and has a profound impact on the well-being of the children. Children need a stable warm environment to thrive. Having parents on and off benefits and in and out of part-time work, does not provide this stability.

It is essential that the amount of money paid out by WFF keeps pace with the cost of living. At the moment WFF payments are not aligned to wage growth or inflation. The NZ Superannuation payments are indexed to wages, and it is important that payments for children are treated the same.

² Joint Report: Welfare overhaul: Working for Families Review-Options 5 August 2021.

Trust Matters

At NTMT we experience a very high loan repayment rate for our loans - 95%. By trusting in people and working with them to get some relief from crippling loans, the return has been significant. More importantly, for those able to receive a loan and pay it off, they are able to regain dignity and engage more fully in society. In other words, kindness works.

Well designed and sensible social assistance is extremely important. Our daily work at NTMT shows us very clearly, in the words of a worker in the field: "You cannot budget your way out of poverty".

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