

The Treasury

Budget 2015 Information Release

Release Document July 2015

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Subject: RE: Material for tomorrow's meeting
Date: Monday, 3 November 2014 10:16:00 a.m.
Attachments: [What is Treasury position on child poverty.DOC](#)

Hi Ellen,

Thanks for circulating the papers to us.

Ahead of the meeting this afternoon, our major comment on the framing material is that it risks becoming a long list of options, with little clear framing to Ministers about trade-offs and biggest opportunities for worthwhile policy reform.

The advice to Ministers on trade-offs and opportunities does not need to be detailed or comprehensive, but needs to give a clear sense of what they should be considering when making policy choices (and does not jump to far ahead of strategic decisions to detailed policy design issues).

As a guide to some of the issues that we think should be raised, please find attached a 2 pager that outlines some key policy considerations.

More than happy to discuss and to circulate to the wider group, if that would be helpful.

Cheers
Nick

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[14]

What is Treasury's advice on child poverty and material deprivation?

Treasury position on child poverty and material deprivation is the following:

Lifting the outcomes of the most disadvantaged is a critical challenge for New Zealand. The potential significant economic, fiscal and social consequences of poor outcomes in childhood and inter-generational disadvantage are critical.

Our position is that the answer to sustainably lifting outcomes lies in our education system, our economy and in a strong safety net that provides access to work and income support, when it is needed.

We think that lasting improvements will occur when we have an economy that has strong employment growth and low unemployment; an education system that pushes against disadvantage; targeted social services for the most disadvantaged families, and a well targeted safety net for those that need it.

Any approach focused on financial support needs to balance the competing priorities of fiscal cost (and the associated tax burden); poverty alleviation; and financial incentives to work. Targeted approaches tend to support poverty alleviation at a lower cost, while more universal approaches come with significantly higher cost (as they provide support to those less in need), but can be less distortionary of incentives.

New Zealand's overall level of support to jobless households is towards the middle of the OECD (although over time may become under pressure from our indexation arrangements). There are however some pressure points within the system:

- New Zealand's level of support for beneficiaries in high private accommodation costs is not particularly generous
- The biggest pressures on the IRRS / AS overlap is in high accommodation cost regions where IRRS provides significantly more generous support
- New Zealand's system of hardship support is becoming increasingly used, and is not well designed as a large scale intervention
- More generous income support for families with younger children is potentially more significant for child wellbeing and carries fewer risks on work incentives (as this group is not subject to work expectations)

More generally, where there are opportunities to support the health and wellbeing of children through more directed services these offer significant opportunities:

- Addressing barriers to the use of primary health services by low income families
- Lifting ECE participation by equity groups, particularly those with persistent low income and in communities with high levels of deprivation. This could potentially include access to other social services, where they are needed.

Based on this assessment, our view is that the promising options in the short run are:

- Increasing financial support for families with children aged 2 (5) years and under, tightly targeted to those below \$36,750 (?).
- Some additional support through the accommodation supplement for beneficiaries in the highest cost regions (either through the subsidy rate, or the maxima)
- Some targeted changes to TAS that both provide additional support to the most disadvantaged families, but with a longer term review of the overlap between the accommodation supplement and temporary additional support.

- Some review of the debt arrangements and budgeting services that could be provided.
- A targeted approach to lift the participation of families with the lowest incomes in early childhood education (and attempts to tie these into other social services where possible)
- Access to primary health care if that is available

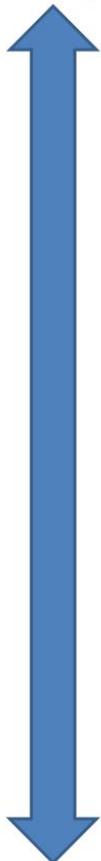
We would not support:

- Additional accommodation support to low cost regions/ households, or to households without children
- General support that is not well-targeted (e.g. extension of ECE, student loans, general changes to debt arrangements),
- Increased support for households with incomes above \$36,750

We think the short run changes are important, but that they need to be framed as part of a medium term reform agenda to:

- create a job rich and flexible economy, particularly for those at the highest risk of joblessness
- a welfare system that actively engages them in employment, rather than entrenches disadvantage, particularly for those most likely to experience disadvantage
 - address poorly targeted expenditure at those in severe material deprivation by reprioritising some current spend to support a successful safety net while not undermining work incentives.
- social services that are innovative, tailored, and targeted to those most in need, and invest early to avoid long-term welfare dependency
 - address pockets of low state sector performance (driven by poor understanding of the outcomes from intervention and a linked inconsistency in assessing policy effectiveness), particularly where the families are dealing with multiple agencies because they are not functional.
- a housing supply that is responsive to demand side pressures and a well designed social housing system
- an education system that actively identifies and pushes against disadvantage, where best practice is disseminated across the system, and where under-performance and poor practice is actively identified and managed.

A well-designed system of short-term financial support is part of the answer to address hardship and support the most disadvantaged....

	Work stream	Key options	Trade-offs	Towards a package
<p style="text-align: right; color: red;">More simple</p>  <p style="text-align: left; color: red;">More targeted</p>	<p>Work-stream 1: Raising family income</p> <p>Payments tied to employment</p> <p>Tax/ WFF tax credits</p> <p>Main benefit rates and Tax credits for beneficiaries</p>	<p>Option 1: WFF for families with children under 6 years/ under 2 years – indicative cost: \$xxxm Implementation complexity: medium</p>	<p>Supports a longer term focus on incentives and independence</p> <p>Risk of assistance provided to those that do not need it</p> <p>Tend to have higher fiscal cost for a given impact</p>	<p>A package of initiatives is likely to provide more balanced support for different policy objectives than any one policy response.</p> <ul style="list-style-type: none"> • Some broad based support to some sub-groups (such as families with pre-school aged children), • some better support for providers of services to families; • supporting families with high costs • a better programme of support for the most disadvantaged.
	<p>Work-stream 2: Supporting children from low income families</p> <p>Tied support through Schools, health providers or community providers</p>	<p>Option 2: free primary care & increased access to ECE for under 3 years</p>	<p>Tends to be less tightly focused on those with the greatest hardship, but support a broader range of outcomes and families, including those in hardship.</p>	
	<p>Work-stream 3: Help for demands on the family budget</p> <p>Transport/ childcare/ other tied support</p> <p>Accommodation Supplement/ housing support</p>	<p>Option 3: Increased accommodation support for families in high cost regions/ larger families</p>	<p>Tends to have lower fiscal cost for a given impact</p>	
	<p>Work-stream 4: Better support for the most at-risk families</p> <p>Debt/ Temporary Additional Support</p> <p>Budgeting/ budget management</p>	<p>Option 4: new debt re-payment options/ budget services/ increased assistance through TAS (& with review on design)</p>	<p>Greater risk of perverse incentives and entrenching disadvantage</p> <p>risk of assistance not being provided to some of those in need</p>	

...but the policy response needs to be more comprehensive than short-term financial support alone and focus longer term on lifting employment (welfare reform), supporting educational outcomes and addressing issues relating to inter-generational disadvantage.

There is an association between income, assets, costs and hardship, but there is not a deterministic relationship. Many families with low income /assets/ higher costs manage their finances to meet everyday needs, while others with higher levels of financial resources economise and are therefore in hardship. This may in part be due to the length of time that households have experienced persistent low income; the degree to which they have access to other resources (from family, friends and community). This means that targeted assistance to those at highest risk, with a more general approach is likely to be useful.

The impact of hardship on child well being will also be dependent on families. Children from some families are at risk of worse outcomes independent of whether they are in hardship (for example, those families with mental health and addiction issues) and some factors appear particularly critical (attitudes towards schools). This means that some policies targeted toward child wellbeing are important.