

Submission on the Support for Children in Hardship Bill

To the Social Services Committee

This submission is made by Presbyterian Support New Zealand on behalf of the seven Presbyterian Support organisations in New Zealand.

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General comments

We are supportive of the intent of the Bill 'to help children in hardship' and recognise this as an attempt to address some of the barriers to employment, and increase the financial support for families on the lowest incomes. We do however, have serious concerns about the scope and design of some of these measures, and the potential negative impacts of these changes for children and families living in hardship.

We recommend that the proposed increased work expectations for sole parents, benefit rate changes, abatement rates for Working for Families tax credits, and clause 10 of the Bill, not proceed in the current form. Some of the negative impacts and unintended consequences of these legislative changes are outlined in this submission.

Of great concern is the degree to which the proposed changes rely on government department staff to interpret individual circumstances and determine eligibility for additional assistance where families are negatively impacted by the proposed legislative changes. This is likely to create confusion, further inequity and distress to already vulnerable families and children living in hardship.

Proposed changes to the Social Security Act 1964

Increased work expectations for sole parents

Presbyterian Support organisations are concerned that material hardship will not be successfully addressed by requiring sole parents to undertake 20 hours part-time work when their youngest child is 3 years old. Available part time work for parents is often low-paid, insecure and not supportive of parental requirements to care for children. The costs of work may be greater than the benefit gained in many cases as the availability and cost of quality childcare is variable across communities, and this may lead to children being left in unsuitable care.

Material hardship is one of several forms of hardship experienced by families. The assessment of the impacts of social isolation, mental/physical health and lack of family support should also be taken into consideration. We know from our many years of working with, and advocating for vulnerable clients interfacing with Work and Income, that there is often a complex mix of stressors for sole parents, creating barriers to work. Our experience would suggest that Work and Income case managers may not be well equipped to assess the risk factors and life stressors of clients, to determine whether work is the best option for sole parents of very young children.

We support children having access to quality childcare. We regard access to quality early childhood education valuable for the development of young children. The ideal model for this is one where parents of young children can be involved with and learn about child development and parenting strategies through access to parenting programmes alongside their children's pre-school education.

It is essential that sole parents are supported to access part-time education and work opportunities in way that incentivise them, and enable them to parent well. Part-time skills development leads to better opportunities for all the family in the long run, and we would support well-constructed policies and delivery mechanisms that help sole parents into employment that will enable them to improve life outcomes for them and their children.

Change from 15 – 20 hours work for sole parents

Of concern is the potential hardship this change will cause parents.

- The real costs of sole parents working 20 hours.
 - If a sole parent is on a benefit, the abatement rate for 20 hours work will considerably reduce take-home income relative to the costs of working. Barriers to work are created by the current abatement rates to benefits for people working 20 hours. Working 15 hours provides some financial incentive to work. 20 hours is likely to have the opposite effect
 - Child illness may impact on security of employment. This is likely to become a very real issue if a parent is encouraged to go off benefit when working 20 hours a week, and receive Working for Families tax credits instead
 - Any experience of changing from benefit to work and back again, increases hardship for people.

- Sole parents are likely to choose to stay on a part benefit due to the insecurity of a part time income. If off benefit, there is greater risk of income loss when unable to work due to child illness, and greater difficulty in accessing financial support from Work and Income in times of crisis
- Transport to childcare and work is often a real challenge, adding time and cost to the required 20 hours work. Travel costs need also to be taken into consideration, especially in rural areas or where available childcare is some distance from home or work. The existing requirement of 15 hours work, at least allows for travel time to and from work to childcare – falling within the 20 hours free childcare limit.
- Quality, affordable and flexible childcare is often not available to families living in lower socio-economic or rural areas. Available part-time work for sole parents is likely to be out of normal work hours, increasing the risk of inadequate childcare, or children being left home alone.
- The definition of work needs to include voluntary work which is often more flexible and supportive, benefits sole parents by helping them become work-ready, and provides them with a reference when applying for paid work

Benefit rate changes

Whilst we applaud any increase to benefit rates, increases need to be universal. The complexity of the model proposed, and abatement of the \$25 will significantly reduce the impact of this change for many. Families currently receiving hardship support will not receive the full benefit of the increase to benefit rate, reducing the positive benefits from it for children.

The changes do not take into consideration the size of families, and ideally would be targeted towards each child to make a measurable difference to child hardship.

Changes to abatement rates for Working for Families tax credits

The changes to the Working for Families abatement rate target those who earn the lowest income, and any increase is welcomed.

The proposed abatement rate change does however seriously disadvantage families earning more than \$35,000 per year, or \$16.82 per hour.

The Living Wage movement advocates a New Zealand wage of \$19.25 per hour as the minimum required to live. The average New Zealand income for the first quarter of

2015 was \$28.78 per hour. We are very concerned that the Bill, if enacted in its present form, will result in many more families already living in hardship, experiencing worse financial distress.

The Child Poverty Action Group has completed an analysis of the impact of the proposed abatement rate changes in their submission on this Bill. They suggest:

“... this Bill advances the timing of the abatement increases of these tax credits incrementally rising to a rate of 25%. The Bill increases the Working for Families abatement rate by 1.25% to 22.5%. CPAG notes that the threshold at which abatement begins is also dropping. With each future cumulative 5% inflation adjustment there will be further reductions in the threshold for abatement until it eventually reaches \$35,000. It is currently \$36,350 and is likely to reduce to \$35,900 in 2017.

Working families earning at around or just above these levels are seriously disadvantaged.

CPAG urges the government to reconsider this plan and return the rate of abatement to 20% and the threshold to the level it would be (around \$45,000) if it had been indexed to prices since 2005 (when it was set first at \$35,000).

There is a good case in fact for indexation of the threshold to be to wages, so as wages rise, those on lower wages are not left behind to fall beneath the 60% median poverty line. In terms of child poverty the 2014 MSD report shows 205,000 children already fall below the 50% median poverty line.

This policy fails to protect the working poor. Thus a family earning the minimum wage and contributing 60 hours of paid work on \$46,000 pa are approximately \$2225 per annum worse off than they would have been with annual full CPI adjustment.

Furthermore had the threshold been adjusted for wages growth it would be around \$50,000 and the loss is \$3150.”

Clause 10 of the Bill: The provision of financial assistance to any person disadvantaged

Whilst we commend the inclusion of regulations to allow mitigation of any unintended additional hardship caused by the Bill, we advise strongly against this being regarded as a panacea in light of the potentially widespread negative impacts identified – especially the abatement rate for Working for Families tax credits.

The regulatory approach proposed in the Bill relies on families presenting to the relevant government agencies (Work and Income or Inland Revenue), and the ability

of staff within these departments to understand the regulations, and assess the impact of legislative changes based on individual circumstances.

This approach is both administratively intensive, and likely to further disadvantage families who do not understand they have the option to seek additional assistance, or a review of any incorrect assessment of their circumstances.

We recommend a review of the design of the proposed changes, and ensure legislative change provides assurance that the unintended consequences impact as few families as possible.

The biggest change that could help beneficiaries and those on low wages would be to make the first \$15,000 of income tax –free. This may also have a net effect of reduced transaction costs whilst also reducing hardship in a simple way that benefits both the waged and the unwaged. It may also results in a decrease in the need for Working for Families.