Social Policy & Parliamentary Unit
Working for the eradication of poverty in New Zealand

Working For Families Consultation
Submission to the Ministry of Social Development (MSD) and Inland Revenue (IRD)
3rd June 2022

1. Summary

1.1. The Salvation Army *Te Ope Whakaora* considers that the scope of the Working For Families (WFF) review is too narrow and must expressly incorporate the Government's wellbeing objectives on child poverty and wellbeing for Māori and Pacific people.

1.2. The objective of WFF must be to achieve income adequacy for families on the lowest incomes, including those receiving welfare benefits, and support families in employment to ensure they are better off in employment. This means using regular independent minimum income standard calculations to test adequacy of income support for working families as well as those not in paid employment.

1.3. Make the In Work Tax Credit a child tax credit and pay it to all families with children, including those receiving benefit payments.

1.4. Lift the income threshold for abatement and reduce the abatement rate to a level that enables households with children to retain more of the additional income. Consider adding a second higher abatement rate for those on higher incomes who are less likely to be living in poverty.

1.5. Adjust thresholds and indexation annually based on living cost indexes and wage indexes.

1.6. Address work incentives constructively through additional support payments for transport, training, childcare and other related employment costs. We do not believe using the threat of child poverty is an appropriate approach to work incentives in welfare policy fit for the 21st century. Phasing out support payments over longer time periods will help families transitioning into work to stabilise their income and budgets and sustain employment.

2. Background

2.1. The mission of The Salvation Army *Te Ope Whakaora* is to care for people, transform lives and reform society by God's power. The Salvation Army is a Christian church and social services organisation that has worked in New Zealand for over one hundred and thirty years. It provides a wide range of practical social, community and faith-based services, particularly for those who are suffering, facing injustice or those who have been forgotten and marginalised by mainstream society.

2.2. The combined services of The Salvation Army in support around 140,000 people annually. In the year to June 2021, these services included food assistance, transitional housing, social housing, supporting families with whanau support/social work, help with addiction services, prison reintegration services, and financial mentoring.

2.3. These comments have been prepared by the Social Policy and Parliamentary Unit (SPPU) of The Salvation Army. The SPPU works towards the eradication of poverty by advocating for policies and practices that strengthen the social framework of New Zealand. These comments have been approved by Commissioner Mark Campbell, Territorial Commander of The Salvation

Army's Aotearoa New Zealand Fiji Tonga and Samoa Territory.

3. Policy Objectives and Scope of Review – Wellbeing and Child Poverty Reduction

3.1. The guidance document sets out the scope of the review as:

- Supporting low working families, while maintaining support for beneficiary families.
- Options that focus support to families with the lowest incomes, rather than providing more general support.
- Making sure families are better off when working more hours and helping with the costs for people in work.

3.2. The scope also refers to "careful economic management" and spending of around $2.85 billion on the 2019/20 year.

3.3. There is no reference at all in the guidance material to the Wellbeing objectives and Living Standards framework of the Government as reported in the May 2022 Wellbeing Budget. Those wellbeing objectives include two that are specifically relevant to WFF: Child Wellbeing and Māori and Pacific Peoples wellbeing[1]. Careful wellbeing stewardship needs to guide "economic management" and the wellbeing gains or losses must be expressly addressed in any discussion of policy "trade-offs".

3.4. Central to the review of WFF must be the goal of accelerating progress to reduce child poverty and lift the wellbeing of Māori and Pacific whānau and families. Māori and Pacific children are much more heavily impacted by child poverty and their whānau and families disproportionately represented amongst the lowest income households. The scope of the review must aim to achieve income adequacy for families on the lowest incomes, including those receiving welfare benefits, and support families in employment to ensure they are better off in employment recognising additional costs such as childcare and transport.

4. Income Adequacy and Income inequality

4.1. WFF is part of a complex welfare and income support system and the review must place the role of WFF tax credits alongside other income support such as core income-tested benefits, the Accommodation Supplement (AS) and other supplementary assistance such as Temporary Additional Support (TAS).

4.2. The Welfare Expert Advisory Group (WEAG) report[2] did extensive work on assessing what adequate incomes look like for lower income households and prepared sample budgets for different types of households. In March 2022, the Fairer Futures coalition group released an update of those sample budgets aimed at reflecting the changes in living costs since mid-2018 when the WEAG work was done[3].

4.3. WFF payments make up a vital part of the income for beneficiary and non-beneficiary families. The Fairer Futures updated budgets include the current settings for WFF and other welfare benefits as of April 2022. Those example budgets show that since 2018 incomes had increased across households with children by between 17% - 25%, while living costs had increased by 13%, based on the StatsNZ Household Living Cost Index for beneficiary families, meaning a modest real improvement in incomes. This increase in incomes meant only a small reduction in

[1] Wellbeing Budget 2022, The wellbeing objectives https://budget.govt.nz/budget/2022/wellbeing/approach/objectives.htm
[2] *Whakamana Tāngata – Restoring Dignity to Social Security in New Zealand*, 2019 http://www.weag.govt.nz/weag-report/whakamana-tangata/
[3] Liveable Incomes in 2022, (March 2022), Fair Futures Coalition https://fairerfuture.org.nz/liveable-incomes-2022

the significant weekly shortfall on living costs for a minimal participation in society. The deficits in April 2022 range from $43 per week for a sole parent with one child under 3 years (entitled to Best Start payments) to $306 for a couple with two children renting in the private market.

Fairer Futures March 2022	Sole Parent SPS 1 ch 2 yrs	Sole Parent SPS 1 ch 3+ yrs	Sole Parent SPS 3 ch IRRS	Sole Parent SPS 3 ch	Couple JSS 2 ch
Income (total incl. WFF)	$863	$818	$1,175	$1,055	$1,074
WFF	$191	$128	$335	$335	$232
Expenses (core + participation)	$906	$906	$1,283	$1,294	$1,380
Deficit	-$43	-$88	-$108	-$239	-$306
WEAG 2018	**Sole Parent SPS 1 ch 2 yrs**	**Sole Parent SPS 1 ch 3+ yrs**	**Sole Parent SPS 3 ch IRRS**	**Sole Parent SPS 3 ch**	**Couple JSS 2 ch**
Income (total incl. WFF)	$690	$690	$1,002	$894	$870
WFF and Best Start	$113	$113	$296	$296	$204
Expenses (core + participation)	$805	$805	$1,139	$1,149	$1,226
Deficit	-$115	-$115	-$137	-$255	-$356
change income	$173	$128	$173	$161	$204
change WFF	$78	$15	$40	$40	$27
Change expenses	$101	$101	$144	$145	$154
% change income	25%	19%	17%	18%	23%
% change WFF	69%	13%	13%	13%	13%
% Change expenses	13%	13%	13%	13%	13%

4.4. Entitlement to the In-Work Tax Credit (IWTC) would add $72 per week on current rates to the families concerned which for a sole parent with one child entitled to Best Start would be enough to lift their income above the estimated adequate level (assuming other entitlements such as AS/TAS are not reduced by this increase). For the other sole parent households, the IWTC would reduce the deficit considerably if they are in public housing receiving the Income Related Rent Subsidy, but in private rental housing the deficit remains very large.

4.5. WFF has been one policy in recent decades that can be shown to have had a clear impact on income distribution. After the introduction of WFF in 2004 – 2007 there was a significant lift in incomes for lower income households relative to other households, leading to fewer working households with children in poverty[4] and a small decline in overall income inequality[5]. This decrease was not sustained due to factors like lack of indexing and updating of thresholds and payments and other changes made in the years up until 2017. The Families Package in 2017-18 provided some update of the WFF settings and now is time to ensure the settings are adjusted again to make further progress on reducing child poverty and income inequality.

[4] *Household Incomes in New Zealand: Trends in indicators of inequality and hardship 1982 – 2018*, B. Perry, MSD 2019, p.78
[5] Ibid, p.93

4.6. Reviewing Working For Families needs to be accompanied by independent work to establish indicators of minimum income standard as recommended by the Welfare Expert Advisory Group (Recommendation 25).

5. Work Incentives

5.1. The goal to make work pay by increasing WFF payments when parents of children find work has to be seen in proper relation to child poverty objectives. Work incentives need to support poverty reduction and income adequacy goals. Ensuring all families have adequate incomes and are not living in poverty needs also to be a central goal of WFF.

5.2. Work incentives are not solely financial, and the welfare system needs to do much better at supporting people in seeking new employment and training, and smoothing the transition from a benefit into employment. Despite supposed "maximum sustainable employment" currently in this country with the official unemployment rate 3.2% March 2022, there are still over 177,000 people on the Jobseeker payment, people who are actively seeking employment, almost two thirds of whom have been on the benefit for more than one year[6]. This is 36,000 more than pre-Covid-19 and suggests that despite the fact that benefit rates leave many families below recognised poverty lines, our employment market is not able to integrate nearly 6% of the working age population who are looking for work.

5.3. Employment support initiatives through the Ministry of Social Development have increased during the Covid19 pandemic but there is clearly a need to improve how this is working for those relying on welfare to access paid employment.

5.4. Over recent years there have been significant increases to the minimum wage from $15.75 in April 2017 to $21.20 in April 2022 - a 35% increase. Incomes for benefit households have not increased to this extent, meaning that there is a larger gap between the lowest wage rates and resulting greater potential gain from paid employment to act as a work incentive.

5.5. The combination of active labour market policies to create employment and support people into work, other support such as well-designed, easily accessible, affordable childcare or transport subsidies along with higher wages when moving into employment will have an impact over time[7].

5.6. The WEAG recommendation to introduce a specific payment that is focused on incentivising paid work Earned Income Tax Credit (EITC) needs further consideration. If the Family Tax Credit (FTC) is increased to include and replace the IWTC and the Minimum Family Tax Credit (MFTC) is done away with, then the FTC should be seen as doing the 'heavy lifting' on child poverty reduction and EITC might be able to be designed to provide a modest additional incentive into full time employment for all people leaving a benefit, including those without children. Such payments also act as forms of wage subsidy for employers and the other forms of financial and practical support as noted above (para 5.5) would interact with such a tax credit.

6. Minimum Family Tax Credit

6.1. We share concerns that the Minimum Family Tax Credit is an unnecessary complication in the income support system for people on low incomes who are often cycling between benefit and paid work. It would make sense to ensure continued access to some form of welfare support

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[6] *Benefit Fact Sheets - March 2022*, MSD https://msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/benefit/index.html

[7] OECD Employment Outlook (2005) *Increasing Financial Incentives to Work: The Role of In-Work Benefits*

until earnings are above the minimum threshold rather than continuing this tax credit for a small group of people affected.

7. Indexation, Abatement and Overpayment

7.1. The income threshold where abatement of WFF payments start at $42,700 has not been adjusted since 2018. Someone earning the current minimum wage and working 40 hours per week earning $44,000 per year would be above this threshold and already subject to abatement of WFF payments. In the four years March 2018 – 2022, average hourly wages have increased by 16.5%[8] and this would imply a threshold of around $49,700 in 2022, which is around the amount someone would earn at the 2022 Living Wage working 40 hours per week.

7.2. Abatement rates above the current threshold were increased from 25% to 27% in the latest adjustments to WFF implemented in 2022, meaning lower income households lose more of any additional income above the threshold. This works against the goal of helping families to be better off when in paid work and we believe the abatement rate should be lower (e.g. 20%). It is poor policy to trade-off the lowest income earners incomes against those in the middle. Having a second abatement threshold set relatively high (e.g. above $70,000) would help reduce entitlement faster in middle to higher income households who are less likely to be living in poverty.

7.3. Aligning WFF with other income support thresholds and abatements is also crucial to moderate interactions with tax thresholds that create very high effective marginal tax rates for lower- and middle-income earners.

7.4. Stabilising payments is also crucial as many low income households struggle with variable income and earnings from paid work which mean their entitlement to WFF support and other welfare support changes. The current approach of estimating income for the coming year and relying on the person to advise IRD of any changes in circumstances is leading to people accumulating overpayment debt to IRD. This debt adds to the burden of the total debt to government owed by people, many of whom are on very low incomes. Debt to government made up more than a quarter of total debts recorded by The Salvation Army financial mentoring clients in the year to 31 March 2022. Most of the debt (92%) is owed to Work & Income and student loans, but debt to IRD, mainly for WFF overpayment, is the next largest area of debt and made up around 4% of total debt to government of TSA clients. Clients struggle to understand different reporting requirements for MSD and IR and are also challenged by issues of digital exclusion with limited access to online services or mobile apps and lack of in-person service access.

7.5. Quarterly or half-yearly reviews of past earnings as the basis for estimated income for the coming months would likely better balance consistently of income against the risk of accumulating debt.

[8] StatsNZ QuarterlyEmployment Survey March 2022