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GROUP

CPAG Budget Analysis - 18 May 2023

Budget Summary:

Children need investment, not crumbs

For many of us, overcoming child poverty is the right and compassionate thing to do. Right now our economic system is restricting many families who want to do well for their kids.

It’s now very clear our country will fail in its mission to halve child poverty by 2028 using the measures set out in the Child Poverty Reduction Act (2018).

Budget 2023, dubbed a ‘bread and butter’ budget, has been a lost opportunity to truly change the economic and other systems to overcome the causes of poverty.

CPAG acknowledges the small and welcome changes in the Budget, including the removal of prescription charges and free public transport for the under 13s. We note however that it lacks the foresight to protect those being hit hardest by the increases in cost of living, and with inflation forecast to grow, we will see more whānau living in material hardship.

We are very surprised and disappointed by the lack of improvement to Working For Families given the substantial review with submissions closed a year ago. Changes, including removal of discrimination, would make a large difference to all low-income families and is a matter of urgency rather than delay.

People across our communities are being held in poverty by the lack of investment in them in this Budget. As these constraints are placed on them, many parents continue doing their best - using all their energy and problem-solving skills to help their children.

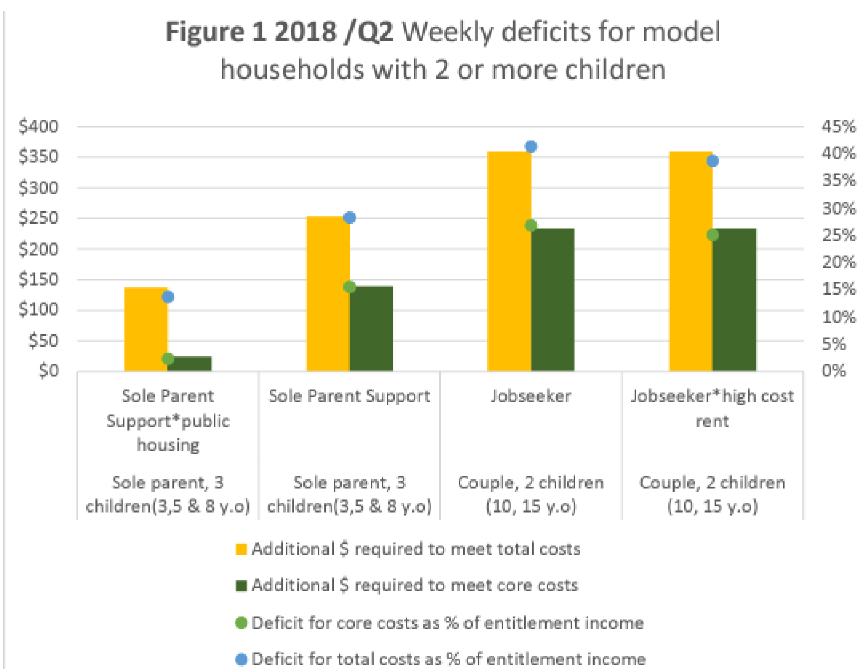
In this election year, CPAG calls on all politicians to recognise families' strengths and desire to do well by loosening the economic constraints on them. Benefits could be increased to lift people out of poverty, while other parts of our economic system can be reprogrammed so all families can thrive.

What does Budget 2023 deliver?

Income Support

The increment in benefits in line with inflation was brought in on 1 April 2023. This was welcome but not nearly enough to meet the shortfall of income for families supported by a benefit.

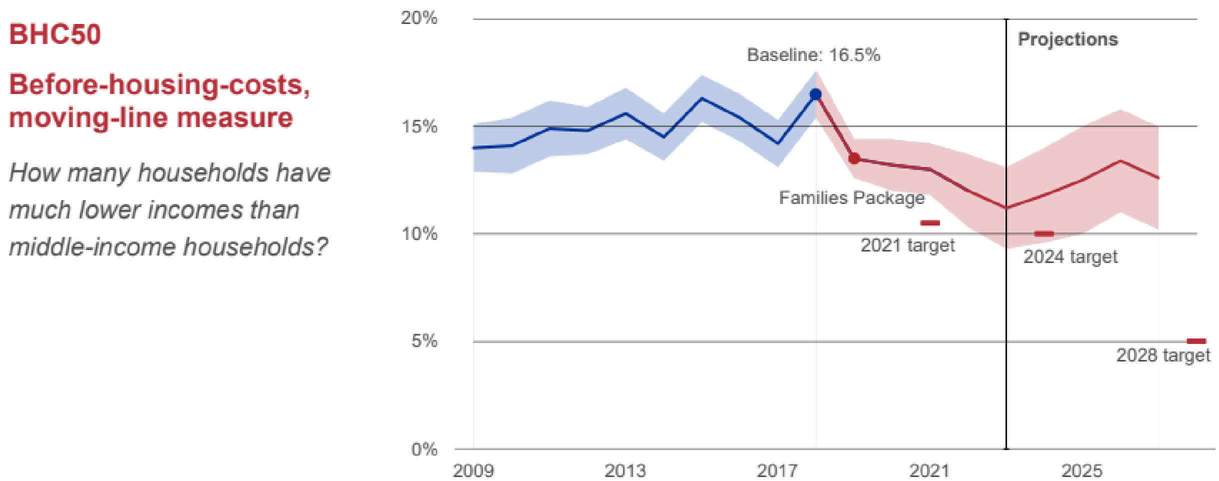
[CPAG research in May 2023] shows substantial gaps between income and expenditure for almost all broad family types receiving income support. For example the gap by mid-2023 for the typical sole parent with three children in a private rental will be around $116 per week for basics and $250 per week for total costs. The gap for the typical sole parent with three children in a private rental by 2024 is estimated to be around $140 per week for basics and $275 per



week for total costs. For a couple with two children, the deficit is around $200 per week and $350 per week respectively.

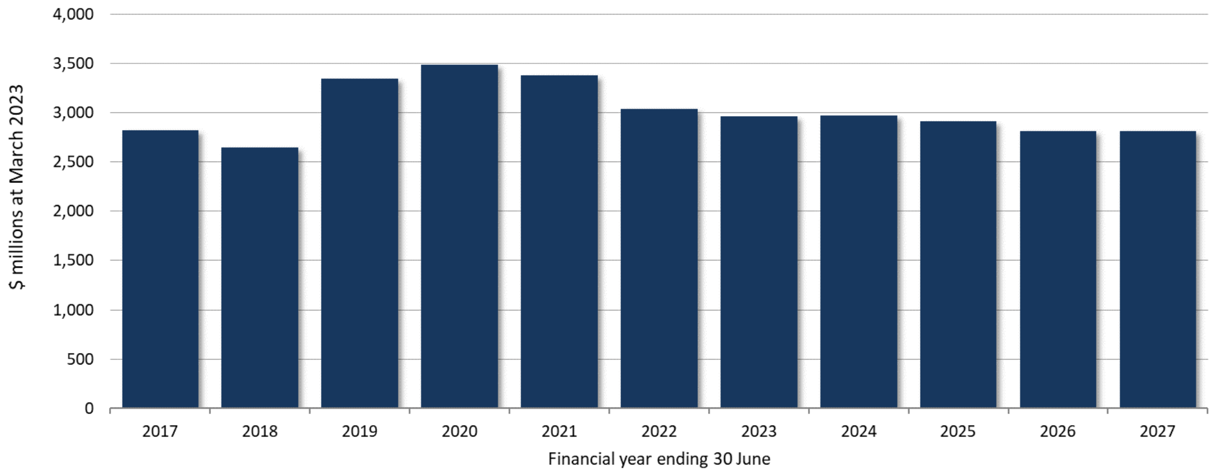
Very surprisingly, there are no changes to Working For Families. The Budget notes the ongoing review of this critical programme for supporting children and families, a review that began 12 months ago. It is critical that this review is completed immediately. It is equally critical that the programme's review be used to improve the tax credit payments and to change the regulations so that the discrimination is removed and other changes such as indexation of thresholds is put in place. These changes are urgent in providing financial support for children and families, particularly the most disadvantaged children and families.

The Budget's Child Poverty Report 2023 gives the projections to 2028. One of the two income measures, BHC50 (the one that Treasury used to calculate the effect of the Families Package) is projected to worsen, with the margin of error overlapping with the 2009 value (see the Budget Report's Figure below). There is no projection for material hardship.



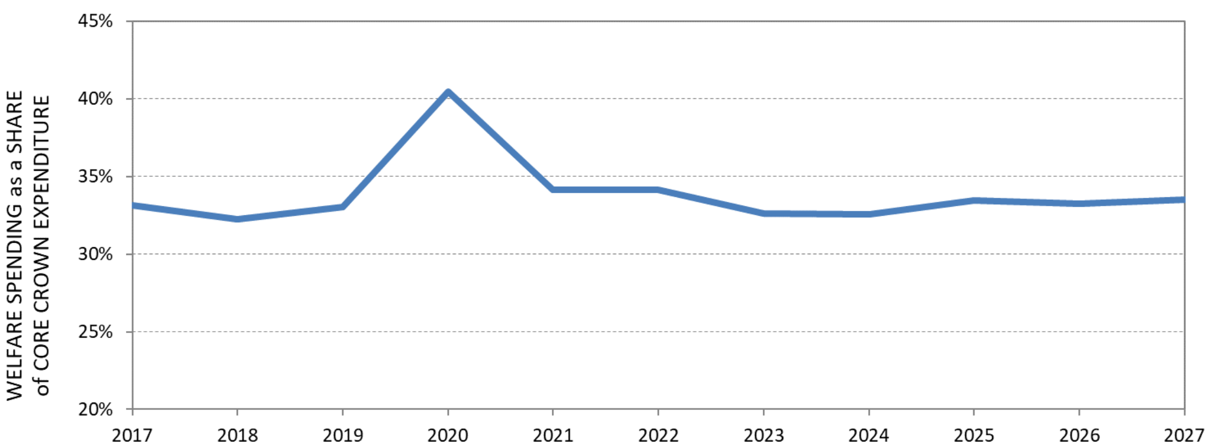
We welcome the extension of the free school lunch programme. This programme needs to be built into the ongoing budget process so that it is not dependent on annual budget decisions - this would mean that children and families could rely on its continuing availability.

Inflation adjusted spending on Working for Families – 2017 to 2027



In nominal terms budgeted spending on the three Working for Families tax credits is forecast to rise marginally from $2.96 billion in 2022/23 to $3.11 billion in 2026/27. Allowing for inflation this level of spending represents a reduction of 5% or $150 million per year. It appears difficult to see how the Government's child poverty reduction targets will be met with such real reductions in budgets which support low-income families.

Welfare spending as a proportion of Core Crown Expenditure – 2017 to 2027



Welfare spending as a proportion of Core Crown Expenditure is expected to remain constant at around 34%. However the proportion of this expenditure being spent on NZ Superannuation is forecast to rise from 52% in 2022 to 56% by 2027. In 2027 we are likely to be spending $26.4 billion on NZ Superannuation to almost one million superannuants.

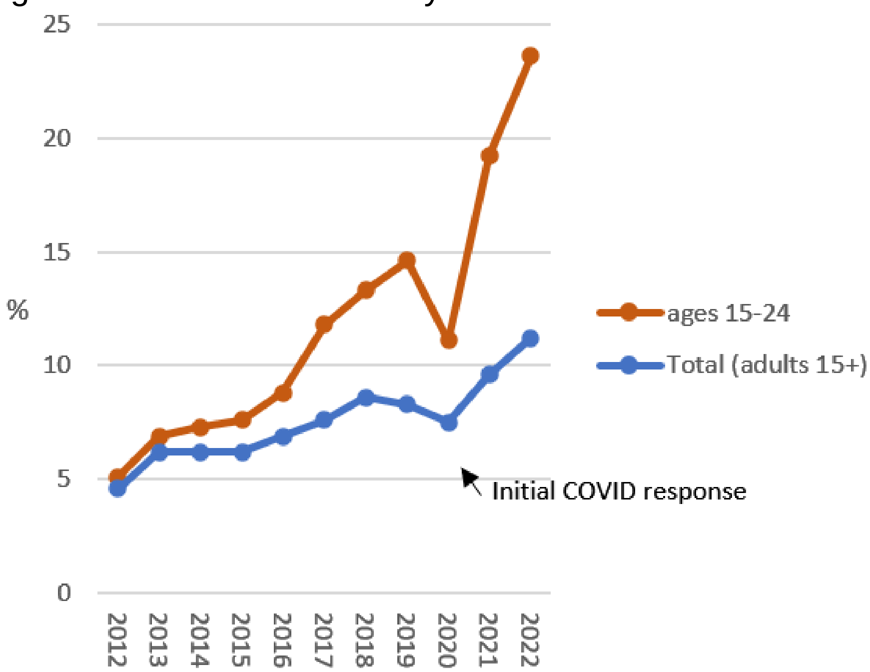
Health and Disability

We welcome the removal of the prescription co-payment of $5 per item as this has been an important barrier to receiving treatment in the community. It has been one of innumerable essential costs that low-income families have had to choose to pay instead of healthy food, but most of these other essential costs remain unaffordable.

The increases in the funding for the health system are welcome, but still a catch up. Until people are living in healthy homes and have enough income for healthy food and other necessities, our health system will struggle with high numbers of people being admitted to hospitals with potentially avoidable diseases.

The NZ Health Survey (see figure below) shows that there has been an increasing percentage of people reporting high or very high psychological distress in the last 4 weeks has been increasing for several years, dramatically so since 2020 for youth (15-24) and total (for all aged 15 and over).

Figure from NZ Health Survey



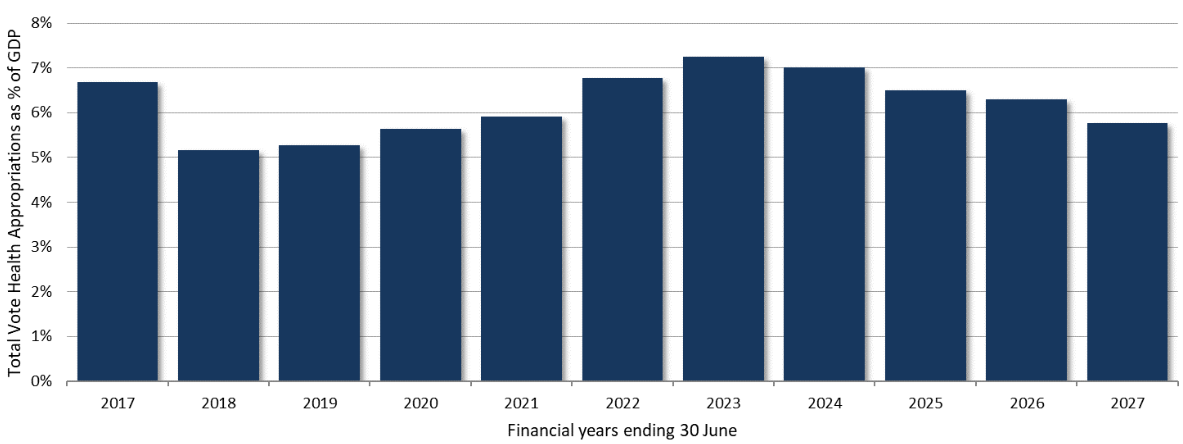
There are no new mental health initiatives announced in the Budget beyond populations affected by 2023 North Island weather events.

The $863.6 million total operating to protect for disability support services is welcomed, supporting tāngata whaikaha and disabled people, and their whānau, carers and supporters, responding to increases in demand and inflationary pressures.

Currently there is a minimum wage exemption for around 800 disabled employees so they are paid less than the minimum wage for their work. The Budget makes a step to end this discriminatory practice by providing $27.3 million total operating and $10 million total capital to introduce a wage supplement to support businesses to employ disabled New Zealanders. This supplement will replace the minimum wage exemption and enable disabled employees to be paid at least the minimum wage – improving their wellbeing outcomes and upholding their mana in the workplace.

The free public transport for Total Mobility holders is also welcomed. However there has been no increase in the Child Disability Allowance which is long overdue.

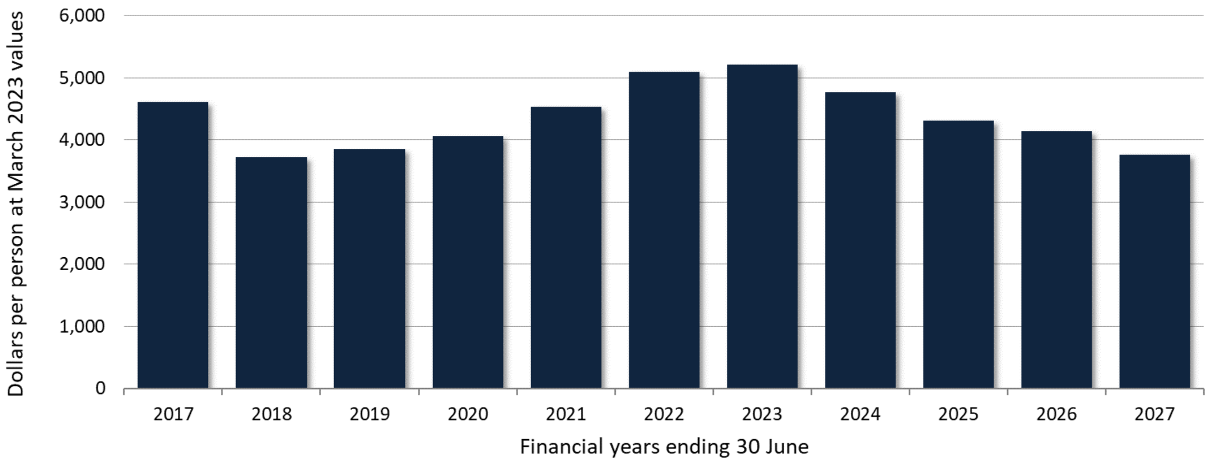
Spending on public health services as a proportion of GDP – 2017 to 2027



New Zealand’s aging population means that we should be allocating a greater share of our economic output to healthcare yet this does not appear to be a priority in Budget 2023. In fact quite the opposite. In nominal terms spending on public health services is expected to fall from $27.2 billion during 2022/23 to

$23.6 billion in 2026/27. Although recent spending on public health has driven by the demand of the Covid-19 pandemic, by 2027 forecast spending on health as a share of GDP is expected to fall back to pre-Covid 19 years. During 2022/23 public health spending represented 7.3% of GDP and by 2026/27 it may fall to 5.8%.

Real per capita spend on public health services - 2017 to 2027 - March 2023 $s



This fall in inflation adjusted spending on public health is further exacerbated by population growth and the fact that there are more people who may need access to our public health services. In inflation adjusted terms per-capita spending on public health is expected to fall from $5,200 per New Zealand in 2023 (and at 2023 $ values) to $4,750 per person in 2027. This 2027 per person spend is likely to be the lowest level since 2009.

Housing

Budget 2023 offers a number of relatively small scale housing related initiatives which may appear significant in dollar terms. When spread over the years involved to roll out housing programmes and the likely cost of a new house being at least $600K to $700K, the actual impact of these budgets is in most cases quite modest. For example the Maori housing programme Te Kuku ki te Kainga is allocated a budget of $190 million of which $60 million is expected to be spent during 2023/24. Assuming most of this funding goes to house building and not administration or departmental overheads this budget may provide 100 houses.

The Government's public housing provider Kainga Ora has indicated the difficulty it will have in building new social housing units with its present debt burden and the rising costs of building. The $5.2 billion Government loan to Kainga Ora announced in Budget 2023 may not address this pressure especially if interest is expected to be paid back to Government for this loan.

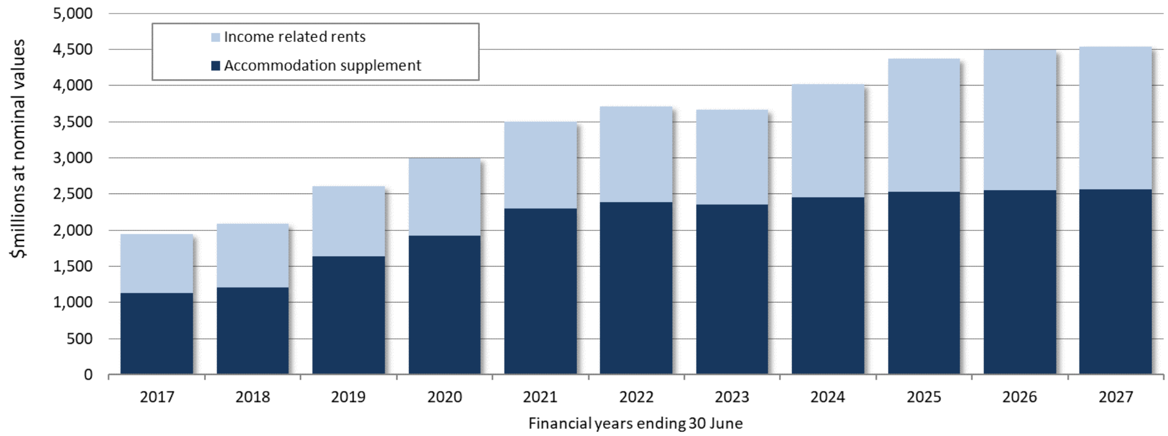
The Minister of Finance's Budget Speech announcement that 'Budget 2023 provides funding to deliver an additional 3000 new public homes by 30 June 2025' echoes similar promises from past Budgets. Kainga Ora appears to be picking up the pace of public housing new builds and it may be feasible that these additional 3000 dwellings are built over the next two years. Such a build comes on the back of the 4,500 houses which according to Minister Robertson are already under construction and which have been promised by Budgets since 2021.

CPAG estimates that as a country we need to be building over 3000 Kainga Ora dwellings each year for the next 15 years in order to adequately address current and future serious housing needs and accessible housing needs for those living with disabilities. This means that current targets are still inadequate. The Government's lack of commitment to injecting significant capital into Kainga Ora illustrates clearly that its commitment to building social housing remains ineffectual. The recent tragic fire in the Wellington boarding lodge illustrates clearly the risks we continue to face with inadequate provision of social housing.

Housing policy settings remain unchanged in Budget 2023 with ongoing reliance on the Accommodation Supplement and Income Related Rent subsidies as the largest housing assistance programmes. Between 2022/23 and 2026/27 these housing subsidies are forecast to grow from $3.7 billion to $4.5 billion in nominal terms. Budget 2023 indicates clearly that Government prefers to expand Income Related Rent budgets ahead of Accommodation Supplement budgets. This essentially is a preference to support public sector tenants ahead of private sector renters.

Spending on the Accommodation Supplement is expected to remain static over the next four years at around $2.3 billion annually. Given expected general price inflation of around 12% over this period, these static budgets represent a real cut. The numbers of households receiving the Accommodation Supplement is expected to remain at around 370,000 during this period which means that households relying on it to support their housing costs are likely to be squeezed if and when rents rise.

Nominal spending on housing subsidies – 2017 to 2027



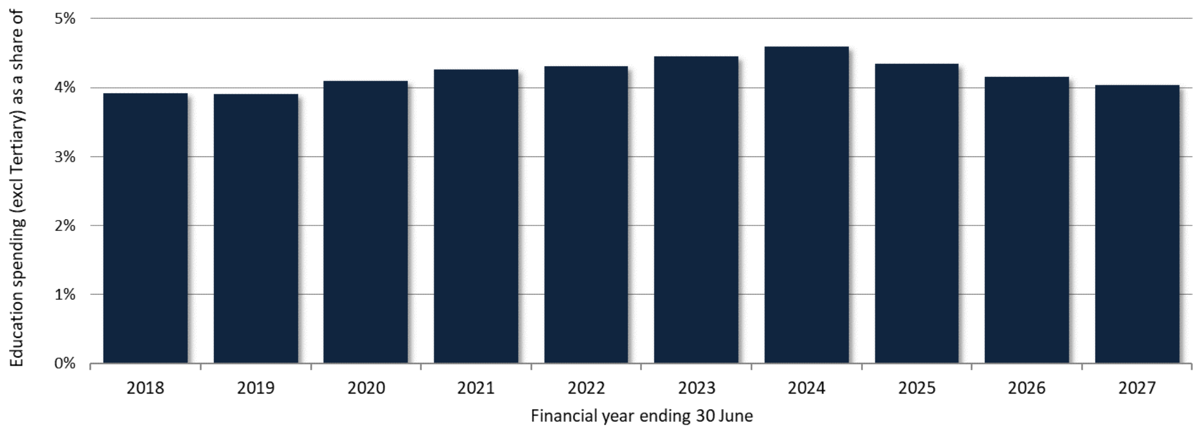
Education

We welcome free public transport for children 5-12 years, and half price 13-24 years. However, all children under 18 should receive free public transport so they can access education and training, to meet our obligations under the UN Convention on the Rights of the Child.

We welcome the 20 free hours for early childhood care and education (ECCE) for 2 year olds, as that will help some struggling families, but note it doesn't start for more than 9 months. However the greater issue of affordability of ECCE is undermined by the escalation of ECCE centres being run by businesses or family charities rather than by true not-for-profits.

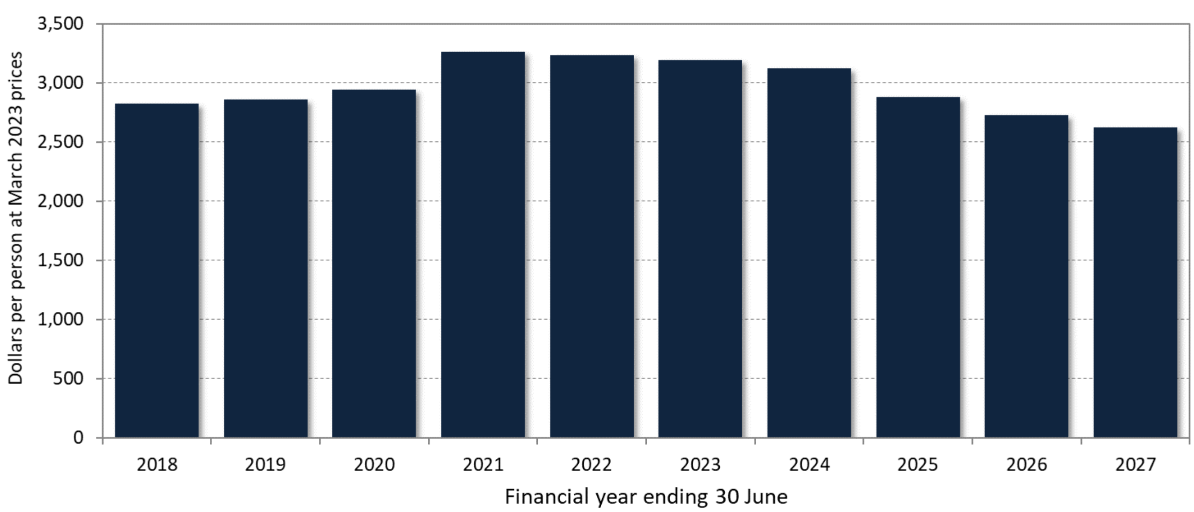
For parents of disabled children to access ECCE, there needs to be additional funding for fully trained teacher aids. All children in education need fully trained teacher aids.

Public education spending (excl tertiary) as a proportion of GDP – 2017 to 2027



Against these small gains across public education related budgets, the Government is planning to spend less even in nominal terms. Spending on public education (excluding tertiary education) during 2022/23 is expected to be $13.7 billion this is expected to be $13.5 billion in 2026/27. These static budgets are against expected inflation between 2023 and 2027 of more than 12%. As a share of GDP spending on public education is expected to fall from 4.5% in 2022/23 to 4.0% by 2026/27 although during this period fewer students are expected in our schools due to falling birth rates. In real per capita terms spending on public education may fall from $3,200 (at 2023 $ values) in 2022/23 to $2,600 by 2026/27.

Real per capita spend on public education in March 2023$ values – 2017 to 2027



In Summary

Regardless of who we are, or what part of Aotearoa we come from, we want communities where our work raising children and caring for people is seen as important, where the wellbeing of those children is seen as critical and where we thrive as people raising kids and caring for others.

The Budget is the biggest opportunity in the year for policy makers to change the systems that lock whānau into poverty, or to opt to keep the status quo, and CPAG feels Budget 2023 has failed to deliver.

Right now our communities are being held in poverty - and the stress and misery that comes with that - because our economic system is not designed to ensure everyone is cared for and their contribution recognised.

The people most frequently held in poverty by these systems are disabled people, Māori and Pacific families and children.

However, the policy settings that keep people in poverty ultimately restrict and constrain most of us - because we all suffer from expensive unstable housing, high food costs, and being exploited at work.

Overcoming poverty by redesigning important policies is how we create a future in which we thrive together.

All of us need people in government to focus on rebuilding infrastructures of care, connection and contribution.

More low cost affordable housing, a generous and compassionate benefit system that recognises the strength of all people, better wages, an education system that centres the needs of all children and teachers - these things mean we can thrive together.