



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 Committee

on

Support for Children in Hardship Bill

P O Box 6645

Wellington

July 2015

1. Introduction

- 1.1. This submission is made on behalf of the 36 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU). With 325,000 members, the CTU is one of the largest democratic organisations in New Zealand.
- 1.2. 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.
- 1.3. This Bill gives effect to the 'Child Hardship Package' - a 2015 Budget announcement package over four years to reduce hardship among New Zealand's poorest families. The Support for Children in Hardship Bill has four main components:
 - An increase in payment of \$25 per week per family on a benefit, including parents on Student Allowances.
 - The application of a work test to apply to parents on benefits when their youngest child is 3 years old instead of 5 years old; and the definition of 'part time work' for work test purposes to increase from 15 to 20 hours per week.
 - An increase in the In-Work Tax Credit for working families (non-beneficiary families), of between \$12.50 and \$72.50 per week per family.
 - An increase from \$4 to \$5 an hour in the childcare and out of school care subsidy.
- 1.4. Urgent measures are required to reduce child poverty rates and hardship for children in New Zealand's families. While any recognition of the need and initiatives to reduce hardship among children are welcomed these measures will not do enough to reduce child poverty and hardship.
- 1.5. Child poverty in New Zealand is a critical social problem. The child poverty rate in New Zealand at around 25 percent that is almost twice the rates of the 1980s (at 13 percent). Latest figures (Perry, 2015 p.24) show that compared to OECD countries New Zealand is 10th out of 27 countries, and just below the median profile for severe deprivation. Measured through a risk index of hardship compared to the whole population, New Zealand is highest in deprivation rates for children across 20 European countries.

- 1.6. Child poverty imposes long term social and economic costs. On economic grounds alone there is a case for seeking lower child poverty rates. It is within the capacity and capability of us all to eliminate child poverty In New Zealand. An increasingly large number of New Zealanders are no longer willing to tolerate child poverty and are urging for strong action. The role of Government in raising income levels of families is crucial to reducing child poverty.
- 1.7. So while any moves to recognise that incomes must be raised to bring children out of hardship and poverty are welcome, they must also be strong enough to have enough effect, and not produce effects that are counterproductive.
- 1.8. Besides being insufficient to lift incomes and reduce poverty, the Bill's provisions add more complexity to the benefit system, introduce a new concept of family poverty that creates an uneven level of support for children in hardship, are highly targeted to children in severe hardship and impose work expectations on parents that are both punitive and lack an appreciation of labour market difficulties.

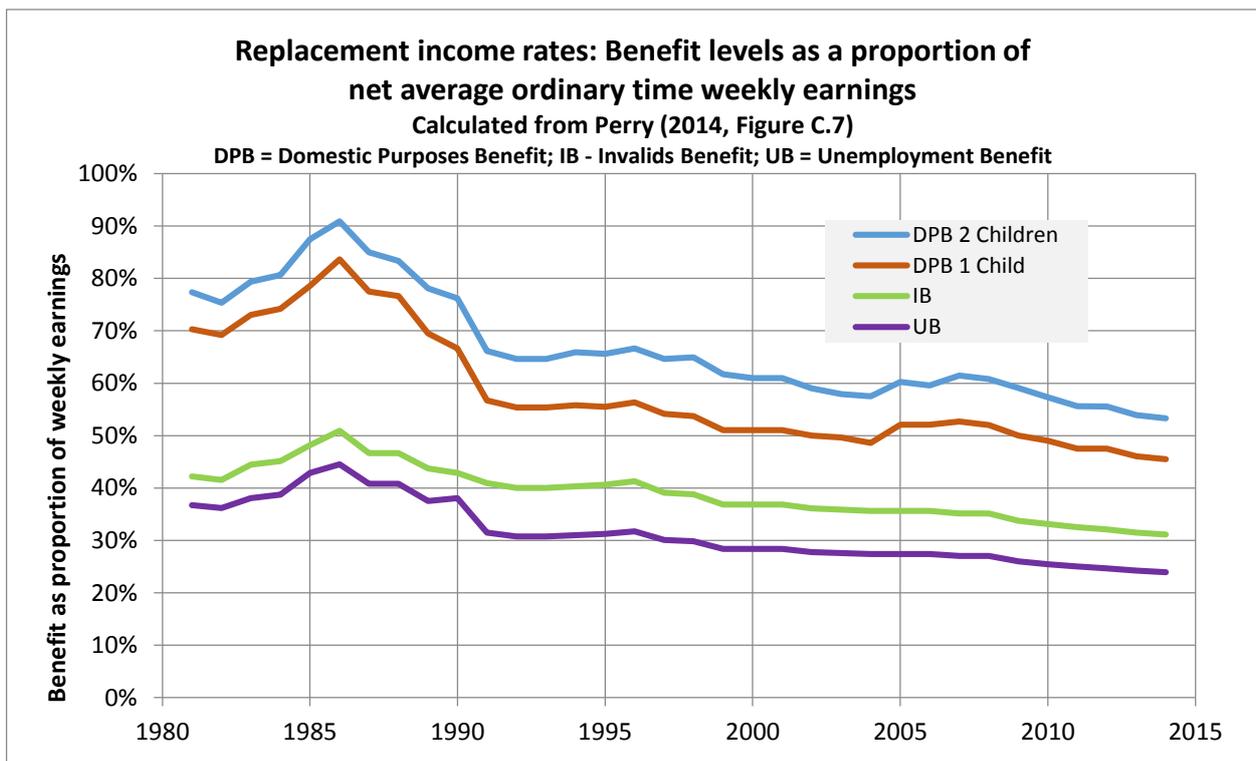
2. Increase of benefit rate by \$25 per week per family

- 2.1. The central component of this package is an increase in benefit rates for families with children by \$25 a week after tax from 1 April 2016. On average, a beneficiary family will receive an in-the-hand income gain of just over \$23 a week (due to abatements of other payments). But for many beneficiary families that actual weekly increase will be affected by a reduction in entitlements to the Accommodation Supplement or Temporary Additional Support (TAS) payments.
- 2.2. This Bill introduces a new concept – a family rate. This rate, does not recognise the difference between households who have more children. The additional income is structured not on a per-child basis but on a per-family basis. Given that 79 percent of children in hardship live in households with two or more children, and almost half with three or more, the impact of the \$25 increase on reducing child hardship will be spread unevenly and very thinly. Children in poverty living in larger families receive very little from this package.
- 2.3. The real issue is that benefits rates are too low and there has been no adjustment to the benefit rates to rectify the savage cuts made in 1991. Benefit levels are simply inadequate

to provide a reasonable standard of living and participation in society. The impact of the 1991 cuts was a direct cause of the increase in the level of child poverty in New Zealand.

2.4. The gap between benefits and wages has been growing steadily since 1991. Benefits have been adjusted only by inflation while wages, though rising more slowly than the economy could afford, still rose faster than inflation.

2.5. The graph, calculated from the MSD’s Household Incomes Report (Perry, 2014), shows the fall in benefit levels as a percentage of the net average weekly wage (replacement income rates). The falling replacement income rates show the increasing gap between living standards for beneficiaries and the majority of New Zealanders. The replacement rates peaked briefly in the mid-1980s due to the wage freeze but the fall really opened up from 1991.



2.6. Whereas in 1990 the Domestic Purposes Benefit for a parent with two children was 76 percent of the average wage, the 1991 Budget slashed it to 66 percent and by 2014 it was 53 percent. The single unemployment benefit fell from 38 percent of the average wage to 31 percent after the benefit cuts and 24 percent in 2014. (The unemployed and invalids

benefits look a lot lower mainly because they are for single people rather than for families.)¹

- 2.7. Some of the gap has been filled by an array of second-tier and third-tier benefits which have become increasingly intrusive and demeaning for beneficiaries and add to poverty traps, as we illustrate elsewhere in this submission. Available statistics don't allow us to judge accurately just how much of the gap they fill.
- 2.8. Even lifting the equivalent of the Domestic Purposes Benefit by a quarter would provide a replacement income rate no higher than after the 1991 cuts. Lifting it by 45 percent would take it back to 1990 levels. For the unemployment benefit, a lift of one third would take it back to 1991 and almost 60 percent would be needed to restore the 1990 level.
- 2.9. If the then National Government thought the lower benefit levels it set in 1991 were enough to "incentivise" employment then it should find a substantial rise in current benefits acceptable. But higher replacement income rates before the 1980s co-existed with much lower unemployment rates than since the 1990s so there is little evidence that even significantly higher rates provide a disincentive to work.
- 2.10. Benefit levels are also very low by OECD standards. A single parent with two children in New Zealand received 54 percent of the average wage according to OECD data comparing benefits during the first years of unemployment for families qualifying for cash housing assistance or social assistance "top ups" in 2013, whereas the OECD median was 71 percent, Denmark paid 77 percent and Canada 85 percent. New Zealand benefits ranked 27 or 28 out of 33 OECD countries for this family – and second to bottom for some two-earner couples with two children².
- 2.11. Benefits levels should be increased to ensure that they are set at a level that is enough to ensure people do not live in poverty. Basic benefits should be lifted substantially to rectify for the 1991 cuts and then indexed to the median wage as a more effective mechanism to reduce child poverty.

¹ Note that these rates do not include the Accommodation Supplement or the subsidy received by those on income-related rents; but these are not received by all beneficiaries and are also available to low income wage earners and so are difficult to compare accurately.

² See <http://www.oecd.org/els/benefits-and-wages-statistics.htm>

3. Strengthening work expectations

- 3.1. The Bill requires solo parents and partners of beneficiaries to be available for part time work once their youngest child turns three rather than five as now. We do not support the provisions in the Bill that impose stronger work-testing which will heavily impact on sole parents. The stricter work testing obligations and sanctions regime will cause hardship and deprivation to already disadvantaged people and force sole parents into work when they and their children are not ready for it.
- 3.2. Single mothers in particular face a range of economic penalties as well as social difficulties. They are more likely to find only unpredictable, part-time work, making it hard for them to access the childcare and other support they need in order for work to be feasible. Forcing such women into low-paid, insecure work, given the exigencies they already face as solo parents, is likely to worsen, not improve, their outcomes and the welfare of their children.
- 3.3. The work obligations that are brought in by this Bill are not only punitive; they reflect a disregard for the pressures and reality of the New Zealand labour market. Simply getting into a job does not solve the problem of poverty. There are other questions that have to be considered: whether jobs are available, what kind of jobs are people going into, what are the conditions of employment, and what are the pay levels in these jobs.
- 3.4. Insecurity is a prominent feature of jobs in New Zealand. This is detailed in the 2013 CTU research report into insecure work, *Under Pressure* (New Zealand Council of Trade Unions Te Kauae Kaimahi, 2013) which highlights the association between insecure work, stress and low wages. Unemployment is still much too high at this point in the economic cycle at 5.8 percent or 146,000 people.
- 3.5. The type of work that solo parents are in is particularly important. Brewerton reviewed existing research in *Influences of Maternal Employment and Early Childhood Education on Young Children's Cognitive and Behavioural Outcomes*. She found that work affects children and that if a parent is negatively stressed at work the impact on the children is likely to be negative (Brewerton, 2004).
- 3.6. Being employed is not always correlated with better social outcomes. Insecure and low income work with no career development may have worse outcomes. As the report of the independent review Professor Sir Michael Marmot led on health and inequality, commissioned by the UK government, moving beneficiaries into insecure, low-paid and

unsatisfying work may lead to worse results (particularly health) than continuing unemployment, *“Getting people off benefits and into low paid, insecure and health-damaging work is not a desirable option* (Marmot, 2010 P. 26).

4. Increases in the In-Work Tax Credit

- 4.1. The inapplicability of the In-Work Tax Credit (IWTC) to beneficiary families is a significant cause of child poverty in New Zealand. The use of the IWTC has, among other issues, raised human rights concerns and has necessitated complex adjustments in the tax system.
- 4.2. In addition, as with high unemployment, redundancies and labour churn, there are significant issues now with the appropriateness of the IWTC.
- 4.3. Given the above the CTU supports that consideration should be given to CPAG’s recommendation to increase the rate of the Family Tax Credit so that all children benefit.

5. Child care support for low income working families

- 5.1. The Bill increases the child assistance rate from \$4 to \$5 an hour for lower-income families. A sole parent with one child, for example, will be able to get the new, higher rate if they earn under \$41,600 a year.
- 5.2. This change also lines up work requirements with childcare settings, as the 20 Hours Early Childhood Education (ECE) programme is available from age three. As a condition of their benefit, beneficiary parents are already expected to enrol their children in early childhood education at three years of age. However, this fails to take into account issues such as travel time between ECE and work. This will effectively become an extra ECE cost that easily swallows the extra \$25 per week and additional \$1 on OSCAR subsidies.
- 5.3. Additionally there are issues with the quality and availability of child care especially in lower socio- economic areas and there has been a substantial growth in the provision of child care services by large private operators, many of whom have argued for lower levels of qualified staff, increases group size and greater child to adult ratio.
- 5.4. There is significant and compelling evidence from both New Zealand and overseas about the factors that correlate and/or contribute to quality ECE. These include a professionalised and qualified workforce, low ratios and small group sizes, positive and welcoming environments, responsiveness to children’s cultural identity and strong partnerships with

parents and whanau (DG Education and Culture & ECEC/ESL Stakeholder Meeting, 2014, L. Mitchell, C. Wylie, & M. Carr, 2008).

- 5.5. This Bill compounds an increasingly problematic interaction between low pay, insecure hours, the welfare benefit system and the taxation system that needs to be addressed.
- 5.6. The increasingly toxic mix of insecure hours (and indeed employment), the rules in the welfare benefit system and the taxation system, including Working for Families tax credits, was described in our most recent Minimum Wage Submission (New Zealand Council of Trade Unions Te Kauae Kaimahi, 2014) by some of our affiliates:

The experience of one of our members working for a large supermarket chain in the Wellington Region highlights many of these issues. Worker A is a single mum and used to have a regular 25 hours working at the supermarket. Following a review of hours of all employees, A's regular hours were cut to 19 a week. Due to the thresholds for particular tax credits/benefits the cut in hours just created a nightmare for this worker and had a significant impact on her earnings. As she was no longer working 20 hours a week she lost her entitlement to the In-Work tax credit. The change to her hours also affected her accommodation supplement and other Working for Families payments. Worker A took any additional hours that were offered to her, but these fluctuated from week to week. To make matters worse, WINZ then made her go to 'job search training' and hounding her to get a job with more hours, that then jeopardised the 19 hours of regular work she did have. Someone described the situation as "demanding she go and learn how to work when she was working her arse off".

- 5.7. Another affiliate reported:

There can be issues for members who work part time and are on benefits as well. They are having to work as a matter of necessity to earn enough to live but can be penalised when their hours go up. For example a member is on an unemployment benefit. If she earns more than \$80 a week she has her benefit reduced. With no guaranteed hours she has felt financially compromised at times. Not only has her benefit been reduced (or increased) but there can be delays with Work and Income making those adjustments – up two weeks. On one occasion she tried to turn down a negotiated increase because it would take her over the threshold at a time when she felt she had her benefits and income from work in balance.

- 5.8. Actions taken by the Government to force more beneficiaries into work are almost certainly increasing unemployment and helping to maintain low wages while in many cases not resolving issues of poverty and lack of future prospects. Insecure employment and the Government's own law changes are adding to their problems: we note the comments in the *Benefit System Performance Report for the year ended 30 June 2013* (Raubal & Judd, 2014, p. 33):

4.50 The largest portion of returning beneficiaries (44%) had been off benefit for less than one year. A further 19% had been off benefit for less than two years. Some possible causes are:

- Seasonal employment in regions which have industries like agriculture, horticulture and freezing works. These workers are entitled to receive Jobseeker Support in the out of season periods off work and intervention strategies for these people during their periods off work are likely to differ from other churn clients. Seasonal employment also is evident in major centres in education, hospitality and some retail sectors. These workers are expected to be found in the less than one year on benefit segments.
- Casual labour workers with a low skill level in low-income employment are characteristics that can create instability for people in this type of work and increase the likelihood of returning to benefit.
- The 90 day trial period also is likely to be a factor for those with barriers to sustainable employment. Figures published by the Ministry of Business, Innovation and Employment show that, in 2012, 27% of employers said they had fired at least one new employee during or at the end of their trial. For clients who have had multiple periods on and off benefits over the last five years, the greatest number of spells off benefit lasted between 31 and 90 days. Vulnerable clients with low skills and complex needs face increased barriers to staying in work.

The *Benefit System Performance Report* for the year to June 2014 failed to comment on these matters.

- 5.9. We reiterate the recommendation from our 2014 Minimum Wage Review Submission that a work programme be undertaken to consider the interaction between the minimum wage, regulation of work hours, insecurity of employment and work hours, the benefit system and the taxation (and tax credit) system. Such a review would also allow the adequacy of benefits to be assessed.

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