



NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

**Submission of the
New Zealand Council of Trade Unions
Te Kauae Kaimahi**

**to the
Social Services Select Committee**

**on the
Social Security (Benefit Categories and
Work Focus) Amendment Bill**

November 2012

1. Summary of recommendations

Active labour market policies

1.1. The CTU recommends that the Government more fully implements an active labour market policy with the following characteristics:

1.1.1. Enhanced matching of employees with employer skill requirements through measures such as enhanced job search tools, assistance with CVs, relocation support, training support (including financial support for study costs). Greater roll out of programmes such as job streams.

1.1.2. Replacement income for job seekers on a similar basis to ACC compensation (percentage of income up to a maximum amount) subject to active job search or training and a maximum time frame.

1.1.3. Active job creation initiatives, both in government and not-for-profit sectors (such as Task Force Green) and industry development strategies.

Definition of suitable employment

1.2. In accordance with New Zealand's obligations under ILO Convention 44 and given the importance of good quality employment the CTU recommends that the definition of 'suitable employment' in s 3 of the Social Security Act is amended to read "**suitable employment** in relation to a person, means employment that the chief executive is satisfied is suitable for the person to undertake for a number of hours a week determined by the chief executive having regard to the employment required to satisfy the work test for that person (*considering the person's individual circumstances and whether the offer of employment is on terms and conditions no less favourable than those usually offered for the type of work in the region*)."

Work Ability Assessments

1.3. The CTU recommends against introduction of Work Ability Assessments ('WAAs') given the disastrous introduction of a similar scheme in the United Kingdom. If WAAs are introduced, the CTU recommends that:

1.3.1. An independent expert monitor is empowered by statute to review the effectiveness of the WAA scheme and make binding recommendations to Work and Income and the service provider (if different). The U.K. experience has shown the value of such a position.

1.3.2. WAAs should be undertaken by either Work and Income or another Government agency to build capacity and understanding of the process and to manage risk.

Social obligations

1.4. In relation to early childhood education ('ECE') the CTU supports the Child Poverty Action Group's recommendations that:

Government commits to reducing reliance on private sector provision of early childhood education and care as a long term objective, aligning the early childhood sector with primary education in terms of accepting government responsibility for both quality and access expectations in order to ensure equitable provision; and

Government enables adequately funding provision to ensure that all early childhood education centres are fully staffed by qualified teachers, and further require ratios of teachers to children and unit sizes to be maintained in accordance with quality guidelines.

1.5. The CTU supports the Welfare Working Group's recommendation that ECE funding be extended to ensure that single parents on low incomes have access to fully funded high quality ECE potentially for more than 20+ hours per week (in order to take into account travel time and other barriers).

- 1.6. The CTU recommends that prior to the implementation of a social obligation for parents to enrol their children in a primary health care the Ministry of Health or independent body undertakes an inquiry into barriers to enrolment in primary care including detailed reporting on GP shortages by district (and subsequent mandatory reporting on this issue by PHOs and DHBs).
- 1.7. The CTU strongly opposes financial sanction for breach of social obligations as likely to cause hardship to the most vulnerable children and families. The CTU recommends further exploration of intensive case management or incentivising of social obligations.

Drug testing

- 1.8. The CTU notes and shares the Ministry of Health's strong concerns around cost, outcomes for beneficiaries and effect on the health system of introducing sanctions for positive drug tests or refusal to be tested. We endorse the Ministry of Health's recommendation that alternatives to financial sanctions such as drug education and addressing barriers to treatment are explored instead. These alternatives are more consistent with the rights and freedoms in the New Zealand Bill of Rights Act 1990.
- 1.9. The CTU understands the case for pre-employment drug testing in safety sensitive occupations. However pre-employment drug testing is and may be used over broadly (MSD estimates that 40-45% of listed jobs with Work and Income may become subject to drug testing). We ask that the Select Committee reviews the criteria for listing a job with a mandatory pre-employment drug test, and if these are too lax, introduces a requirement that pre-employment testing is only applied to safety-sensitive occupations.

Reducing poverty

- 1.10. The CTU believes that wider action is needed to address the causes and ameliorate the effects of poverty than those contained in the Bill and the Government's legislative programme to date. Appended to this submission are the CTU's ten actions to reduce poverty as submitted to the Ministerial Commission on Poverty in May 2012.

2. Contents

| Section | Page |
|--|-------------|
| 1. Summary of recommendations | 2 |
| 2. Contents | 5 |
| 3. Introduction | 6 |
| 4. CTU Policy | 6 |
| 5. The wider labour market | 8 |
| 6. Active Labour Market Policy | 11 |
| 7. Quality of employment | 12 |
| 8. The 'suitable employment' test | 15 |
| 9. Work testing and private service providers | 18 |
| 10. Work Ability Assessments | 19 |
| 11. Social obligations | 21 |
| 12. Drug testing | 26 |
| 13. Conclusion | 30 |
| Appendix: Ten actions to reduce poverty in New Zealand | 31 |

3. Introduction

- 3.1. This submission is made on behalf of the 37 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU). With 350,000 members, the CTU is the largest democratic organisation in New Zealand.
- 3.2. The CTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Rūnanga o Ngā Kaimahi Māori o Aotearoa (Te Rūnanga) the Māori arm of Te Kauae Kaimahi (CTU) which represents approximately 60,000 Māori workers.
- 3.3. Social security policy and legislation are fundamental concerns of the CTU. In 2010 and 2011 the CTU participated in the Welfare Working Group (WWG) process. We had two meetings with members of the WWG; we attended a WWG hosted seminar and we made responses to the WWG's two discussion papers: Long Term Benefit Dependency: the Issues and the Welfare Working Group: Options Paper.
- 3.4. We were not in agreement on many policy questions and responses but nevertheless the CTU participated openly and in good faith with the WWG and their process.
- 3.5. The changes the Bill seeks to make are complex and far reaching. While the WWG's final report and the Government response signalled the direction of travel, it is quite a different matter to translate that into legislation. The Bill makes profound changes to the social security and benefit systems and some instances goes further than the WWG's recommendations.
- 3.6. In this submission the CTU presents our relevant policy, critiques the underlying assumptions that the Bill's provisions are based upon and makes comments and recommendations on clauses in the Bill.

4. CTU Policy

- 4.1. All New Zealanders have the right to a strong social security system. The benefit system should provide income protection that is adequate, universal and will alleviate poverty during unexpected life contingencies:

unemployment, old age, sickness, injury and for other significant social and economic reasons.

- 4.2. Social security is a fundamental right to which every human being is entitled as recognised in the Universal Declaration of Human Rights.
- 4.3. It is function of the state to manage and administer the benefit system. The CTU opposes the contracting out of fundamental and essential public services to private providers.
- 4.4. In 2008 New Zealand's strong social security system did much to absorb the worst impacts of the global financial crisis and provide income protection to vulnerable workers adversely affected by sudden business collapses and increases in unemployment. The Canterbury earthquakes also demonstrated the importance and value of a nimble and responsive welfare system where the state is the primary provider.
- 4.5. The CTU advocates for the importance of work in providing income security for workers and their families, enabling a good quality of life and achieving human potential and aspirations. But work must be decent work and be fairly and justly rewarded and meet the standard of good work as set out in international agreements and International Labour Organisation (ILO) Conventions.
- 4.6. The CTU recognises the value of unpaid work and that workers and citizens have periods of time in their life when they are out of the labour market for various and multiple reasons. Being out of the workforce is about the ebb and flow of life as well as peoples' and families' social and economic choices.
- 4.7. Welfare policy must be based on a principled approach that is people-centred, supportive of learning and skills acquisition and maximises individual ability and capability. Punitive policies and sanctions that impose deprivation and cause hardship are opposed. We support an investment-based approach in the sense of investing in people as outlined in the next paragraph. This is distinguished from the WWG's insurance-based "investment" approach whose aim is cost-minimisation by focusing on "those most at risk of

avoidable long-term welfare dependence, in order to minimise the long-term costs of welfare”¹. The latter has many risks including a focus on financial drivers rather than social needs and highly volatile and unrealistic calculations of long-term costs (as with the ACC full funding model).

- 4.8. The people-centred approach is commonly known as an active labour market policy. The Ministry of Social Development (MSD) already supports elements of such an approach. In part these are to assist enhanced matching of employee skills and employer skill requirements in the labour market. In addition it recognises that being out of work is usually not the fault of the employee, especially in a labour market which experiences frequent firm closures and restructuring, and increased use of precarious forms of employment. We go into further detail below.

5. The wider labour market

- 5.1. This Bill is the second stage in changes to the benefit system that implement the WWG’s recommendation to remove 100,000 people off benefits by changing the way people interact with the benefit system. The proposals in this Bill are a further continuation and radical upheaval of the social security system which commenced with the Future Focus legislation in 2009. We have serious concerns about the direction that this Bill sets for welfare policy in New Zealand.
- 5.2. The direction of this welfare policy continues to ignore the adverse conditions that many people are facing in the current labour market, due in large part, to the economic crisis. The work testing obligations and sanctions regime will cause hardship and deprivation to already disadvantaged people. The Bill reinforces the WWG’s deliberate misconception that people are on benefits because of their own personal failures and bad decisions. The critical role of labour market conditions is ignored as is the fact of too few jobs.

¹ “Reducing Long-Term Benefit Dependency: Recommendations”, Welfare Working Group, February 2011, p.20, 55.

- 5.3. Stripped down, the WWG's premise was that many beneficiaries are on benefits because they do not want to work. This premise is not only incorrect but dismisses the impacts and outcomes of the economic crisis in 2008 which dramatically reduced the number of jobs available and increased unemployment in all benefit categories. The fact is that there were not as many jobs available as there were workers seeking jobs. The consequence was an increase in all benefit categories.
- 5.4. The Welfare Working Group's premise - that there is a culture of dependency among New Zealand's beneficiaries - is not a judgment shared by OECD measures. The OECD uses the proportion of those on an unemployment benefit for a year as an international comparative measure of long term benefit dependence and rates New Zealand as among the best performers in terms of low long term dependency among people registered for unemployment benefits.²
- 5.5. Benefit numbers have gone up since 2008. But the significant increase in 2008 and 2009 was because workers could not find work. It was not due to shirking, lack of determination and personal irresponsibility on the part of workers. New Zealand is not suffering from a sudden epidemic of laziness.
- 5.6. We have consistently pointed out that the number of people on unemployment benefit fell from 162,000 in late 1999 to 17,700 in May 2008. One cannot say that there was a huge change in beneficiaries' work attitudes, personal responsibility and other attributes during that period. What changed drastically was the availability of work. When jobs were there, the number of people on unemployment benefit plummeted. In other words, there was not a policy problem in relation to the structure and availability of the benefit system. Nor is there today. What has changed since 2008 is the availability of work.
- 5.7. At the time of the 2011 General Election, the Minister of Social Development announced that the welfare changes would "result in up to 46,000 fewer people on benefits and an extra 7,000 to 11,000 beneficiaries working part-

² OECD (2010), OECD Factbook, 2010

time. On top of that the Pre-Election Economic and Fiscal Update also forecast around 20,000 fewer beneficiaries by June 2016 as the economy grows”³. At the time there were 328,000 working age people on benefits other than New Zealand Superannuation and Veterans Benefit. Given that the 7,000 to 11,000 beneficiaries working part time would continue to be on benefits, the promise is to reduce the number of working age beneficiaries by 66,000 to 262,000.

- 5.8. Yet the number of beneficiaries reached its lowest point in May 2008 when it was at 255,000 – 7,000 less than what we are told these very significant changes will achieve. Similarly, a more recent target set by the government as part of its “Better Public Services Targets” is to “to reduce the number of long term beneficiaries on Jobseeker Support by 30 per cent from 78,000 to 55,000 by 2017”. The Minister of Social Development acknowledged in Parliament (26 June 2012)⁴ that in March 2008 there were fewer than 55,000 long term beneficiaries in that category: 52,288.
- 5.9. Clearly, creating more jobs and lowering unemployment to 2008 levels would achieve the same reduction in beneficiary numbers as the reforms while preserving the dignity of recipients, and avoiding additional hardship for themselves and their families. If the government is relying solely on these welfare changes to reduce beneficiary numbers, it is an acknowledgement that it has no ambition to return New Zealand to the low levels of unemployment that existing in 2007 and 2008 prior to the global financial crisis.
- 5.10. In their working paper the Expert Advisory Group on Solutions to Child Poverty⁵ considered what they called ‘the employment problem.’ They note that:

One of the major causes of child poverty is the relative lack of jobs in the economy for parents who have only limited educational

³ “Major welfare reform resets expectations”, Hon Paul Bennett, 1 November 2012, and linked “Welfare Factsheet and Q&A”, available at <http://beehive.govt.nz/release/major-welfare-reform-resets-expectations>.

⁴ Hansard Volume 681, p.3274.

⁵ *Reforms to the Tax, Benefit and Active Employment System to Reduce Child Poverty* (Working Paper no. 10 August 2012) p. 11.

qualifications skills or work experience. Compounding this is the fact that most low-skill jobs are relatively poorly paid. There are various reasons for the limited job opportunities facing some workers, not least the global economic difficulties of recent years, imbalances in the labour market (nationally and regionally) and the many challenges that some people face in acquiring new skills (e.g. due to the costs and availability of relevant training programmes. A critical part of the solution to child poverty lies in building a vibrant, high-skill, high-wage economy.

- 5.11. Unfortunately the Bill does nothing to address these issues and the Government's wider policy platform will exacerbate them (including cuts to tertiary education funding and proposed amendments to the Minimum Wage Act 1983 and Employment Relations Act 2000 that will drive wages down). The CTU advocates an alternative approach based on active labour market policy.

6. Active labour market policy

- 6.1. A people-centred approach which invests in beneficiaries' skills, experience and potential is commonly known as active labour market policy. The Ministry of Social Development (MSD) already supports elements of such an approach. In part this acts to assist matching of employee skills and employer skill requirements. In addition it recognises that being out of work is usually not the fault of the employee, especially in a labour market which experiences recessions, frequent firm closures and restructuring, and increased use of precarious forms of employment. It encourages job creation.
- 6.2. Enhanced matching of employee and employer skill requirements is an investment approach which assists workers with existing skills to find work that needs those skills through measures such as enhanced job search tools, assistance with CVs, and relocation support, and supports them with training through advice on suitable courses, matching with employers for work-based training, and financial support for study costs. Existing measures and programmes include the Job Streams packages and other targeted support.

While these could be added to and deepened, in many cases they simply need more funding to cater for more people who are looking for work.

- 6.3. Recognising that being out of work is usually not the fault of the employee means that workers should not be substantially financially penalised for the loss of their jobs. Replacement income should be on a similar basis to current ACC weekly compensation of a percentage of earnings up to a maximum amount. This would be subject to active job search and training and may be for a limited period, such as a year, before lowering to something more like the current level. As it stands, OECD analyses show that New Zealand has one of the lowest levels of income replacement for unemployed workers and their families in the OECD in the initial stages of unemployment.⁶ There should not be this punitive approach to job loss.
- 6.4. Finally, we need active job creation initiatives. This includes both work schemes that create work in the central and local government and not-for-profit sectors such as Taskforce Green, and industry development strategies that encourage investment that leads to job creation. An element of job subsidies or other employer incentives may be appropriate in some cases.
- 6.5. The same principles of active labour market policies can be applied to a wider group of beneficiaries. The nature and extent of the investment in the person and support for the employer may vary, but the principle of the approach is the same.

7. Quality of employment

- 7.1. The CTU disagrees with the 'jobs at any cost' philosophy of the Welfare Working Group and the current welfare reforms. The research is very clear that moving into paid work is one of the most effective ways to improve health and social outcomes for beneficiaries but *equally as clear* that the conditions of work are critical to these outcomes. Moving beneficiaries into insecure, low-paid and unsatisfying work may lead to worse results (particularly health) than continuing unemployment.

⁶ 'Benefits and Wages: OECD Indicators', <http://www.oecd.org/els/benefitsandwagesstatistics.htm>.

- 7.2. One of the most comprehensive studies of the link between work and wellbeing is Professors Waddell and Burton's 2006 literature review *Is work good for your health and wellbeing?* Summarising the research they note (at p. 34):

*[W]ork is generally good for your health and well-being, **provided** you have a 'good job.' Good jobs are obviously better than bad jobs, but bad jobs might be either less beneficial or even harmful. It is then important to consider what constitutes a good job.... The evidence reviewed here suggests that, in terms of promoting health and well-being, the characteristics that distinguish 'good' jobs and 'good' workplaces might include: safety, fair pay, social gradient in health, job security, personal fulfilment and development, investing in human capital, accommodating, supportive and non-discriminatory, control/autonomy, job satisfaction, [and] good communications.*

- 7.3. Similarly, the extensive *Marmot Review of Health Inequalities in England* (2010) stated the following about poor quality employment:⁷

Insecure and poor quality employment is... associated with increased risks of poor physical and mental health. There is a graded relationship between a person's status at work and how much control and support they have there. These factors, in turn, have biological effects and are related to increased risk of ill health. Work is good- and unemployment bad- for physical and mental health, but the quality of work matters. Getting people off benefits and into low paid, insecure and health-damaging work is not a desirable option.

- 7.4. Roopali Johri of the New Zealand Department of Labour undertook a literature review into work values and the quality of employment in 2004. She concluded that:⁸

Workers' income can suffer from poor quality employment, as can their health (both at work as well as outside of it), their training prospects

⁷ Marmot et al. *Review of Health Inequalities in England* 2010, p. 26.

⁸ Johri 2005, *Work values and the quality of employment: A literature review* pp. 23-24.

and hence their productivity, [and] their ability to influence decisions about their job and their working hours. Accepting any job does not necessarily improve a worker's chances of getting into better quality employment. In other words, poor quality employment can adversely affect not only a worker's quality of working life but also their overall quality of life, including their family life. Employers can experience low quality employment in lower productivity, and recruitment and retention costs. Eventually, society and the economy can be constrained by such costs, reflected in productivity, business standards, economic growth and employment rates.

7.5. Decent work is particularly important for parents of young children.

Brewerton (2004) reviewed existing research in *Influences of Maternal Employment and Early Childhood Education on Young Children's Cognitive and Behavioural Outcomes*. She found that:⁹

How work affects parents affects their children. If a parent is negatively stressed at work, the impact on the children is likely to be negative; if a parent is negatively stressed at work, the impact on children is likely to be negative.... It is the nature and level of the stress in relation to the individual characteristics that matters, so the quality of working time may have as much, if not more, of an impact on family relationships as the quantity of work.

...[E]mployment conditions are important in relation to the mother's time spent away from home and parenting behaviours. Research indicates that low job satisfaction and work-place tension have negative impacts on child development... Difficult job conditions create psychological distress, which affects parenting, which affects child outcomes. Employed parents with demanding jobs have higher levels of stress, which predict depression and physical illness in women studied....

⁹ Brewerton, M (2004) *Influences of Maternal Employment and Early Childhood Education on Young Children's Cognitive and Behavioural Outcomes* pp. 27-28.

- 7.6. Burchell (2011)¹⁰ compared psychological effects of subjective chronic job insecurity to unemployment. He found that *“[in relation to] longer-term effects [of] prolonged periods of job insecurity, wellbeing (i.e. symptoms of anxiety and depression) continues to deteriorate for at least a year, with no sign of levelling off or recovery. This is in contrast to the findings on long-term unemployment where there is evidence of adaptation and slight improvements in psychological wellbeing after six months.”*
- 7.7. It is wrong to simply assume, as this legislation appears to, that work is a panacea. Poor quality employment can lead to worse outcomes for workers and their families.

8. The ‘suitable employment’ test

- 8.1. The Bill proposes that failure to accept any offer of suitable employment should result in cancellation of benefit and 13 week stand-down period. Solo parents with dependent children would have their benefits abated by 50%.
- 8.2. Under current law failure to accept an offer of suitable employment is treated as a failure to comply with the work test and subject to graduated sanctions (50% benefit reduction for first failure; suspension of benefit until compliance on second failure; cancellation of benefit on third failure).
- 8.3. In considering whether employment is suitable, Work and Income staff are required to take into account¹¹ whether the job has appropriate hours, access to childcare, clash with family commitments, clash with religious commitments, whether the job offends an applicant’s strongly held views, days of the week worked, the type of employment, the skills required, the experience required, the location of the job, and the wages payable.
- 8.4. Other than listing these mandatory considerations, there appears to be no guidance for Work and Income staff as to how they should weigh or apply these. This leads to significant discretion as to how the test is applied.

¹⁰ Burchell, B. (2011) ‘A Temporal Comparison of the Effects of Unemployment and Job Insecurity on Wellbeing’ *Sociological Research Online* 16(1)9.

¹¹ http://www.workandincome.govt.nz/manuals-and-procedures/income_support/main_benefits/unemployment_benefit/unemployment_benefit-123.htm

- 8.5. New Zealand is a signatory to and bound by International Labour Organisation ('ILO') Convention 44- Unemployment Provision. Article 10(1) of that Convention sets out when employment may be considered suitable for the purpose of benefit sanction:

10(1) A claimant may be disqualified for the receipt of benefit or of an allowance or an appropriate period if he refuses an offer of suitable employment. Employment shall not be deemed to be suitable--

(a) if acceptance of it would involve residence in a district in which suitable accommodation is not available;

(b) if the rate of wages offered is lower, or the other conditions of employment are less favourable:

(i) where the employment offered is employment in the claimant's usual occupation and in the district where he was last ordinarily employed, than those which he might reasonably have expected to obtain, having regard to those which he habitually obtained in his usual occupation in that district or would have obtained if he had continued to be so employed;

(ii) in all other cases, than the standard generally observed at the time in the occupation and district in which the employment is offered;

(c) if the situation offered is vacant in consequence of a stoppage of work due to a trade dispute;

(d) if for any other reason, having regard to all the considerations involved including the personal circumstances of the claimant, its refusal by the claimant is not unreasonable.

- 8.6. The ILO test is a minimum one: New Zealand can and has imported other considerations into "suitable employment" but cannot weaken the test by doing so.

- 8.7. Missing from Work and Income's list of factors is the requirement that the job has 'no less favourable wages, terms and conditions than reasonably expected in the occupation type and region.' This is a broader concept than 'wages' and failure to include it is a breach of New Zealand's international obligations.
- 8.8. Given the proposed increase in sanctions for failure to accept suitable employment this issue becomes more acute. Applied incorrectly, the test has the potential to compound issues of insecure and poor quality work with the outcomes discussed above.
- 8.9. The CTU recommends that the definition of 'suitable employment' is amended in the interpretation section of the Social Security Act 1964 to state (the CTU's proposed amendment is in italics): "**suitable employment** in relation to a person, means employment that the chief executive is satisfied is suitable for the person to undertake for a number of hours a week determined by the chief executive having regard to the employment required to satisfy the work test for that person (*considering the person's individual circumstances and whether the offer of employment is on terms and conditions no less favourable than those usually offered for the type of work in the region*)."
- 8.10. The interpretation need not be amended by statute though the CTU believes this is the most appropriate mechanism. It could be amended by regulation or guidance to the Chief Executive of Work and Income on the test.
- 8.11. The CTU is the designated Workers Organisation for New Zealand at the ILO and in that role we are concerned with the observation of ratified ILO Conventions by New Zealand. If the definition of suitable employment is not clarified (by statute, regulation or guidance to Work and Income staff) we may need to consider making a representation to the ILO Governing Body for their consideration and possible action.

9. Work testing and private service providers

- 9.1. This Bill reinforces obligations of beneficiaries to work with contracted service providers, a recommendation of the Welfare Working Group, for *‘effective, tailored and innovative support to those people at risk of long term dependency through the use of contracted, not for profit, private sector and community responses’*.¹²
- 9.2. The proposal to introduce private service providers is disturbing given the evidence of negative experiences in the United Kingdom, the Netherlands and Australia. The CTU urges the Select Committee to remove and roll-back the provisions in the Bill for private service providers particularly in light of strong and damning evidence from the United Kingdom.
- 9.3. The first report by the United Kingdom Government Public Accounts Committee - Support to incapacity benefits claimants through Pathways to Work¹³ - found that *“all the contractors employed to deliver Pathways have performed well below their contractual targets despite the Department paying service fees earlier than planned in order to improve performance”*.
- 9.4. The review found that contractors in provider-led Pathways areas have performed worse than Jobcentre Plus (the UK Government Department) despite, in general, *“operating in parts of the country with lower incapacity benefits numbers and unemployment levels, and relatively strong demand for labour”*.
- 9.5. The review found that the poor contractual performance by providers was not explained by the recession and stated that *“factors such as the underestimation of the complexities of the claimant group, which led to overly optimistic bids, are equally important”*¹⁴.
- 9.6. A review by the Joseph Rowntree Foundation of contracted out welfare to work programmes in Australia and the Netherland confirms the concerns

¹² Welfare Working Group Report, 2011, p 3.

¹³ <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmpublicacc/404/40402.htm>

¹⁴ *Ibid*

about contracting out these services.¹⁵ While there were cost efficiencies, relatively little was known about how these gains were offset by reduced services and high transaction costs for the purchaser. The review stated that contracting out poses further challenges (than delivery through the public system) because it fragments programme responsibility amongst multiple contractors, changes the relationship between policy makers and front line service deliverers and blurs lines of accountability and responsibility.

9.7. The faith placed in private providers appears to come more from belief than from evidence. This is a dangerous way to implement policy which affects the lives of tens of thousands of vulnerable people.

9.8. The CTU is particular concerned with the potential introduction of private provision in relation to the new Work Ability Assessments.

10. Work Ability Assessments

10.1. The Bill proposes to introduce a new Work Ability Assessment ('WAA') for beneficiaries with health issues to assess what types of work they may be able to undertake with support. The explanatory note to the Bill states (at p.7) that "[a]ssessment will be able to be undertaken by Work and Income or by a contracted service provider."

10.2. This model is similar to the U.K. Department of Work and Pensions' ('DWP') introduction of the Work Capability Assessment ('WCA') and contracting of the service to French multi-national Atos.

10.3. Professor Malcolm Harrington was statutorily appointed as the independent reviewer of the WCA. His 2010 review found that the "evidence... consistently and regularly highlighted problems with each stage of the WCA process, which limit both the assessment's fairness and effectiveness" (p 10). His key findings (at pp. 10-11) were that:

Claimants' interactions with both Jobcentre Plus and Atos are often impersonal, mechanistic and lack clarity. As a consequence, many

¹⁵ Finn, D. (2008) *Lessons from contracting out welfare to work programmes in Australia and the Netherlands*, p 1. York: Joseph Rowntree Foundation (<http://www.jrf.org.uk/sites/files/jrf/2307.pdf>)

people who are found fit for work feel an injustice has been done and are more likely to appeal, rather than being receptive to other support available;

The Jobcentre Plus Decision Makers do not in practice make decisions, but instead they typically 'rubber stamp' the advice provided through the Atos assessment. They often do not have or do not appropriately consider additional evidence submitted to support a claim for Employment and Support Allowance (ESA). This results in the Atos assessment driving the whole process, rather than being seen in its proper context as part of the process;

Some conditions are more difficult to assess than others. This appears to be the case with more subjective conditions such as mental health or other fluctuating conditions. As a result, some of the descriptors used in the assessment may not adequately measure or reflect the full impact of such conditions on the individual's capability for work; and

Communication and feedback between the different agencies and organisations involved is often fragmented and in some cases non-existent. For example, if a claim goes to appeal, Jobcentre Plus and Atos are not provided with the reasons for the subsequent decision.

- 10.4. Professor Harrington's 2011 review found improvements in several of these areas following his 2010 recommendations though there were many areas for improvement.
- 10.5. The National Audit Office ('NAO') reviewed the operation of the contract between DWP and Atos and, in a letter to Tom Greatrex MP, the NAO's Comptroller noted that:¹⁶
- The DWP had failed to seek financial redress for Atos's failure to carry out tests within the agreed time limits and "below the standard" performance since mid-2011.

¹⁶ <http://www.bbc.co.uk/news/uk-19244639>

- The DWP's negotiating position had been undermined by inaccurate forecasting of the number of people likely to need a medical test.
- 10.6. The BBC article also notes that nearly 4 out of 10 appeals against the WCA had been successful at appeal. The WCA process has led to judicial review proceedings¹⁷ and street protests.¹⁸ The British Medical Association's General Practice Conference has called unanimously for WCAs to be scrapped.¹⁹
- 10.7. Disastrous as the introduction of the WCA has been, the proposed introduction of the WAA does not compare favourably. There is no independent statutory monitor equivalent to Professor Harrington's role. The CTU recommends the statutory creation of an independent expert monitor of the WAA (regardless of whether this function is undertaken by Work and Income, another Government agency or an external contractor). The English experience has shown the value of this position for clients, for DWP and even for Atos. The expert watchdog model could also be applied to other potentially outsourced services such as work placements and Youth Service Providers.
- 10.8. The CTU recommends that if WAAs are introduced that these should be undertaken either by Work and Income or another Government agency to get processes right and build institutional knowledge.

11. Social obligations

- 11.1. The introduction of 'social obligations' on beneficiaries with dependent children to ensure that their children are enrolled in and attending early childhood education ('ECE') from age 3, school from age 5 or 6, enrolled in a primary health care provider and up-to-date with the core Well Child Checks is, we submit, an example of trying to get to the right ends by the wrong means. We are concerned with three issues in particular:

¹⁷ <http://www.newstatesman.com/blogs/staggers/2012/07/work-capability-assessments-fightback>

¹⁸ <http://www.guardian.co.uk/society/2012/aug/31/atos-protest-paralympics-sponsor>

¹⁹ <http://www.guardian.co.uk/society/2012/may/23/gps-work-capability-assessment-scrapped>

- Availability of good quality and affordable ECE;
- Availability of primary health care;
- Punitive outcomes for beneficiaries who do not “take all reasonable steps” to comply with the social obligations.

Availability of quality and affordable ECE

11.2. Good-quality ECE is extremely beneficial to children’s development but quality of the education is critical. Smith et al (2001) in the ‘*Strategic Research Initiative Literature Review: Early Childhood Education*’ concluded (at p. 121) that:

Good quality early childhood education can have long-lasting effects on most children’s development and learning, though these effects have been shown to be most striking for children coming from less advantaged backgrounds. The especially negative effects of poor quality early childhood education for children, who come from families at risk, is another clear finding.

- 11.3. A recent report by the office of the Commissioner for Children has identified several deficiencies in current services including that the current minimum ratio of one adult to five babies, infants and toddlers is inadequate²⁰. Risks to both children and parents are increased by placing children who are already disadvantaged by family circumstances in services of variable quality.
- 11.4. Access to ECE has worsened in New Zealand since the ECE budget cuts of 2009. There is no automatic right to a place in an ECE service. Quality services for children under two years old are expensive and located in higher socio economic areas. There are shortages of quality affordable early child services especially for children under two years old. Early child care costs leapt 11.7 per cent between April 2010 and 2011²¹.

²⁰ Carroll-Lind, J. Angus, J (2011). *Through their lens; an inquiry into non parental education care of infants and toddlers*, Office of the Children’s Commissioner, Wellington.

²¹ <http://www.stuff.co.nz/national/education/4902845/Soaring-cost-of-early-childhood-education>

- 11.5. Increased ECE costs and shortages (along with other issues such as cultural appropriateness) disproportionately affect Māori, Pasifika and children from poorer households. The ECE Taskforce secretariat's introductory briefing to the Taskforce noted:²²

There is a persistent gap in take-up of ECE between children from European and higher socio-economic status backgrounds and others. While most children participate in at least some ECE prior to starting school (95.1% overall) participation rates of Maori (91.4%), Pasifika (85.4%) and children entering decile 1-4 schools (and hence assumed to be from lower socio-economic groups, 89.2%) are much lower than this average, which is boosted by the 98.5% European rate. The reasons for this lower level of participation are complex and likely to relate to both the supply of, and demand for (including ability to access and afford) ECE services.

- 11.6. Given the importance of good quality ECE and the worrying signals of decreasing quality and availability we believe this social obligation is asking beneficiary parents to take responsibility for Governmental failures in this area. More must be done. The CTU supports the Child Poverty Action Group's recommendations²³ that:

Government commits to reducing reliance on private sector provision of early childhood education and care as a long term objective, aligning the early childhood sector with primary education in terms of accepting government responsibility for both quality and access expectations in order to ensure equitable provision; and

Government enables adequately funding provision to ensure that all early childhood education centres are fully staffed by qualified teachers, and further require ratios of teachers to children and unit sizes to be maintained in accordance with quality guidelines.

²² ECE Taskforce secretariat (2010) *1: Overview of the New Zealand Early Childhood Education (ECE) System* p. 7

²³ Child Poverty Action Group. (2011) *Left Further Behind* p. 174

- 11.7. The CTU notes the Welfare Working Group's recommendation (at p. 97 of their 2011 final report *Reducing Long-Term Benefit Dependency: Recommendations*) that to enable sole parents to balance childcare and part-time work "these parents may need more than 20 hours of care per week, once travel time to work is factored in. We support reprioritising of ECE expenditure to enable the fully subsidised 20 Hours of ECE to expand to more than 20 hours per week for those on low pay." We strongly support improving access to those on low pay, but there needs to be consultation on any "reprioritisation" of expenditure.
- 11.8. The CTU also supports the Welfare Working Group's call for ECE spending to ensure that low income parents can access quality ECE at little or no cost (though we do not support the Group's call to fund this through taking care from other groups).

Availability of primary health care

- 11.9. The CTU strongly supports access to good quality medical care for everyone (including beneficiaries and their children) and all children undertaking the Well Child checks. However, like ECE, there is a significant problem regarding access to primary healthcare providers in certain parts of the country and beneficiaries may take the blame for systemic failures. Gordon Campbell has questioned all District Health Boards about the accessibility of primary health care services in their districts.²⁴ He concludes that:

[T]here is still not anything like a clear national picture of GP availability. However, Hutt Valley, Invercargill, South Canterbury and Nelson-Marlborough- to name a few - appear to have significant problems.

Yet even this highly incomplete picture usefully demonstrates (a) that many (most?) DHBs have no idea about the state of GP availability in the GP practices within their regions, and (b) even at the PHO level the

²⁴ Campbell, G. (2012) When Local GPs are a Closed Book: Does the health system know (or care) when people can't sign up at their local Medical Centre? Retrieved from: <http://werewolf.co.nz/2012/10/when-local-gps-are-a-closed-book/>

state of knowledge is patchy. Only at the Medical Centres themselves, and among the anxious patients trying to access them, is the scarcity of GPs in some parts of New Zealand being played out. Given that primary care is supposed to be the foundation stone of our health system... that situation seems astonishing.

- 11.10. The CTU proposes that before this policy is implemented, an enquiry into barriers to enrolment in Primary Health Organisations particularly for the most vulnerable including a detailed report on GP shortages by district followed by mandatory reporting for PHOs and DHBs on GP availability.

Sanctions for failure to comply with social obligations

- 11.11. The CTU opposes moves to treat breaches of social obligations as punishable by benefit reduction. This proposal is more punitive than recommended by the evidence and even the Welfare Working Group's recommendations.
- 11.12. At p.126 of their final report *Reducing Long-Term Benefit Dependency: Recommendations* the Welfare Working Group states that "we propose that failure to comply with [the social obligations] should not involve a reduction in the level of payment parents receive, but instead may lead to income management...."
- 11.13. MSD's 25 July 2012 Regulatory Impact Statement weighs the advantages and disadvantages of four options to push compliance with social obligations: financial sanctions, intervention before financial sanctions, non-financial sanctions and incentives for meeting social obligations (at pp. 34-37). Officials recommend intervention before financial sanctions which is the model proposed in the Bill. Officials note (at para 245) that tying sanctions to social obligations can "ultimately increase hardship and could impact on child poverty."
- 11.14. The officials recommended against the option of non-financial sanctions such as intensive case management or money management "as it required a significant financial investment and does not provide a lever to require

compliance.” Similarly (at para 248) they recommended against incentives for meeting social obligations as “a significant financial investment and it is not considered appropriate to financially incentivise older parents to meet accepted social norms.”

11.15. In light of New Zealand’s abysmal record for our children (28th of 30 OECD Countries in child outcomes²⁵) these justifications are very weak and are not evidence based. The recommendation in the Bill is likely to lead to worse outcomes for the most vulnerable families.

11.16. It needs to be recognised that not only beneficiaries who may fail to meet these “obligations.” The proposal uses the leverage of the dependent position beneficiaries are in – unwillingly for the great majority – for yet another intrusion into their personal lives. This kind of intervention is not proposed for any other section of society. It will further diminish the self-respect of many beneficiaries, and increase their feeling of being discriminated against and their loss of control over their own and their families’ lives. While the obligations are worthwhile social objectives, they need to be encouraged and supported generally rather than imposed on a vulnerable minority.

11.17. The CTU recommends further exploration (preferably a trial) of intensive case management or incentivising of social obligations to determine which option has the best outcomes for affected families.

12. Drug testing

12.1. The proposal to sanction beneficiaries for failed drug tests bears comment in two respects. First, the case for sanctioning beneficiaries for casual drug use is likely to cost significantly more than projected savings, worsen outcomes for beneficiaries and put significant stress on already stretched health resources. Second, we believe that pre-employment drug testing has the potential for misuse in relation to non-safety-sensitive vacancies and ask the Committee to look into this issue.

²⁵ *1000 Days to get it right for every child: the effectiveness of public investment in New Zealand children a report compiled by Infometrics for Every Child Counts (2011)*

Sanctions

12.2. The Ministry of Health gave sharply critical advice to the Minister of Health regarding the proposed drug testing of beneficiaries. This advice (Health Report number 20120521 file number HC45-04-20-7) repays full reading.²⁶ It outlines extremely serious concerns with the proposal (as stated in the executive summary:

iv. Sanctions for 'recreational' users may undermine the objectives of the proposal, result in a waste of health resources, and have an ambiguous overall effect on people's health and overall welfare. One risk is that people overstate the extent of their drug use in order to be assessed as dependent and therefore avoid sanction, resulting in many more people being referred to treatment they should not be eligible for. Another risk is that the increase in demand may mean that District Health Boards do not achieve waiting list targets to be introduced from 2012/13 unless additional capacity is funded.

v. The Ministry of Health's best estimate of the cost of this proposal to Vote Health, including investment in additional capacity, is between \$1.3 million and \$3.2 million per annum if people truthfully reveal their drug use, and between \$4.6 and \$11.6 million per annum if 10 per cent of frequent drug using beneficiaries successfully overstate their use. This compares to estimated savings of \$7.1 million per annum from people moving off benefits.

12.3. In other words, the proposal is likely to waste health resources for no likely overall gain in health or welfare outcomes. The Ministry goes on to state that:

vi. The Ministry has encouraged MSD to investigate a number of alternatives to significant financial sanctions such as drug education, addressing people's barriers to accessing treatment, smaller financial sanctions, or using money management (beneficiary budget control).

²⁶ Paper also available at: http://fyi.org.nz/request/advice_on_drug_testing_beneficiar

These alternatives may achieve much of the employment gain but with fewer health and cost risks. It may also be possible to trial the proposal in one region for example Auckland, and to monitor some of the financial risks. These alternatives warrant investigation.

- 12.4. Ministry of Health officials go on to recommend that the Minister of Health seeks the Minister of Social Welfare's approval to trial these alternative approaches.
- 12.5. Along with fewer health and cost risks, the Ministry of Health's proposals are much more consistent with the rights to refuse medical treatment and unreasonable search and seizure under the New Zealand Bill of Rights Act 1990. Given this advice, it is difficult to see how the imposition of sanctions meets the proportionality inquiry (as described by the Supreme Court in *Hansen v R* [2007] 3 NZLR 1 at [104]. In particular the limiting measure (compelling drug testing with the threat of sanction) appears out of proportion to the importance of the objective in light of alternatives. As noted by Tipping J in *Moonen v Film and Literature Board of Review* [2000] 2 NZLR 9 at [18] "a sledgehammer should not be used to crack a nut."
- 12.6. Given the Ministry of Health's expertise in these matters and the real risks they identify we ask that the select committee removes the drug testing provisions altogether and retains the status quo while other options such as education and addressing barriers to drug treatment are explored. In this instance the Government's proposed remedy is worse than the ill it seeks to cure.

Pre-employment drug testing generally

- 12.7. The CTU recognises the rationale for drug testing of potential employees in safety-sensitive roles where impairment may put other workers at greater risk although we note that a positive result is not at all synonymous with impairment. The full bench of the Employment Court carefully considered workplace drug-testing in the case of *NZ Amalgamated Engineering Printing and Manufacturing Union Inc. v Air New Zealand Ltd* [2004] ERNZ 614. After a detailed review of New Zealand and international jurisprudence, the Court

partially upheld Air New Zealand's drug-testing policy for employees in safety-sensitive roles but declared the policy invalid to the extent that it introduced random suspicionless testing for employees outside of safety sensitive areas. The specific question of pre-employment drug testing was not contested but there is a clear analogy with pre-employment testing in non-safety sensitive roles.

- 12.8. Pre-employment drug testing has also been held to be discriminatory in comparable jurisdictions. The Canadian Human Rights Commission's *Policy on Alcohol and Drug Testing* (2009 p.6) states that:

Testing for alcohol or drugs is a form of medical examination. Any employment-related medical examination or inquiry must be limited to determining an individual's ability to perform the essential requirements of the job. An employer must therefore demonstrate that pre-employment drug or alcohol testing effectively assesses an applicant's ability to discharge their employment responsibilities. Since a positive pre-employment drug or alcohol test cannot predict whether the individual will be impaired at any time while on the job, pre-employment testing may not be shown to be reasonably necessary to accomplish the legitimate goal of hiring workers who will not be impaired at work.

- 12.9. While less emphatic than their Canadian equivalent the New Zealand Human Rights Commission's 2008 guidance '*Getting a job: pre-employment guidelines*' notes at p.10:

There is nothing in the Act that prohibits an employer from insisting on drug testing. Whether it is appropriate for an applicant to undergo a drug test will depend on the nature of the job. Testing can be a legitimate requirement for a safety-sensitive role or environment. There are certain occupations, for example a pilot or bus driver, where being drug free is a genuine occupational requirement because of public safety.

- 12.10. Given this, we were surprised by MSD's assumption that 40-45% of jobs listed would be drug tested. Even accounting for safety-sensitive

occupations such as forestry, farming, construction and transport this estimate seems very high.

- 12.11. The CTU asks that the Committee reviews the criteria applied before a job is listed with a drug test requirement and, if said criteria do not exist or are too lax, that the requirement of safety sensitivity is added into the Bill. This would save MSD, beneficiaries and employers significant monies and would better protect job applicants' rights against unreasonable search and seizure and to refuse medical treatment.

13. Conclusion

- 13.1. The CTU is concerned that the significant changes to the welfare system (and flow on effects to the wider economy) proposed by the Social Security (Benefit Categories and Work Focus) Amendment Bill have not been adequately thought through. We believe that the passage of this Bill as it stands is likely to lead to worse outcomes for beneficiaries, their families, the health sector and the public purse.
- 13.2. Our recommendations in regard to the Bill are set out in section 1.
- 13.3. The proposals in this Bill do not facilitate the growth of a high skill economy based on good jobs. Nor do they address the root causes of poverty in New Zealand.
- 13.4. We believe that employment and unemployment, welfare and poverty should be viewed as a whole rather than as separate systems and that addressing these will require a whole-of-government approach. This is a much broader issue than the structure of the benefit system. We believe it is a conversation that is desperately necessary. Appended is the CTU's proposal for ten actions to reduce poverty in New Zealand.

APPENDIX: Ten actions to reduce poverty in New Zealand

The proposals below were provided to the government's Ministerial Committee on Poverty in May 2012.



NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

Ten actions to reduce poverty in New Zealand

1. Raise low wages

Though beneficiaries are the main victims of poverty, two in five poor children were from households where at least one adult was in full-time employment or was self-employed, according to the Ministry of Social Development's 2011 Household Incomes Report. This is a result of market wages being very unequally distributed. New Zealand has one of the most unequal income distributions and one of the lowest wage shares of income in the OECD. It can be addressed by raising the minimum wage significantly and strengthening collective bargaining for low paid workers. Collective bargaining is an effective means of raising the pay of low paid workers. Supplements to low wages can also be increased through programmes like Working for Families.

Recommendation: Raise low wages by raising the minimum wage immediately to \$15.00 per hour and to two-thirds of the average wage within 3 years, strengthening collective bargaining for low paid workers, and increasing Working for Families tax credits for low income families.

2. Increase incomes to households reliant on welfare benefits

According to the MSD's report, "poverty rates for children in beneficiary families are consistently around 70 per cent, much higher than for children in families with at least one adult in full-time employment". It is inescapable that increasing incomes to families reliant on benefits is the single most important way to address poverty, particularly for children. Our benefit levels are low. The same Report notes that income tested benefit levels have fallen significantly as a proportion of average earnings since the mid 1980s with the exception of a small increase in 2004-05. As one international benchmark, OECD comparisons²⁷ show that in 2010, for initial stages of unemployment the net income replacement rates including housing assistance and other "top-ups" for a low-income (67% of the average wage) sole parent with two children, was 6th lowest out of 32 OECD countries²⁸. It was the lowest in the OECD for a two-earner couple and 10th lowest for a single earner

²⁷ Benefits and Wages: OECD Indicators, at http://www.oecd.org/document/3/0,3746,en_2649_33729_39617987_1_1_1_1,00.html

²⁸ "Benefit generosity", Benefits and Wages: OECD Indicators, at www.oecd.org/els/social/workincentives.

couple, both with two children. Allowing beneficiaries to earn more from work would have social benefits as well as financial ones, but it will not help unless the jobs available are at decent wage rates, secure and recognise child care needs. Help with costs of getting to work and child care is essential.

Recommendation: Raise the level of benefits and tie them to a percentage of the average wage, and increase thresholds of earnings from work which beneficiaries can retain without abatement.

3. Provide good jobs

High levels of unemployment are a contributor to poverty, forcing people onto inadequate benefits, and leaving many people with no choice but to take jobs that cannot be described as decent work. At December 2011 we had 150,000 people officially unemployed, 105,100 people who wanted to work more hours and 261,300 jobless. Casualised and insecure employment and contracting out have grown – all of which have adverse effects on people’s ability to save, keep up with their bills, provide a secure environment for their families, and commit to owning their own house, as well as having adverse effects on their physical and mental health. Government policy and action can do much to stimulate job creation and encourage employers to improve job security and working conditions. As the 2010 Marmot Review of Health Inequalities²⁹ found, “jobs needs to be sustainable and offer a minimum level of quality, to include not only a decent living wage, but also opportunities for in-work development, the flexibility to enable people to balance work and family life, and protection from adverse working conditions... Getting people off benefits and into low paid, insecure and health damaging work is not a desirable option.”

Recommendations: Improve employment conditions for casual workers by strengthening minimum employment rights around use of casual employment, termination of employment, and conditions such as parental leave. Give contracted workers the protections of employment law including the right to bargain collectively, and prevent the use of contracting as a means to lower pay and working conditions.

4. Create the conditions for good employment practices and job creation

The government has a unique role in setting the conditions for improved employment opportunities and the quality of jobs. It can legislate to encourage fair and productive employment and management practices, strengthen and extend the reach of collective bargaining and set effective minimum wages and working conditions. Through active labour market policies it can assist unemployed people to retrain or gain work-related skills, match skills with jobs, and create work schemes that help people into more permanent work. Alongside this, it can ensure that the costs of flexible employment practices do not land on the workers involved by providing substantially increased income replacement rates for workers who become unemployed. Through active industry policies it can assist and encourage firms to raise their productivity, their exporting capability and the participation of their workers in the industry’s continuing development to provide good and sustainable jobs.

²⁹ Marmot, M *Fair Society, Healthy Lives Review of Health Inequalities*, 2010

Recommendation: Strengthen collective bargaining and extend its benefits within industry sectors. Repeal legislation which encourages poor management practices such as the 90-day trial. Extend the assistance given to people out of work to gain skills and match their skills with jobs and pay them 90 per cent income replacement for the first year of unemployment conditional on commitment by the worker to acquiring new skills if necessary, and job searching. Create more jobs in work schemes that help people into more permanent work. Institute industry policies which support the creation of good and sustainable jobs.

5. Provide strong public health programmes and services

Poor health and poverty are closely connected. There is now well established evidence that many serious forms of ill-health cannot be effectively addressed without reducing high levels of income inequality³⁰. In turn, poor health can lead to low incomes through poor employment prospects and even loss of employment. As well as addressing income inequality and maintaining accessible, high quality public health services, strong public health programmes such as warm homes, vaccinations, health and nutrition education in schools, improved safety practices in workplaces and anti-smoking campaigns can be cost effective and long lasting.

Recommendation: Ensure all New Zealanders have affordable access to quality primary health care. Strengthen public health programmes such as warm homes, vaccinations, health and nutrition education in schools, improved safety practices in workplaces and anti-smoking campaigns.

6. Ensure access to low cost, good quality housing

Housing is the single most important cost to a family and high housing costs can plunge it into poverty. In addition, low quality housing can contribute to poor health and make it difficult for children to make educational progress, leading to further cycles of poverty. Income-related rents in publicly provided housing, law changes to provide stronger protection for long term tenancies, low cost, good quality housing designed to suit different family compositions and different cultures, assistance with mortgages for first home buyers, programmes that meet Māori needs, and stronger building regulations can all contribute.

Recommendation: Maintain and extend the stock of state and local government housing with income-related rents. Provide stronger protection for long term tenancies, ensure an adequate supply of low cost, good quality housing designed to suit different family compositions and different cultures, provide assistance with mortgages for first home buyers, programmes that meet Māori needs, and stronger building regulations to maintain standards for health homes.

7. Make sure people have good nutrition and enough food

Children going to school hungry or without lunches can lead to educational and social difficulties with long term implications for their social development and earning potential. Inadequate nutrition can lead to avoidable but serious health problems for

³⁰ See for example Marmot (op cit) and “Social determinants of health”, World Health Organisation, www.who.int/social_determinants.

both children and adults. Educational programmes on good nutrition are important but so are adequate incomes and provision of nutritious food in schools through quality controls on their cafeteria food and programmes such as free milk or lunches in schools where they are needed. Competition between supermarket chains should be closely monitored to ensure food prices are kept as low as possible.

Recommendation: Provide food and milk in schools where there is evidence of need, and establish nutritional guidelines for food and drinks sold in schools. Review whether benefits and low household incomes dependent on people in paid work are meeting minimum nutritional, housing, energy, health and other essential needs. Establish an inquiry into retail competition in the supermarket sector.

8. Build education and skill levels, and the rewards for them

For many children from low income families the way out of poverty is by gaining higher levels of education and skills. For people already in work, gaining additional skills can benefit both their own incomes and the productivity of their employer. Investment in early childhood education is one of the means of providing the best start in life for children. Raising educational levels must start at early childhood education by lowering costs of attendance and providing ECE with a qualified workforce. There are identified problems in transitions from schools to vocational education and work-based training which should be addressed. Caps on enrolments in tertiary education should be raised. However, raising educational and skill levels will not address poverty if incomes do not rise as a result. The evidence in New Zealand is that there are very poor returns to employees for qualifications below the degree level. That should be addressed through strengthened obligations and conditions placed on employers which benefit from government funded training programmes to recognise and reward increased skill levels in wages levels.

Recommendation: Ensure every child has access to affordable quality early childhood education provided by qualified teachers. Clarify paths for transition from school to vocational education and training and provide advice and guidance to school pupils and staff. Raise the returns to trainees from vocational education by requiring employers to tie qualification achievement to pay levels. Raise caps on tertiary education enrolments.

9. Address inequalities

Underlying poverty and many of its causes is the very unequal distribution of income and wealth in New Zealand, which is among the highest in the OECD and rose the fastest of any OECD country between the mid 1980s and mid 1990s. Raising wages, benefit levels, employee bargaining power, and job creation are all important contributions to addressing incomes. A progressive tax system also has a crucial role to play by reducing tax rates on low incomes, raising them on higher incomes, substituting asset taxes such as a capital gains tax for regressive taxes like GST, and investigating financial transactions taxes and taxes on super-profits. Boosting tax credits such as Working for Families to lower income households, including those relying on benefits, has been effective in the last decade in stopping the rise in inequality. Other identified contributors to growing inequality have been increased international trade and financial integration and their interaction with increased use of labour-saving technology. Further opening of the economy should not occur without

compensating actions to ensure it does not worsen inequalities and other social conditions.

Recommendation: Increase the progressivity of the tax system by instituting a 38 percent rate on income more than approximately twice the average wage (\$100,000) and a 45 percent rate on income more than approximately three times the average wage (\$150,000). Institute a capital gains tax while progressively reducing GST. Review the social impacts of international commercial agreements and the form of New Zealand's international trade and financial integration with the rest of the world.

10. Provide quality public services

A significant check on the worst effects of poverty is the universal availability of essential public services. Free or low cost access to primary health care, free public hospitals and public health programmes prevent even the lowest income families suffering from the most serious immediate effects of ill health or accidents. Access to universal health care regardless of the ability to pay is critical. Lack of this in other countries is one of the most frequent causes of bankruptcy and impoverishment. Free, high quality education provides opportunity and the possibility of social mobility. There are many other public services that could do more to alleviate poverty including lowering the cost and raising the quality of public transport, addressing housing needs, and ensuring households have their basic needs for electricity, water and other essential services provided at low cost.

Recommendation: Maintain quality public services and provide assistance to low income households in essential services other than those already discussed such as electricity and water by providing essential entitlements at low cost, and low cost quality public transport in our cities.

14 May 2012