

2005/4

May 2005

Budget 2005 - what was it really about?

You could almost feel sorry for Finance Minister Michael Cullen. Despite frequent statements by him not to expect significant changes to personal income tax in this year's budget, expectations were high. This is an election year after all. What did we want? Tax cuts! When did we want them? Now!

And then, as promised, there were no significant changes to personal income tax in this year's budget (you can't accuse this politician of broken promises). And were we happy? Absolutely not. Neither were any of the government's political opponents and it appears that tax will be an important election issue. National leader Don Brash has confirmed that he will offer tax cuts to all workers and ACT have launched a petition calling for the surplus to be returned to workers through tax cuts. (Apparently neither political leader thinks beneficiaries pay tax.)

As it happens there were some changes to personal income tax thresholds in the budget (see page 2), but in the furore over the size of these changes (small) and how long it would be before these changes take effect (2008), two important features of this year's budget were overlooked.

The first is the assistance given to first home buyers as part of the government's "Securing Your Future" package. New Zealand used to have one of the highest home ownership rates in the world. Owning your own home was seen as the "kiwi dream", almost a birthright. Ownership rates, however, have been steadily declining, from 74% in 1989 to 65% in 2004. A significant reason for this decline is the growing gap between house prices and the average wage. In 1981 the average house price in New Zealand was \$41,000 and the average wage was \$12,600. Today the average house price is \$260,000 while the average wage is just \$39,000.

To assist more people towards home ownership the government intends to expand the Mortgage Insurance Scheme (piloted in 2003) and has created KiwiSaver, a work-based savings scheme that includes a housing deposit subsidy. The Mortgage Insurance Scheme is aimed at people who can support a mortgage but who cannot raise a deposit, by allowing buyers to borrow most or all of the cost of a house. KiwiSaver is essentially a retirement savings scheme whereby people can, via Inland Revenue, pay part of their wages, salary or benefit into a savings fund. The government will make an initial \$1000 contribution into each person's account. The scheme is voluntary and will begin 1 April 2007. First home buyers who have been a member of KiwiSaver for at least three years will be eligible for a "deposit subsidy" of \$1000 for every year of membership (up to a maximum of \$5000). They will also be able to use their KiwiSaver savings towards the purchase price. For more information see www.securingyourfuture.govt.nz

A second important feature of the budget is the introduction of a policy, from 2008, to adjust personal income tax thresholds for inflation every three years. This is the first time ever that tax thresholds have been indexed to inflation and the public policy implications of this move are significant. Setting this framework in place now will make it very difficult for any future government to dismantle it (in the same way that it would be a very brave government that decided to remove the indexing of superannuation payments to inflation).

In the short-term this budget may be remembered for what it didn't do, but the long-term effects could be more significant. For more information on the budget see www.treasury.govt.nz

- Nicola Shirlaw

PARLIAMENT

Passed

Budget 2005

Changes to personal income tax thresholds: Personal tax thresholds will be raised from April 1 2008 (and from then on will be adjusted every three years). New thresholds are as follows:

Tax rate	Current income threshold	Proposed
15%	\$9500.00	\$10,831.00
21%	\$38000.00	\$40324.00
33%	\$60000.00	\$63672.00
39%	Over \$60000.00	Over \$63672.00

Workplace savings scheme: The details of the widely signalled workplace savings scheme were set out in the budget. Called KiwiSaver, the government will make a \$1000 contribution to every person who enters the scheme. The scheme will also be linked to a new scheme to assist families the deposit for their first home (see page 1).

Health: \$4.09 billion in new funding for the health sector over the next 4 years. Specific initiatives include:

- \$17.2m in the coming year for low cost doctors visits for 18-24 year olds
- \$22m towards implementing the Mental Health Commission's Blueprint
- the establishment of a cancer control council and increased support for hospices
- extension of the free breast screening programme for all woman aged 45 – 69 years
- up to 4000 additional cataract operations

Welfare initiatives: The government has budgeted \$27.7m over the next four years to help more sickness and invalid beneficiaries into paid work. The funding will allow for improved work assessments and increased support for disabled job seekers and their employers. \$21m is budgeted to provide "intensive case management" and wage subsidies for people unemployed for more than four years. \$47m to help families "in greatest need". Programmes will include:

- expansion of Family Start programmes providing advice and support to high needs rural families
- piloting a parenting support scheme
- better access to early childhood education for high needs families.

Asset testing for residential care: The government has budgeted \$93m towards phasing out asset testing residential care. From 1 July, single people and couples with both partners in care will be able to keep up to \$150,000 in assets (including property and savings) before their assets are used towards the cost of their residential care. (Levels are currently \$15,000 for single people and \$30,000 for couples). Where

couples have just one partner in care, their house and car will still be exempted and the cash exemption will increase from \$45,000 to \$55,000. Exemption thresholds will increase by a further \$10,000 in July 2006.

Assistance for ethnic communities: Funding for the Office of Ethnic Affairs has been increased to allow the Office to expand policy liaison and advisory work with ethnic communities. Three new ethnic advisors will be employed – one in Auckland, one in Wellington and one based in Christchurch. The government has also agreed to permanently fund Language Line, which offers interpreting services via telephone in 37 languages.

Kapohia Nga Rawa: An initiative to employ outreach and community workers to work with whanau to provide information and advice on education, career planning, financial management and housing. The government intends that this programme will play a crucial role in moving individuals from dependency to development.

Education: Spending forecast as follows:

- \$169m over 4 years to provide 420 more teachers
- \$77.8m increase in operational funding for schools
- \$44.6m over 4 years for expansion of the modern apprenticeship scheme

Introduced

Legal Services Amendment Bill (No 2)

This government Bill had its first reading on 17 May 2005. It aims to ensure better and fairer access to legal representation by updating the criteria for eligibility for legal aid. It is the intention of the Bill that more people will qualify for both civil and criminal legal aid.

The financial thresholds for eligibility have not been updated since 1987. As well as increasing the thresholds, the Bill aims to simplify the financial eligibility provisions. Repayment criteria will also be simplified and a higher proportion of legal aid recipients will be required to repay some or all of their legal aid grant (although not if this will cause undue hardship). The other criteria for eligibility, the "merits test", is also addressed in the Bill. Eligibility will not always depend on the prospect of success if, for example, a case in the Family Court involves the interests of a vulnerable person.

The Bill has been referred to the Justice & Electoral Select Committee. Submissions close on 12 August 2005. You can read a copy of the Bill on:

www.clerk.parliament.govt.nz/publications

Oaths Modernisation Bill

This Bill, arising out of a government review in 2003 and a public discussion paper in 2004, seeks to modernise the language used in existing oaths. Additional values and beliefs have been incorporated into the Parliamentary oath (used by MP's when being sworn in at the beginning of each parliamentary term) and the Citizenship oath. For example,

the Citizenship oath will include loyalty to New Zealand, and respect for the democratic values of New Zealand and the rights and freedoms of its people. A Maori version of each oath will also be provided.

The Bill is before the Government Administration Select Committee and submissions close on 1 July 2005.

Reported back

Prisoners and Victims Claims Bill

The government's policy objectives behind this Bill were to strengthen the rights of victims to make civil claims against offenders, and to recognise that victims should have first claim against any compensation awards to offenders. The Bill raises some interesting issues that were debated by Justice

& Electoral Select Committee. A common criticism of the Bill was that it seeks to combine two distinct issues; the right of victims to receive compensation for a crime, and the right of prisoners to receive compensation if ill-treated. While the committee was anxious not to create two classes of victim – those who could claim money from the offender only because of the unhappy coincidence of the offender being compensated for ill-treatment while in prison – the main purpose of the Bill was to ensure that offenders do not succeed in obtaining financial benefits because of a crime.

The majority of the committee recommended that the Bill be passed with some amendments. A copy of the select committee report can be read on:

www.clerk.parliament.govt.nz

Legislation Update

Legislation	Stage and Progress	Impact
Children, Young Persons & Their Families Amendment (No. 4) Bill	Awaiting second reading.	Aims to improve youth justice processes & prevent persistent offending
Courts and Criminal Matters Bill	Awaiting second reading.	Deals with fines collection and civil enforcement; amends 9 Acts
Criminal Procedures Bill	Before Law & Order Select Committee; report due 29 July 2005	Omnibus bill to improve court efficiency, modify jury system, change double jeopardy rule.
Disabled Persons Employment Promotion (Repeal & Related Matters) Bill	Awaiting second reading	Ensures people with disabilities in sheltered workshops have the same wage and employment rights as other workers.
Employment Relations (Flexible Working Hours) Amendment Bill. Private Members' Bill, Sue Kedgley	Before Transport and Industrial Relations Committee. Submissions by 13/07/05. Report due 14/08/05	Aims to provide employees with young and dependent children the statutory right to request part-time and flexible working hours, and a framework for negotiating reduced working hours.
Human Rights (Gender Identity) Amendment Bill Private Members' Bill, Georgina Byer	Introduced 24/10/04. Consideration delayed till 11/08/05. Awaiting first reading	Includes 'gender identity' as a prohibited grounds for discrimination.
Injury Prevention, Rehabilitation & Compensation Amendment Bill	Committee reported 17/12/04. Awaiting second reading	Significant changes in medical error and misadventure provisions. Extends cover to ental injury from sexual abuse.
Legal Services Amendment Bill (No. 2)	First reading 17/05/05. Submissions by 12/08/05. Report due 14/08/05	Bill aims to ensure better and fairer access to legal representation by updating the criteria for eligibility for legal aid.
Members of Parliament (Pecuniary Interests) Bill	First reading completed. Now before Standing Orders Committee. Report due 14/08/05	Set up pa register of MP's pecuniary interests, including involvement in Trusts and other bodies receiving government funding.
New Zealand Day Bill Private Members' Bill, Peter Dunne	First reading 6 April. Before Justice and Electoral Committee. Submissions by 29/07/05. Report due 14/08/05.	Replaces Waitangi Day with a New Zealand Day to be celebrated on 6 February or nearest Monday every year.
NZ Sign Language Bill	Before Justice & Electoral Committee; report due 23/06/05	Officially recognises NZ Sign Language.
Oaths Modernisation Bill	First reading 18/05/05. Before Government Administration Committee. Submissions by 01/07/05. Report due 14/08/05	Seeks to modernise the language used in existing oaths. See page 2.
Residential Tenancies Amendment Bill	Social Services Select Committee reported back 10/04/03. Awaiting second reading.	Select Committee recommends clarifying definition of boarding house' protection for tenants' property, limits to bonds' 14 days termination for education providers and employers.

Proposed

Paid Parental Leave

Legislation to extend New Zealand's paid parental leave scheme to the self-employed will be introduced this year. Under the proposed legislation, 14 weeks paid parental leave will be available to self-employed mothers who have been working for an average of 10 hours/week during the six months before the birth of their child (or date of adoption). The government estimates that 2173 self-employed people will take paid parental leave each year.

News

New service for children affected by family violence

The Family Violence Intervention Programme is being rolled out to Work and Income service centres on 1 July 2005.

The focus of the service will be on ensuring the safety and well-being of children who witness family violence.

The programme starts in Auckland, East Coast and Christchurch this year, with a further six regions next year and the remaining three in 2007.

Training materials and resources for staff and clients are being produced and seven family violence co-ordinator positions will be in place by June. There will be two co-ordinators per region, but three in Auckland.

Up to 45 child advocates will be placed in community organisations around the country and will work with children receiving family violence services. The advocates role will include education on the effects of family violence on children and ensuring all agencies respond to the needs of children.

Tertiary Saving Scheme

The government has called for expressions of interest from groups interested in providing a tertiary education saving scheme. It had been expected that the government would be announcing details of a draft scheme but this has been delayed.

What is a parent?

The Law Commission has published its report *New Issues in Legal Parenthood* (available at www.lawcom.govt.nz) The report is on how the law determines who is a parent, and reminds us that the primary purpose of such laws is to provide important protections to children and not to "give rights to parents as a means by which society can encourage a particular family form".

The report recognises the speed at which developments in assisted human reproduction are occurring and has identified five guiding principles when drafting future laws in this area. These include that the child's interests and welfare are a primary consideration and that children are equal and they and their families are not to be disadvantaged by the circumstances of their conception or birth. This is a very complex and challenging subject and the report should be interesting reading.

More people eligible for Community Services Card

Eligibility for the Community Services Card have gone up by between 2.7% and 11% (depending on family size) rather than the usual lower CPI-indexed rate.

This means that families whose incomes are bolstered by the Working for Families changes are still eligible for a card. It is estimated about 50,000 more people are now eligible for reduced doctors' fees and prescription charges through the card.

Eligibility and card applications can be obtained by phoning 0800 999 999 from Work and Income service centres or www.workandincome.govt.nz

Report on flaws in 111 system

After the widely publicised problems with the police 111 system, the report into the operational efficiency of the Police Communications Service centre was released 10 May. The report is available on www.police.govt.nz

Ministerial portfolio changes

Pending an inquiry into allegations of harsh discipline while teaching, David Benson-Pope has stood down from his ministerial roles. Pete Hodgson is acting Minister of Fisheries and Trevor Mallard is acting Minister for those parts of the education portfolio managed by Benson-Pope.

Election enrolment drive

With a general election only months away (an election must be held on or before 24 September) Elections New Zealand are ensuring that all eligible voters are enrolled to vote. Enrolment forms have been posted out to all registered voters. Anybody who hasn't received one can get an enrolment form from PostShops, by ringing 0800 ENROL NOW (0800 36 76 56), free-texting name and address to 3676 or by enrolling on their website www.elections.org.nz. The introduction of txt enrolment is being credited with record numbers of people seeking enrolment forms.

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