

How effective are 2018 policy settings for the worst-off children?

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Introduction

This report analyses the policy settings in mid-2018 for their potential to improve the position of the worst-off children in New Zealand.

The Labour-led government, elected at the end of 2017, seeks to place child well-being at the heart of their policies. As a first step, legislation setting out four primary measures and six supplementary measures of child poverty has been introduced.

The purpose of this bill is to

...encourage a focus on child poverty reduction, facilitate political accountability against published targets, require transparent reporting on child poverty levels, and create a greater commitment by Government to address child well-being. (New Zealand Parliament, 2018)

Over ten years ago, the Ministry of Social Development (MSD) identified “pockets of significant hardship” where some families were falling below the “very stringent 40% after housing costs poverty line where there is nothing in reserve” (Ministry of Social Development, 2007).

For our purposes here, children in families which fall under the 40% poverty line – that is, 40% of median, equivalised, disposable household income, after housing costs, also known as the 40% AHC line – are taken as ‘the worst-off’ children. In 2016, ten years after the Ministry first voiced concern that any children fell below this line, there were at least 140,000 children in this group. Child advocacy groups have argued that the 40% AHC line needs to become one of the primary measures in the Child Poverty Reduction Bill and that no child should fall below it (Child Poverty Action Group, 2018b).

This working paper provides a technical analysis to show how much is needed to address the poverty of these 140,000 children in a significant way. The finding is that current policy settings in the Families Package to be implemented from 1 July 2018 are seriously inadequate for the task.

This report was written in mid-2018 as very low income families wait for relief from the Families Package, with a long winter to follow if there are no immediate and significant further policy changes. The figures in this report are indicative only, but suggest that while the Families Package should reduce measured child poverty overall, it will be insufficient to stem the rising tide of very low income family distress. A range of specific measures focused primarily on this group are recommended for immediate implementation.

Evidence base

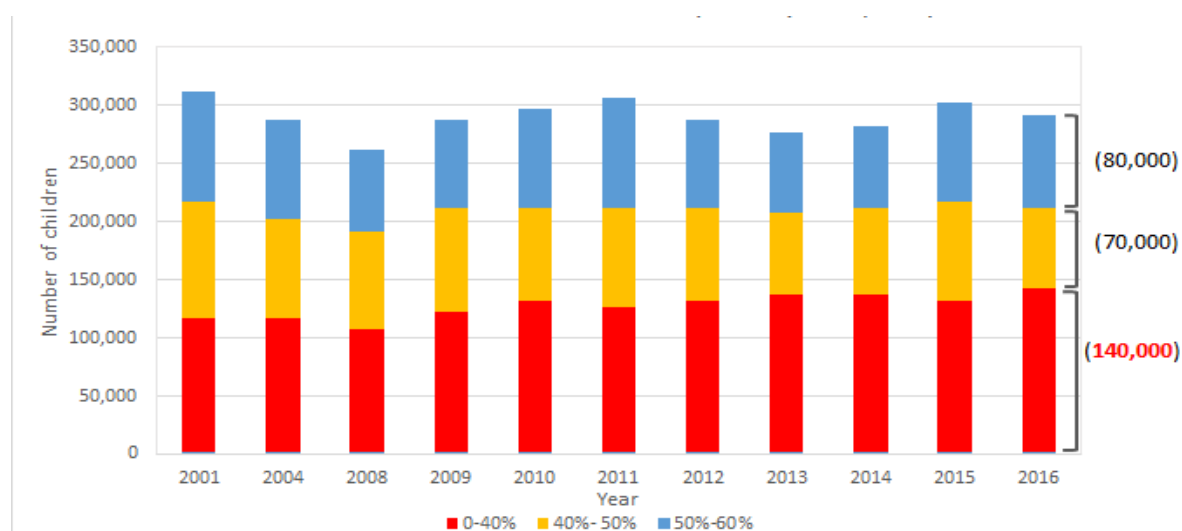
Income measures of poverty can be before, or after, housing costs (BHC or AHC), and relate to a fixed real median or a contemporary (moving) one, as set out in detail in Perry (2017).

In the assessment of child poverty, income measures are also supplemented by material hardship measures. Important as these are, the amelioration of certain deficits – for instance, the provision of a raincoat or of lunch for a child – may reflect one-off private charity, rather than a sustainable financial improvement for the family that would support their inclusion in society. For this reason, this paper focuses on income measures and uses a relative income contemporary median as the benchmark.

High rents are a key driver of child poverty and a BHC income measure can be misleading. For example, as housing assistance is included in the BHC measure, the increases in Accommodation Supplement from 1 April 2018 may appear to reduce child poverty, when in reality higher rents may offset or even exceed this gain. For the reasons set out in Perry (2017, p 16), this report uses AHC as the basis for analysis in its later sections.

Figure 1 shows the AHC poverty (moving line) child poverty data since 2001. The lowest numbers were in 2008, reflecting both a strong economy and the introduction of Working for Families (WFF). As shown, child poverty rose in the Global Financial Crisis post-2008, to dip again as the economy recovered 2011-2016. Figure 1 shows that by 2016, while there were fewer children under the 60% AHC line than there had been in 2011, there was no significant change in the numbers of children under the 50% AHC line. Worryingly, there was a significant rise in numbers under the very low 40% AHC line. Moreover, these 2016 figures were likely to be an underestimate, as discussed below.

Figure 1: Numbers of children under after housing costs (AHC) poverty lines.



The data depicted in Figure 1 have a range of important limitations: they are based on limited sample sizes; refer only to incomes up to 2015/2016; and include only those with a formal residential address. The 2016 survey also under-sampled sole parents, implying that the reported figures for 2016 are likely to be under-estimated (Perry 2017, p 22-25). Another less visible but very important caveat to the reported figures is that the equivalence scales used are contestable.¹ They assume strong economies of scale that may be inappropriate, especially when used to set AHC thresholds.

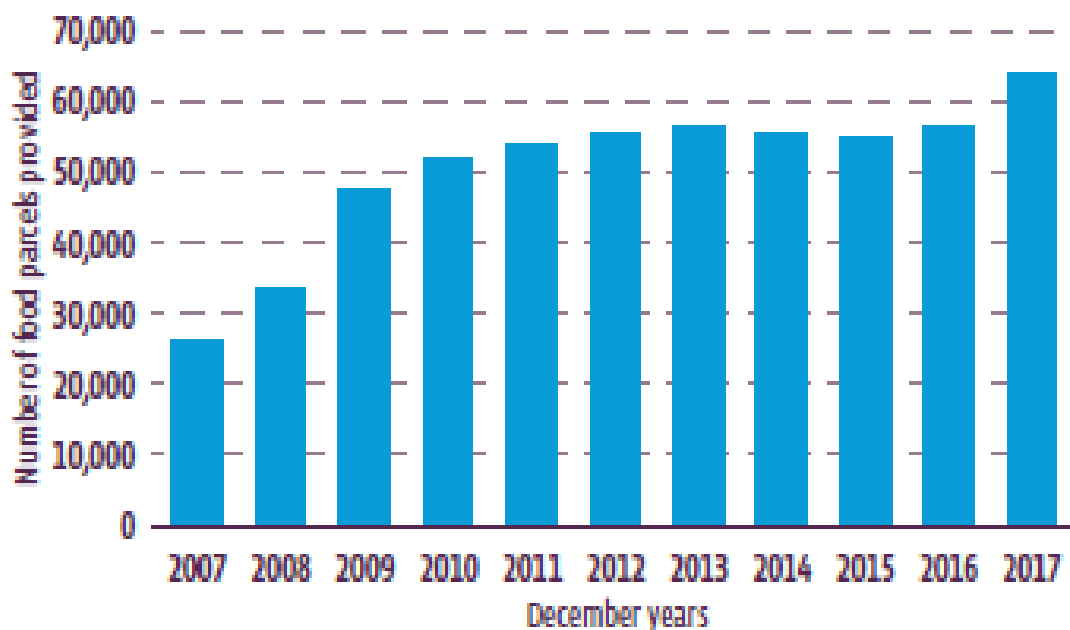
In mid-2018, in spite of economic growth, and in spite of the \$25 per week increase in benefits for families in 2016, very low income families appear to be experiencing increased stresses, including increased hunger levels. The latest data in Figure 1 are based on 2015/2016 incomes, and were out of date by mid-2018. A growing and deepening poverty may occur even when economic times appear good for most, so there is an urgent need for more timely evidence.

This evidence can be sourced from the health, education, and social services sectors. We discuss here the changes in the utilisation of foodbanks, charities and budgeting services, and in the demand

¹ The economies of scale assumed in the benefit system are also contestable, especially in the assumptions made about couples versus singles sharing.

for supplementary government assistance. While commentary concerning how bad things are may appear anecdotal, respected agencies have been speaking out.² Foodbanks around the country have hard data to show increased demand, as we see in reports from the Salvation Army³ and the Auckland City Mission⁴ and the Wellington Mission⁵. While there is no breakdown to tell us how much of the demand for food parcels came from families with children, Figure 2 shows the Salvation Army experienced a 12% increase in demand in 2017 (The Salvation Army Social Policy and Parliamentary Unit, 2018) .

Figure 2: Annual Food parcels distributed by the Salvation Army



Regionally, many social services are reporting increased demands. For example the manager of the Salvation Army's community services in Whangarei, Marlene Bowers, reports the number of people coming through their doors had doubled in the New Year.⁶ The 12% increase shown in Figure 2 is not just an Auckland phenomenon, with the recent increased demand for food parcels reflected in Salvation Army branch statistics throughout New Zealand. None of the four major divisions experienced a less than 10% increase in demand.⁷

The pressures families are under are also reflected in the rapid growth in hardship payments from Work and Income shown in Table 1. Tellingly, along with increased foodbank use there has been a 50% growth in expenditure on food grants over the last two years (Ministry of Social Development, 2018a).

² See for example ['Things have got away on us' - Salvation Army says poverty in New Zealand at its worst since the last recession](#) TVNews 23rd April 2018, and recent reports from the charitable sector: [KidsCan founder Julie Chapman says NZ kids are worse off than ever](#). Stuff, 21st April 2018.

³ [Rise in working people relying on charities for food as living costs soar](#) The Press 20th November 2017

⁴ [Food bank supplies run low as Auckland hits peak poverty, and it's not even winter](#) Stuff May 2nd 2018

⁵ See [Rising living costs seeing more families turning to food banks](#) Dominion Post 6th November 2017

⁶ See for example [Food bank supplies run low as Auckland hits peak poverty, and it's not even winter](#) Stuff May 2nd 2018

⁷ Personal communication 2nd May, 2018.

Table 1: Growth in hardship assistance March 2016-March 2018 quarters

	Hardship assistance by reason granted in the quarter- last 5 years (all ages)		% growth	Hardship assistance amount by reason granted in the quarter- last 5 years (all ages)		% growth
	Mar-16	Mar-18		Mar-16	Mar-18	
Food	93,178	143,986	55	\$9,925,627	\$14,786,536	49
Accommodation Related	23,023	26,385	15	\$13,281,786	\$16,874,579	27
Medical and Associated Costs	16,157	18,469	14	\$5,983,683	\$7,125,186	19
People Affected by Benefit Stand Downs	5,240	9,896	89	\$558,458	\$1,123,335	101
Electricity and Gas	4,798	7,164	49	\$2,221,746	\$2,958,527	33
School Education Costs	19,953	24,278	22	\$4,062,222	\$5,266,230	30
Re-establishment Grants	2,468	2,881	17	\$850,116	\$984,211	16
Driver Licence	2,316	2,738	18	\$236,139	\$275,203	17
Health Related	1,360	2,158	59	\$118,597	\$193,706	63
Long-Acting Reversible Contraception	52	51	-2	\$10,567	\$10,208	-3
Emergency Housing Grant		6,138			\$6,574,733	
Other	45,964	75,613	65	\$15,788,877	\$24,649,484	56
Total	214,509	319,757	49	\$53,037,818	\$80,821,935	52

Background

In 2017 both major parties went into the election with family income packages to address child poverty.

National's package

By 2015 National had realised that child poverty was a major issue. In 2016 they made a one-off increase of \$25 per family on a benefit, plus some small changes to work-related tax credits for children. By 2017, mounting evidence of a widespread crisis of homelessness and hunger spurred the announcement of a new [Family Income Package for 2018](#)⁸, but this was to be implemented only if National were re-elected.

While National's package did not formally acknowledge that financial support for low income families had been seriously undermined over the last nine years (see figure 3) clearly the impact both of actual cutbacks and of neglect needed to be addressed (Cotterell, St John, Dale, & So, 2017). The major tools used by National to enhance family incomes were:

1. Tax cuts
2. Increases to the FTC, but offset by a sharper clawback (25%) from a lower threshold (\$35,000) for low income working families.
3. Increases to the Accommodation Supplement

Treasury calculated that 49,000 children would be lifted out of poverty on the preferred 50% BHC measure. This was a modest improvement in the overall poverty rate, but the package was not a step change for the 140,000 children below the 40% AHC line. For example, the one child family was to have a \$9.25 increase in their FTC after more than 6 years of no adjustment for inflation, let alone growth in average wages.

⁸ See https://www.national.org.nz/family_incomes_package

Some serious flaws in National's package included the increase to the effective marginal tax rates (EMTRs) of the low income families earning above \$35,000. The combined effect of the abatement of WFF (25%) and the Accommodation Supplement (25%) and tax would have been to perpetuate strong work disincentives on the working poor, while creating unacceptable poverty traps over long income ranges.

Labour's Package

[The Families Package](#)⁹, due to be implemented 1 July 2018, comprises

1. Abolition of National's tax cuts
2. Increases to the FTC
3. Increases to the threshold for abatement of WFF to \$42,700 and the rate of abatement to 25%
4. Increases to the Accommodation Supplement
5. A Winter Fuel Payment

Labour's Families Package was expected to reduce the numbers of children below the 50% BHC line by 88,000.

Revisions

In early 2018 Treasury announced there was an error in their projections. On 31st March 2018 [new calculations](#)¹⁰ were released that showed the projected impact of both National and Labour's packages were overstated.

Treasury re-estimations show that Labour's package would lift around only 54,000 children above the 50% BHC line, a 27% reduction by 2021. National's package would lift around only 27,000 children above the 50% BHC line, a 17% reduction by 2021.

The [government's stated three-year targets](#) include reducing the proportion of children in low income households (50% BHC moving) by 6 percentage points by 2020/21 - a reduction of around 70,000 children. Together with other policies, it is hoped that these targets will assist the reaching of [10 year goals](#) to more than halve child poverty. While the 40% AHC line is one of the supplementary measures, goals have not been set for the reduction in child poverty on this measure.

Sadly, as in the past, the children who fall the farthest from the 50% line will prove the most difficult to help. The systemic issues that mean so many children are below the 40% AHC line must be urgently addressed.

Current policies

On 1 April 2018, some families gained some relief from rising housing costs via the increases to the Accommodation Supplement (AS), but those increases reflect the rapid rise in those costs and the lack of adjustment to the AS since 2004. Budgeting and advocacy services also report many families gained far less than they expected as families have had offsets to their AS in deductions from their Temporary Additional Support Payments (TAS)¹¹. Families will get no other extra income from the Families Package until July.

⁹ see <https://www.labour.org.nz/familiespackage>

¹⁰ Se <https://treasury.govt.nz/sites/default/files/2018-03/cpe-3925585.pdf>

¹¹ See <http://www.msd.govt.nz/about-msd-and-our-work/newsroom/2017/families-package-gas.html>

Redistribution through increased tax credits for children can reduce overall measured poverty, but the detail of how families at different levels of low income are affected can be quite different for different family circumstances, and detailed analysis is required to get the full picture. In 2007, after the introduction of Working for Families (WFF), the statistical measures showed that overall child poverty fell significantly (see Table Figure 1). What was not so clear was that this reduction had been achieved only for those families who were in work.

The WFF package had little impact on the poverty rates for children in workless households. Perry, (2017 p148).

Families who did not meet the weekly hours of work criteria, and/or were on benefits, were denied a significant payment for their children (the In Work Tax Credit) despite its child poverty alleviation role.¹² Core benefits were also reduced for those with children offsetting other gains, so that many 'workless families' were 'no better off' as a result of the introduction of WFF.¹³

While benefits for those with children increased by \$25 per week per family in 2016, there were offsets to their other social assistance and there is no evidence of reducing demand for food and hardship grants. Other changes, such as the increase to the In Work Tax Credit (IWTC) and the Parental Tax Credit (PTC) also bypassed the very worst-off families.¹⁴

The new Families Package, due 1 July 2018, will help the worst-off children as they are not excluded from the increase to the Family Tax Credit which is the main policy tool used. However much of the new spending is an inflation catch-up. Annual spending on WFF fell in real terms by \$700m per annum since 2010, as shown in Figure 3: both from a failure since 2012 to provide annual CPI indexation to the levels of tax credits and thresholds from which WFF abates, and from deliberate cuts to the real and nominal value of the threshold (Cotterell et al., 2017).

From 1 July 2018, some low income working families get a significant boost from the upwards adjustment of the threshold for abatement to \$42,700. This compensates for some of the lack of inflation adjustment to the threshold, but a higher rate of abatement (25%) is also cemented in.

Figure 3 shows that the real spending on WFF will erode in the next three years as there is no commitment to annual indexation to prices, let alone wages. This contrasts markedly with the expected future spending on New Zealand Superannuation which rises in real terms after adjustment for demographic change because it is linked to annual movements in average wages.

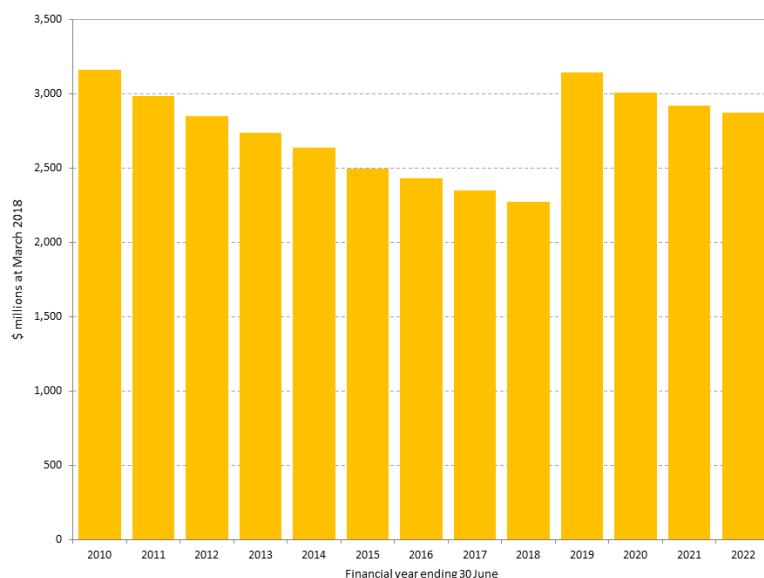
The Best Start programme for families with babies born after July 1 2018 is also significant new spending (not shown in Figure 3). Best Start, however, does not affect children already born and cannot address the plight of those under the 40% AHC line today. The new Winter Energy Payment (WEP) also provides a small de facto benefit increase. As shown on this paper, despite the apparently significant fiscal cost, the Families Package is insufficient for the very worst-off children.

¹² For further information see <http://www.cpag.org.nz/campaigns/fix-working-for-families-fwff-campaign/>

¹³ Transitional provisions meant that no family was actually worse off in nominal dollars

¹⁴ The Parental Tax Credit is a payment for a new born that is unavailable to any family on a benefit. It will be absorbed into Best Start from 1 July 2018 for future new borns.

Figure 3 Real annual spending on Working for Families (Child Poverty Action Group, 2018a)



Background to the methodology

In order to illustrate the size of the problem we work with the framework as set out in Perry (2017). This framework adjusts household disposable income for family size and uses the individual as the reference unit. For example, a sole parent with one child is assumed to need 1.4 times the income of a person on their own to have an equivalent standard of living, so the income of the sole parent is divided by 1.4 to give an equivalent per adult income for that household. All individuals are ranked by the equivalised income of their household and a median determined.

Table 2 updates the 2016 equivalised median income figures for different family types from Perry (2017, Table B2, p 29) by applying an adjustment of 3% to give estimated 2018 figures. Table 2a shows the before housing costs (BHC) data¹⁵ and Table 2b shows the (AHC) data. Sole parents as a group have the lowest median equivalised income of all the household types while couples under 65 without children have the highest.

The whole-population median equivalised income is the basis for setting thresholds or poverty lines (see Table 4). The simple ratio of AHC/BHC medians derived from Table 2 for the whole population is 77%, suggesting that 23% of income is spent on housing at the median. Table 3 shows, for each household type, the percentage of that group’s BHC median that is spent on housing costs.

¹⁵ For the reasons set out in Perry (2017, p 16), this report uses AHC as the basis for analysis in the later sections.

Table 2a: 2018 Median disposable income (BHC) for different household types in ordinary and equivalised dollars

HH Type	Median disposable income for the HH type (ordinary)	Median disposable income for the HH type (\$ per equivalent adult)
One person, 65+	23,278	23,278
Couple, 65+	47,998	31,209
One person, under 65	41,303	41,303
Couple, under 65	88,477	57,474
Sole Parent (SP) , 1 child	46,968	30,282
SP, 2 children	46,659	24,102
SP, 3 or more children	41,818	18,849
2P, 1 child	86,005	43,157
2P, 2 children	86,211	39,552
2P, 3 or more children	82,915	32,548
Other family HHs with children	99,910	36,977
Family HHs, all <65-no children	103,412	46,247
Family HHs, at least one 65+ -no children	82,915	43,878
Whole population	78,486	39,037

Table 2b: 2018 Median disposable income (AHC) for different household types (HES 2016) in ordinary and equivalised dollars

HH Type	Median disposable income for the HH type (ordinary)	Median disposable income for the HH type (\$ per equivalent adult)
One person, 65+	20,085	20,085
Couple, 65+	42,848	27,810
One person, under 65	26,986	26,986
Couple, under 65	68,083	44,290
Sole Parent (SP) , 1 child	29,973	20,291
SP, 2 children	24,102	13,493
SP, 3 or more children	23,175	11,433
2P, 1 child	66,126	33,784
2P, 2 children	63,963	29,458
2P, 3 or more children	61,697	24,926
Other family HHs with children	75,602	27,501
Family HHs, all <65-no children	85,387	38,419
Family HHs, at least one 65+ -no children	78,486	37,801
Whole population	59,946	29,973

Table 3 shows that older people spend significantly less on their housing costs as a fraction of BHC than do parents at the median for each group. Older people also have low BHC equivalised median income, but only 11-13% of that income is spent on housing costs and fewer will be living in AHC poverty.

The household types with very low median equivalised AHC income (Table 2b) are sole parents with children who pay the highest fraction in housing of between 33-44% of their BHC income. They are indeed under housing stress in an environment where there has been growing pressure on house prices and rents.

Table 3: Actual housing costs as a percentage of BHC income

HH Type	2018 median disposable income AHC as a fraction of BHC income	% BHC spent on HC
One person, 65+	0.87	0.13
Couple, 65+	0.89	0.11
One person, under 65	0.65	0.35
Couple, under 65	0.77	0.23
Sole Parent (SP) , 1 child	0.67	0.33
SP, 2 children	0.56	0.44
SP, 3 or more children	0.61	0.39
2P, 1 child	0.78	0.22
2P, 2 children	0.74	0.26
2P, 3 or more children	0.77	0.23
Other family HHs with children	0.74	0.26
Family HHs, all <65-no children	0.83	0.17
Family HHs, at least one 65+ -no children	0.86	0.14
Whole population	0.77	0.23

[The 2018 dollar values for different poverty lines](#)

The language of equivalisation and the setting of poverty lines can be confusing. People always want to know how much money a family actually has to be classified as 'poor'. Table 4 sets out the AHC disposable income needed for sole parents with 1 to 3 children and families with 1 to 4 children to be at a 40%, 50% and 60% AHC poverty line in 2018.

From Table 4, a sole parent with three children for example requires \$24,700 of disposable income, after housing costs have been subtracted from their earned income and any tax credits added, to be at the 40% line; \$30,880 to be at the 50% line; and \$37,050 to be at the 60% line. A couple with three children requires \$29,134, \$36,417, and \$43,701 respectively.

Table 4: Dollar value of poverty lines for different household types, AHC 2018

Poverty line % median	Equiv income \$ Per adult	Income for families and households of various types in 'ordinary dollars'						
		*(1,1)	(1,2)	(1,3)	(2,1)	(2,2)	(2,3)	(2,4)
		**1.40	1.75	2.06	1.86	2.17	2.43	2.69
40%	\$11,989	\$16,785	\$20,981	\$24,698	\$22,300	\$26,017	\$29,134	\$32,251
50%	\$14,987	\$20,981	\$26,226	\$30,872	\$27,875	\$32,521	\$36,417	\$40,314
60%	\$17,984	\$25,177	\$31,472	\$37,047	\$33,450	\$39,025	\$43,701	\$48,376
100%	\$29,973	\$41,962	\$52,453	\$61,744	\$55,750	\$65,041	\$72,834	\$80,627

*Row shows number of adults and children in each household e.g. (1,1) is one adult and 1 child.

**Row gives the adjustment factor (equivalence scale) e.g. the (1,1) household needs 1.4 x the income to have the same standard of living as the adult alone (1,0). Equivalence scales are higher when there are older children (see Perry, 2018 p 30).

Tables 5 shows the dollar increments needed to lift families of different composition from the 40% line to the 50% line, from the 50% to 60% line and from 40% to 60%.

Table 5: Additional income needed to reach 50% and 60% lines in 2018

Poverty line % median	Additional income needed to reach % poverty line						
	(1,1)	(1,2)	(1,3)	(2,1)	(2,2)	(2,3)	(2,4)
	1.40	1.75	2.06	1.86	2.17	2.43	2.69
40 % to 50% per annum (Per week)	\$4,196 (\$81)	\$5,245 (\$101)	\$6,174 (\$119)	\$5,575 (\$107)	\$6,504 (\$125)	\$7,283 (\$140)	\$8,063 (\$155)
50%- to 60% per annum (per week)	\$4,196 (\$81)	\$5,245 (\$101)	\$6,174 (\$119)	\$5,575 (\$107)	\$6,504 (\$125)	\$7,283 (\$140)	\$8,063 (\$155)
40% to -60% per annum (per week)	\$8,392 (\$161)	\$10,491 (\$202)	\$12,349 (\$237)	\$11,150 (\$214)	\$13,008 (\$250)	\$14,567 (\$280)	\$16,125 (\$310)

Tables 5 suggests that for sole parent families at the 40% line, another \$80 per family per week is needed, with additional increments for extra children of \$20 per child to reach the 50% line, and another \$160 per family at the 40% line plus \$40 per additional child to reach the 60% line. **The reality is that in 2018 many families fall under the 40% line, and some are well under it.** This means 140,000 children and their parents, an estimated 200-250,000 people, are living in unacceptable “significant pockets of hardship”.

Do families on benefits have enough?

In this section the question is asked: what is the relationship of benefits to the poverty lines? To answer this we use several scenario families by way of illustration. The analysis is prior to the Families Package, Winter Fuel Payment and Best Start and takes no account of any means-tested supplementary payments apart from the Accommodation Supplement (AS).

This report focuses on AHC poverty lines, so that the hypothetical calculations in this section also require that housing costs be estimated. Some families are entitled to an AS so this needs to be included. Table 6 shows the maximum AS as of 1 April 2018 (MSD website).

Table 6: Housing costs: Maximum Accommodation Supplement (AS), 1 April 2018

Area 1	Area 2	Area 3	Area 4	
\$235	\$155	\$105	\$80	2 person family
\$305	\$220	\$160	\$120	3 or more person family

It is assumed that the benefit is received for the full year, at the full rate. Many beneficiaries in reality face stand-downs and harsh sanctions and get a reduced rate of benefit, sometimes only for a certain length of time, other times more permanently, such as for failing to name the father of the child.¹⁶

For illustrative purposes in Table 7a, we first take a sole parent with one, two, and three children on a full sole parent support benefit, living in Auckland or area 1. The threshold for the AS is \$107 a week, which means s/he must pay this in full. The family's AS is 70% of rent paid above \$107 to the maximum AS payable for the area and family size (see Table 6). I

To receive the full AS of \$235 as a sole parent with one child, the rent must be at least \$443 per week. In practice the rent can be higher but it is assumed here that it is \$443. Thus the net housing cost is \$208 per week after the AS.

Larger sole parent families are entitled to a maximum of \$305 in Area 1 but to receive this, the rent must be at least \$543 a week. The reality is that larger families will need bigger houses and therefore may pay a higher rent. The AS formula is insensitive to larger family numbers.

Table 7b shows the disposable income after housing costs for couples on the jobseekers benefit with 1-4 children paying typical Auckland rents that entitles them to the maximum AS. For couples with children the threshold is \$119 per week, and the rent to qualify for the maximum AS of \$305 is \$554 per week.

Table 7a Families on benefits entitled to maximum Accommodation Supplement Area 1.

Sole parent families	Household type		
	1,1	1,2	1,3
Sole Parent Support net benefit	\$17,371	\$17,371	\$17,371
FTC	\$4,784	\$8,164	\$11,492
Accommodation Supplement	\$12,220	\$15,860	\$15,860
Total disposable	\$34,375	\$41,395	\$44,723
Annual rent	\$23,021	\$28,221	\$28,221
Actual disposable without rent	\$11,353	\$13,173	\$16,501
Equivalent income per adult	\$8,109.61	\$7,527.69	\$8,010.42
100% Median equivalised AHC	\$29,973	\$29,973	\$29,973
% median	27	25	27

¹⁶ Benefit sanctions for those with children make up 28% of sanctions issued in the March 2018. For the year ended March 2018 there were 18,189 sanctions for families representing an estimated 36,000-40,000 children (Ministry of Social Development, 2018b).

Table 7b Couples on Jobseekers benefit entitled to maximum Accommodation Supplement Area 1.

Couples on jobseeker benefit	Household type			
	2,1	2,2	2,3	2,4
Jobseekers Net Benefit	\$19,994	\$19,994	\$19,994	\$19,994
FTC	\$4,784	\$8,164	\$11,492	\$14,872
Accommodation Supplement	\$15,860	\$15,860	\$15,860	\$15,860
Total disposable	\$40,638	\$44,018	\$47,346	\$50,726
Annual rent	\$28,845	\$28,845	\$28,845	\$28,221
Actual disposable without rent	\$11,793	\$15,173	\$18,501	\$22,505
Equivalent income per adult	\$6,340.25	\$6,992.10	\$7,613.52	\$8,366.12
100% Median AHC	\$29,973	\$29,973	\$29,973	\$29,973
% median	21	23	25	28

Table 7a shows that the disposable income after housing costs for sole parents is only 25-27% of the median AHC line. Couples are even worse off than sole parents (21-28% AHC), reflecting the punitive benefit rates that apply for married persons in the welfare system. There are families who do not get full benefits and whose rents are even higher and who will be even worse off.

Table 8 uses the same methodology as Table 7 to show where families on benefits sit, as a fraction of median equivalised income, in areas 2, 3 and 4.¹⁷

Table 8: Families on Benefits on Max Accommodation Supplement Areas 2,3,4

	Sole parents			Couples			
	1,1	1,2	1,3	2,1	2,2	2,3	2,4
% AHC median Area 2	31	29	30	26	27	29	30
Area 3	34	31	32	28	29	31	32
Area 4	35	33	33	30	31	32	33

Thus, even outside of Area 1, sole parent families on benefits with children sit at only 29-35% of the median and couples with children sit at only 26-33%.

What is needed to lift the worst-off children out of poverty?

Families on core benefits fall well below the 40% line and will need a substantial boost to reach the 50% AHC line let alone the 60% AHC line.

Boston and Chapple (2014) analysed the amount needed to lift families on benefits in 2012 to various poverty lines. These figures are compared in Table 9 to the 2018 situation (Table 7).

¹⁷ Area 1 includes regions such as Central Auckland, Northern Auckland, Arrowtown urban area, Waiheke Island, Wanaka urban area, Helensville South area unit and Western Auckland Urban Zone. Area 2 includes Matakana area unit, urban areas of Te Kauwhata, New Plymouth, Kawau, Whangarei. Area 3 includes urban areas of Otaki, Twizel, Rotorua, Picton, Dunedin, Coromandel. Area 4 represents any part of New Zealand that has not been included in Area 1, 2 and 3

Table 9: Additional weekly family income needed on top of current welfare benefits to reach 50% and 60% AHC lines (2012 and 2018)

Household type	After housing costs			
	50% 2018 median	60% 2018 median	50% 2012* median	60% 2012* median
Sole parent, one child	\$185	\$266	\$90.20	\$162.80
Sole parent, two children	\$251	\$352	\$122.10	\$213.40
Couple, one child	\$309	\$416	\$171.60	\$268.40
Couple two children	\$334	\$459	\$202.40	\$314.60

- From Boston and Chapple (2014) adjusted for 6% CPI increase.

Even allowing for an inflation adjustment from 2012 and possible different assumptions (for example, 2018 figures are for only area 1 AS), the deterioration shown is stark. For example, just to reach the 50% AHC line, a sole parent needs around twice as much as they did in 2012.

Explanatory factors

The data presented in Table 9 corroborates the real-time evidence from the social sector: the worst-off families are falling further behind acceptable minimum income levels. Factors include the escalation in rents in most areas¹⁸; low wages that have not kept pace with wage average growth; the marked undermining of Working for Families; benefits that have fallen behind median wage growth; and the fact the worst-off families do not get the full package of WFF tax credits.

Lack of proper indexation is not to be underestimated. WFF has not been adjusted since 2012 because adjustment occurs only when the cumulative CPI changes are more than 5%. Benefits are annually adjusted by the CPI, but wage growth has been much higher. Also, 2007-2018 data on cost of living shows that the CPI falls 4% behind beneficiaries' actual cost of living.¹⁹

It is likely that most families below the 40% AHC line get supplementary assistance from Work and Income, such as Temporary Additional Support (TAS), and other grants and hardship assistance. This extra income is time-consuming to access and if it is repayable, it can subsequently make weekly budgets even tighter. The data in Table 10 shows the average recoverable debt of beneficiaries.

Other solutions to the untenable position families find themselves in may include working part-time. However at low wages and with childcare costs this may yield little net reward. The clawbacks for earning over \$100 for sole parents and \$80 for couples are discouraging. Some families will fall behind in rent payments and become homeless, move in with others, rent garages, or be placed in motels, with all the associated problems such as over-crowding, ill health and school transience for their children.

¹⁸ see for example: <https://property.trademe.co.nz/market-insights/rental-price-index/rents-rocket-across-the-country/>

¹⁹ See <https://www.stats.govt.nz/information-releases/household-living-costs-price-indexes-march-2018-quarter>

Table 10: Debt to Work and Income by age group as at 30th June 2017, (MSD, OIA, 17th August 2017)

Age group	Mean debt	90th Percentile	99th Percentile
18 to 24 years	\$1,161.51	\$2,701.56	\$7,591.44
25 to 34 years	\$2,390.80	\$5,064.89	\$24,545.04
35 to 44 years	\$3,408.06	\$7,230.16	\$44,509.46
45 to 54 years	\$3,343.06	\$6,992.98	\$46,433.71
55 to 64 years	\$2,621.43	\$4,969.90	\$40,080.20

Assessing current policies

Is the Families Package sufficient to address the deep and growing problems identified here for the worst-off families with children?

If they have a newborn, some very low income families will get a Best Start payment of \$60 per week, but this applies only to babies born after 1 July 2018. It is welcome that Best Start replaces the discriminatory Parental Tax Credit and treats all newborns in low income families the same, but its universal character makes it expensive. When Best Start is fully phased in it will deliver an extra \$60 per week, per qualifying child until the child is three. This will be helpful for very low income families in the future, especially those families who have to date been denied the Parental Tax Credit because they are on benefits, and those who have several very young children, but does not help any of the families currently under the 40% AHC line.

There will also be a Winter Energy Payment of \$700 a year for couples and sole parents on benefits with children. It is not received in full until the 2019/2020 year, but for that year will be equivalent to an extra \$13.50 per week. [For 2018/2019 it is equivalent to an addition of only \\$8 per week²⁰](#). While this too is helpful it does not significantly plug the gaps identified in Section 7 of this paper. Since it goes to all superannuitants, it is a costly untargeted payment as well.

Table 11 shows the increases in the Family Tax Credit (FTC) in the Families Package, not due until 1 July 2018. There is only another \$20 a week FTC to a one-child family, and only an extra \$47 for a family with 2 children aged under 13, or \$38 if one is aged over 13.

One half of all children below the 60% AHC line, and two thirds of those below the 50% AHC line, fall below the very low 40% AHC line. The principal tool used in the Families Package, a modest increase in the Family Tax Credit (FTC), can be expected to lift those children closest to the 50% and 60% lines above them. While measured poverty rates will fall, helping achieve the government's targets, children who fall well below those lines will continue to languish.

It is important to emphasise that the figures in Tables 9 are indicative only, but they suggest that those below the 40% AHC line have a need for extra assistance that greatly exceeds their gains from the Families Package.

²⁰ See <https://www.stuff.co.nz/business/103554971/winter-energy-payment-now-looks-a-lot-less-enticing>

Table 11: Changes to the Family Tax Credit 1 July 2018

Eldest child			
Age of children	Current	From 1 July 2018	Weekly increase
0-15 years	\$92.73	\$113.04	+\$20.31
16-18 years	\$101.98	\$113.04	+\$11.06
Second or subsequent child			
Age of children	Current	From 1 July 2018	Weekly increase
0-12 years	\$64.44	\$91.25	+\$26.81
13-15 years	\$73.50	\$91.25	+\$17.75
16-18 years	\$91.25	\$91.25	Nil

As CPAG said in its Progressive Universalisation paper:

If this Government is serious about lifting 100,000 children out of poverty and really wants to deal with the pockets of hardship problem ignored for so many years IT CANNOT CREDIBLY DO THIS BY LIFTING [just]THE FAMILY TAX CREDIT.(St John, 2018)

The reason is that the FTC increases go to all low and middle-income children leading to the dilemma of, either a politically unacceptable fiscal cost or, draconian clawbacks and low abatement thresholds for the working poor.

For example, Table 9 suggests a sole parent with one child in Auckland requires an extra \$185 per week to get the to 50% line. If the first child FTC is increased by \$185 instead of only \$20 this July, then each of the families that currently get WFF will get an extra \$9,620 at a cost of about \$3.4 billion.²¹ The increase in the FTC will draw other higher income families into the net at an even higher cost. If the additional cost is reined in by increasing the abatement rate, say to 30-35%, and/or by reducing the threshold, suffocating effective marginal tax rates will result over very long income ranges. Governments may also be tempted to save money by failing to index properly on an annual basis with the problems of low income families falling further behind over time.

[Recommendations for the immediate reduction of severe income poverty](#)

This report has discussed how families may find themselves at or below the very low 40% AHC line. Families are likely to try to earn extra, or may borrow and/or cash in assets to relieve the extreme pressures of trying to live and support children on an income that is too low. They are likely to apply for additional assistance and hardship relief and also ask for foodbank and charitable help.

The increased use of supplementary assistance makes the system complex to administer. It is time-consuming and inefficient for people to have to access these top-ups and to have to use charities and foodbanks for the basics. And serious issues of horizontal equity arise, both because of varied

²¹ There will be some saving in offsets to supplementary assistance.

application of the rules across time and space and the fact that some in need won't apply for complex reasons of stigma, embarrassment, and lack of information. It suggests that benefits are too low and not just those for people with children. The charitable sector needs immediate relief from the excess demands they face.

This report suggests that the Families Package is quite insufficient for these very low income families and is coming in far too late. Poor children should not be waiting for the Welfare Expert Advisory Group to report in 2019 for any extra relief.

Policies required urgently are those that focus on families below the 40% AHC line. While not specifically analysed in this report some of the suggestions below will also help in ameliorating the poverty of single people and childless couples. Many of these suggestions can and should be implemented with little delay.

- Ensure all families with children get their full entitlements immediately.
- Stop all sanctions in the benefit system for families with children pending a more general review of their use.
- Deliver substantial new money to the very lowest income families AND confine it to them alone as far as possible for fiscal credibility.
 - An obvious tool would be to link the IWTC of \$72.50 per week to the first child FTC. This would go only to those who have the least income as they are the ONLY ones who don't get it currently.
 - Raise core benefits by 20%.
- Index all aspects of WFF and benefits annually to average wages and prices along the lines of NZ Super.
- Fix punitive design features of the benefit system
 - Allow beneficiaries to work at least 10 hours at the minimum wage before any abatement e.g. \$165 per week for singles and \$165 for each person in a couple.
 - Align single and married rates of all benefits by lifting the married rate as part of the increase to benefits
- Encourage beneficiaries to use gifts and loans from family without penalty.
- Toughen policy on loan sharks and institute a debt forgiveness programme for Work and Income debt.

Furthermore, urgent action is needed to [reform the taxation of housing](#) to reduce speculation in housing and reduce rent and house prices:

- Build and rent more state houses at controlled rents of no more than 25% of before housing costs disposable income.
- Progressively shift assistance from AS to WFF and to increased benefits to reduce overlapping abatements.
- Improve stability of tenure and tenant protections.

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