CHiLD POVERTY ACTION GROUP

Submission on the Budget Policy Statement 2017

To the **Finance and Expenditure Committee**

This submission is from:
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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 the poverty they live in.

Submission

We wish to make the following submission to:

The Budget Policy Statement Dec 2016

CPAG notes the government's three central statements below:

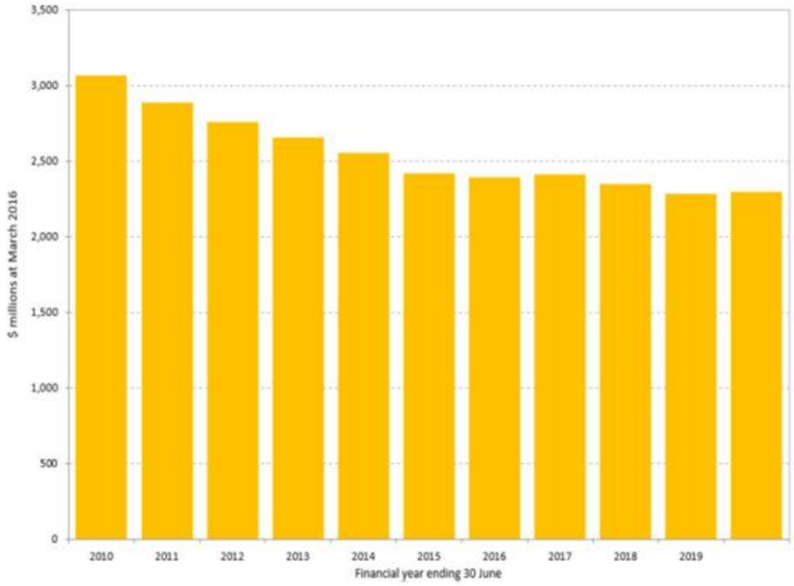
"The operating balance before gains and losses (OBEGAL) is expected to be $473 million in surplus this year – including the provision for the earthquake costs – before rising significantly over the forecast period."

"When it is affordable, and when economic conditions permit, the Government would like to lower income taxes, with a focus on helping lower and middle income earners obtain a greater return from their own hard work. However, responding to the earthquakes and reducing debt are currently of higher priority."

"A priority in the Budget will therefore be spending to achieve better outcomes for New Zealanders, and to meet demand and other pressures on social spending, most of which is health, education and income support transfers. There will also be a strong focus on driving the best value from existing spending."

CPAG submits that surpluses have been generated in large part by underfunding of social provisions of all kinds with the notable exception of NZ Super. Families have been badly impacted with clear evidence of family distress. For example, the real value of Working for Families tax credits for children have eroded markedly since 2010 as the figure below shows. The cumulative loss is around $2 billion, the lack of proper indexation and deliberate policy changes to the threshold and the rate of abatement saves the Government approximately $700m this year alone.

Figure: Real spending on Working for Families, Budgets from 2010



CPAG believes the Government needs to commit significant additional spending to reducing numbers in poverty especially child poverty by reversing the erosion of WFF, ensuring fair indexation and by removing the discrimination of the In Work Tax Credit. To abolish the IWTC and add the equivalent payment to the Family Tax credit payments would cost around $500m but would be the most cost effective way to reduce child poverty. This together with restoring WFF in real terms requires extra spending of around $1.2 billion

The idea that Budget 2017 could "lower income taxes, with a focus on helping lower and middle income earners obtain a greater return from their own hard work, [when affordable]" " is likely to preclude finding enough funds to address child poverty.

It is very unclear how tax cuts could be targeted at low income families alone. Even if the first bracket is removed, the cost is high and the most it could deliver is $28 a week. Taking the bottom rate down from 10.5% to 9.5% would cost $335 million a year and yet give virtually nothing to those on low incomes - someone on $14,000 would gain $140 a year, or about $3 a week. If the next rate is also brought down 1 percentage point to 16.5% it would cost another $485m and be of maximum benefit ($9.20 a week) to those on an income of $48,000 and above.

CPAG submits that an increase in WFF tax credits should be seen as the best and fairest way to offset taxes paid for the lowest income families with children. NZ has a very flat income tax system and a high GST on everything. The burden of high GST lands heaviest upon our lowest income earners. The lowest income earners in New Zealand pay a higher proportion of their disposable income in GST. They also pay a disproportionate amount of their taxes from earned income as they pay back their student loans and abatement of supports reduce the value of each extra dollar from earned income. CPAG urges the government to acknowledge this is harsh indeed for low income families.

The "spending to achieve better outcomes for New Zealanders, and to meet demand and other pressures on social spending, most of which is health, education and income support transfers" needs to consist of a meaningful additional allocation of funds to social and education services to increase current levels of provision, instead of a relative reduction.

Treasury's recent budget analysis verifies the reduction in 'social' spending. Over time, as a percentage of GDP ('gross domestic product'), spending on education, health and welfare is decreasing, even as the population is increasing. Students are having to borrow ever more for living costs and carry ever more debt. While such policies of shifting costs to students may increase the surplus and put an asset on the government balance sheet the cost is unfairly borne. Many students will struggle all their lives to repay debt affecting their ability to parent the next generation well.

CPAG believes the target for net debt reduction to 20% is unrealistic, especially in light of the assets in the New Zealand Superannuation (NZ Super) Fund. Once the NZSF assets are offset, net debt in 2015 falls from 25.1% to 12.9% (see 2016 Long Term Fiscal Statement). An over emphasis on reducing debt to very low levels is achieved at too high a social price.

CPAG sees child poverty as one of New Zealand's major social and economic issues. The consequences of not dealing with long term issues such as poverty are likely to increase the need for Government spending in the long term, as evidenced by the Hon Bill English's estimation that the 1000 additional prison beds could cost $2.5b in the long run.

CPAG welcomed many of the changes to Child Youth and Family and appreciates that these changes will require adequate and sustained resourcing both for the service and for the families with which the service works. The narrow social investment approach will not do that; what is desperately needed is adequate support for all families (including especially measures to improve incomes). Both Tamariki Oranga and the NGO organisations supporting families have been significantly underfunded for many years and a serious commitment to sustained resourcing is critical if there is to be any significant change for the children and families with which they work.

CPAG recommends making housing of low income or "at risk" families a priority. The year end (Dec 2016) figures provided by MSD on its website disclose an alarming rate of increase for those households qualifying for "A" priority listing. The rate of increase is 49.6%.These are households the Ministry defines as "at risk", they include households with a proven severe and persistent housing need that must be addressed immediately.

Reducing the rate and depth of child poverty must be the first priority in the 2017 budget. Budget measures need to extend across improving incomes for low income families supported by benefits or wages, tax credits, housing, health, education and increasing the number of adequately paid jobs.

Recommendations

Child Poverty Action Group's specific budget recommendations are:

1. Increase incomes for low-income families

Families in paid work

i. Continue to raise the minimum wage but at a significantly faster rate than the last 2 years.
ii. Increase for past inflation and then index all Working for Families (WFF) tax credits to increases in the average wage annually as is done for New Zealand Superannuation.
iii. Increase the threshold for abatement of WFF tax credits for extra income earned to at least $44,000 and index annually. Return the abatement rate to 20%.
iv. Remove the work hours criteria from the WFF In-Work Tax Credit so that children of parents in casualised employment or working less hours than the current criteria are not deprived financially.

Beneficiary families

i. Give beneficiary families the same amount as the In-Work Tax Credit by adding it to the current first child Family Tax Credit.
ii. For the future, index benefits to wages as is done with New Zealand Superannuation.
iii. Cease all benefit sanctions and other benefit reductions, especially for beneficiaries with children.

2. Increase numbers and improve quality of houses for low income families

i. Adopt a comprehensive WOF for all rental and state properties
ii. Build 1,000 additional social housing units per year in areas with the greatest need.
iii. Strengthen the state house sector.
iv. Improve tenancy rights for renters

3. Improve quality and participation in education

Early Childhood Care and Education (ECCE)

i. Require all staff counted in the ECCE teacher: child ratio to be qualified, registered teachers;
ii. Increase the ratios of adults to children for infants and toddlers in ECCE.

Compulsory Education

i. Provide a 100% government subsidy in all decile 1-4 secondary schools for NCEA and scholarship examination fees.
ii. Provide free before and after school and holiday programmes at all decile 1-4 schools.
iii. Index Targeted Funding for Educational Achievement increases to CPI or actual cost, whichever is greater.
iv. Guarantee continuity of Learning Support funding for all children with special needs and disabilities currently in receipt.

.4. Health

i. Free GP visits and prescriptions for 13 -17 years.

5. Poverty targets

i. Set targets to reduce each of the child poverty measures monitored by MSD.