

May 2010

Not 'lollies for all'...

Last year the United Nations released a study¹ placing New Zealand in the top ten countries for income disparity - the extent of the gap between high and low income earners. Hong Kong, Singapore and the United States were the countries with the highest rates of inequality but we were not far behind, in 6th place. More worryingly perhaps, the study found that New Zealand had the biggest rise in income inequality among member nations in the previous two decades (1985 -2005).

The UN study commented that countries with a wide distribution of income tended to have more widespread income poverty. This finding, particularly in relation to child poverty, is repeatedly confirmed by the Child Poverty Action Group and in the New Zealand Council for Christian Social Services' Vulnerability Reports².

This year's Budget, released last week, was primarily about tax. GST will rise from 12.5% to 15%, and there will be cuts to personal income tax (in all brackets) and to company tax. There will be a 2.02% increase in benefits to compensate for the rise in GST, and this will be reassessed in April 2011. The Government will also introduce a number of measures that they believe will make the tax system fairer; income in trust accounts will be counted as part of a family's total income, families will no longer be able reduce taxable income (by, for example, setting investment losses against taxable income) in order to qualify for Working for Families payments and landlords will not be able to claim depreciation on all rental properties.

The Government's view is that, despite the increase in GST, everybody will be better off, or at the very least, no worse off. There is much debate about this last point, as Treasury figures indicate that inflation will rise to 5.9%, effectively wiping out the benefit of tax cuts to low and middle income earners, leading some to describe this as a Budget just for the rich.

But even if you accept the Government's line that this Budget treats everybody fairly, has it done anything to reduce the gap between rich and poor? It appears that the answer to that question would be a resounding no. The Minister of Finance has said that "low, middle and high income earners will broadly receive the same proportionate increase in disposable income", and "leave the gap between rich and poor about the same". In fact it could get worse. Low income earners tend to spend all their income, so the increase in GST will hit this group hardest. Prices of some goods and services will increase by more than the increase in GST as retailers are likely to round up prices.

Reducing income inequality is possible. Measures this or any Government could take include the introduction of a capital gains tax (except on the family home), applying the in-work tax credit to all low income families (including those on a benefit) and reducing further the amount of tax paid by low income earners.

So is there any good news in the Budget? As it happens there is, and as it has been mostly ignored by the media some of you may not even know about it yet. The community and voluntary sector has welcomed the establishment of the Community Response Model, which will give regional forums a voice in family and community service delivery in their area, and importantly, the funding to make it happen. The Model builds on from the Community Response Fund, established last year, and has been developed in consultation with NGOs. (see page 2 for more information about the Model).

Good news indeed.

Nicola Shirlaw

¹ "United Nations Human Development Report 2009" United Nations Development Programme.

² www.justiceandcompassion.org.nz.

Parliament

2010 Budget

Much has already been written about this year's Budget, and details of announcements can be found at www.beehive.govt.nz and on specific government department websites, but some key features include—

- **Increase in GST** From 1 October 2010 GST will increase from 12.5% to 15%. Many groups, including the Maori Party, wanted GST to be removed from healthy or fresh food, but the increase will apply to all goods and services. Supporting the increase in GST (as part of their confidence and supply agreement with National) was a big ask for the Maori Party, as their natural constituency is one of the groups most likely to be adversely affected by the increase. The party did ask its supporters whether it should break its confidence and supply agreement with National over this issue but received sufficient support to vote with the Government.
- **Cuts to Personal tax rates** The top tax rate, on income over \$70,000, will decrease from 38% to 33%, income from \$48,001–\$70,000 will decrease from 33% to 30%, the rate for income from \$14,000–\$48,000 from 21% to 17.5% and the lowest rate from 12.5% to 10.5% for income below \$14,000. All these decreases will take effect from 1 October 2010 and are designed, in part, to off-set the increase in GST. Secondary and resident withholding tax rates will also go down to align with personal tax cuts.
- **Increase in benefits** All benefits will increase by 2.02% from 1 October 2010, to off-set the increase in GST. The Government has undertaken to reassess benefit levels 1 April 2011 to ensure that this increase has been sufficient
- **Cuts to company tax** The company tax rate will be cut from 30% to 28% from 1 April 2011. The Government hopes that this will encourage investment and competitiveness, and means that our corporate tax rate will be lower than Australia's until 2014. Changes to the way that income from trusts is taxed (income in trust accounts will be included as part of a family's taxable income) has already led to speculation that people seeking to avoid paying tax at the new top rate of 33% will shift property from trusts into company structures.
- **Increased funding for Job Ops** This is the Government's youth employment initiative, and has received an additional \$26.7 million to create additional job opportunities for young people. Targeted at unskilled and unemployed 16–24 year olds with little or no qualifications, Job Ops offers a subsidy to employers for each young person hired into a newly created, entry-level position. The subsidy is \$5,000—an upfront payment of \$3000, with the remaining \$2,000 paid after 6 months. When Job Ops was first introduced, employers were not eligible for the subsidy if the employment agreement provided for a 90-day trial period. This rule has now changed, and employers with less than 20 employees will be able to use a 90-day trial period and still be eligible for the subsidy.

Community Response Model

Building on from the Community Response Fund regional panels established in 2009 to assist critical social services, the Government has been working with NGOs to develop this model to give communities a further say in service delivery. The Government will establish regional Community Response Model forums, who will assess how existing funding from Family and Community Services is allocated in a region and make

recommendations to the Minister on how that total funding can be best used to improve support for local families. Forums will work with local providers to move towards integrated service delivery, up-skilling staff, where possible merging “backroom functions” and sharing examples of good practice. There will be a focus on gaps in delivery, removing duplication of services and encouraging collaboration between providers, while at the same time giving communities a real say in the delivery of family and community services in their region. Financing all of this will be the Quality Services and Innovation Fund, providing \$90.5 million over 4 years (unallocated funds from the previous government's Pathway to Partnership programme).

Submissions requested

Employment Relations (Rest and Meal Breaks) Amendment Bill

This Government Bill amends the Employment Relations (Breaks, Infant Feeding and Other Matters) Act passed by the previous government just before the election. The original Act, as passed by Labour, legislated for minimum rest and meal breaks for all employees. Although most employers did provide breaks there had never been a statutory obligation on them to do so.

The Government's Bill amends the current law by introducing flexible rules around meal and rest breaks. Under the Bill, there will be a requirement for employees to provide either meal breaks and paid rest breaks or compensatory measures if no breaks are taken. So, for example, allowing an employee to negotiate a late start, early finish, or time off in lieu instead of a break.

The Government has said that the current law has created problems for employers and employees by being too prescriptive. This Bill will allow employers and employees “to negotiate in good faith about workable arrangements” about how breaks should be taken.

Submissions to the Transport and Industrial Relations committee close 11 June.

Local Government Act 2002 Amendment Bill

In the November 2009 edition of Law Scene, Mike Reid (from Local Government New Zealand) wrote about the Local Government Act Review and Cabinet Paper advocating for a more simplified planning, financial and consultation structures, and the need for councils to focus on “core” services.

The Bill to enact those recommendations was introduced last month and has been sent to the Local Government and Environment Committee for consideration.

The Bill is aimed at improving “transparency, accountability and financial management in local government” and will require local authorities to focus on core activities and work within a defined “fiscal envelope”. The Bill simplifies decision-making process by removing “unnecessary consultation”, and making it easier for the private sector to deliver local authority services. Specifically, the Bill proposes to remove “unnecessary barriers to water infrastructure development”, reducing restrictions on private sector involvement in the delivery of water services. It feels a little that this Bill has slipped under the radar, but it shouldn't. Be wary of that word “unnecessary”.

Submissions to the Local Government and Environment Committee close 18 June.

Legislation Update

Legislation	Stage and Progress	Impact
Child and Family Protection Bill	Government Bill. Introduced August 2009. Submissions close 1 April. Report due 11 August 2010.	Provides greater protections to children affected by domestic violence.
Crimes (Reasonable Parental Control and Correction) Amendment Bill	Members Bill (John Boscawen—ACT). Introduced 26 August.	Amends section 59 Crimes Act to allow parents to use a “light smack” to correct their children.
Education Amendment Bill	Government Bill. Reported back. Moving through committee stages of House.	Bill to help identify unregistered teachers and reduce compliance costs of Police vetting.
Electoral (Administration) Amendment Bill	Government Bill. Reported back. Committee’s report can be read at www.parliament.nz	Establishes new Electoral Commissions responsible for electoral administration.
Electoral (Financial Reform and Advance Voting) Amendment Bill	Government Bill. Introduced 29 April. Submissions close 17 June 2010 (see page 4).	
Electoral Referendum Bill	Government Bill. Submissions close 10 June (see page 4).	Provides framework for 2011 MMP referendum, including spending limits for those campaigning for and against electoral options.
Employment Relations (Rest and Meal Breaks) Amendment Bill	Government Bill. Submissions close 11 June (see page 2).	Maintains employees’ rights to reasonable breaks but within more flexible framework.
Excise and Excise-Equivalent Duties Table (Tobacco Products) Amendment Bill	Government Bill. Introduced 28 April and passed, under urgency, through all stages (see page 4).	Introduced immediate increase in excise duty on cigarettes and loose tobacco, with further increases January 2011 and January 2012.
Fair Trading (Soliciting on Behalf of Charities) Bill	Members’ Bill (Amy Adams, National). Submissions closed 19 March. Report due 9 June.	To provide transparency and public accountability to professional fundraisers.
Gambling Amendment Bill (No.2)	Labour Government Bill. Reported back. Second Reading 12 May.	Contains technical amendments to allow original Act (2003) to operate as intended.
Local Government Act 2002 Amendment Bill	Government Bill. Submissions close 18 June (see page 2).	Bill will require local authorities to focus on “core” activities, and have transparent and accountable decision-making processes
Local Government (Auckland Law Reform) Bill	Government Bill. Submissions closed 12 February. Report due 24 May.	Last of three Bills implementing new local body structure for Auckland.
Patents Bill	Government Bill. Submissions closed. Reported back. Divided into two Bills at committee stages.	Updates New Zealand’s patents regime.
Public Health Bill	Labour Government Bill. Reported back from select committee. Reinstated.	Revises public health legislation including border protection and quarantine provisions.
Residential Tenancies Amendment Bill	Government Bill. Submissions closed. Reported back.	Reflects significant changes in the rental market since the 1986 Act.
Sale and Supply of Liquor and Liquor Enforcement Bill	Labour Government Bill. Reinstated. Submissions closed. Report was due 10 September, now due 30 June 2010.	Gives communities greater say in liquor licensing decisions, makes it an offence for adults to supply alcohol to minors without parental consent.
Sale of Liquor (Objections to Applications) Amendment Bill	Member’s Bill (George Hawkins). Submissions closed. Report now due 30 June 2010.	Restricts the number of liquor outlets and makes wider provisions for objections to licenses.
Search and Surveillance Bill	Government Bill. Submissions close 18 September. Report due 1 May 2010, now due 29 October.	Widens ranges of offences for which communications can be intercepted.
Sentencing and Parole Reform Bill	Government Bill. Interim report released. Passed second reading.	Introduces tougher parole laws. Bill also introduces “three strikes” policy for serious offences.
Social Assistance (Future Focus) Bill	Government Bill. Submissions close 14 May.	Introduces the government’s welfare reforms, with focus on breaking welfare dependency and on moving people from welfare benefits to paid work. Introduces work-testing for some DPB and sickness beneficiaries.

Submissions requested...continued

Electoral (Finance Reform and Advance Voting) Amendment Bill

This Government Bill, introduced last month, enacts the electoral finance reforms announced earlier this year. The Government consulted with both the public and other political parties before developing the reforms which include

- Requiring people or groups spending more than \$12,000 on parallel campaigning to register with the Electoral Commission.
- Adjusting the amount that candidates and parties can spend at an election in line with inflation.
- More clearly defining what is “election advertising” and providing more certainty about the regulated campaign period.

The Bill has been referred to the newly established Electoral Legislation committee. *Submissions close 17 June.*

Electoral Referendum Bill

A Government Bill providing the details and framework for the 2011 referendum on the electoral system. This Bill has also been referred to the Electoral Legislation committee, and *submissions close 10 June.*

Passed

Excise and Excise-Equivalent Duties Table (Tobacco Products) Amendment Bill

A Government Bill, this was introduced and passed through all stages under “extraordinary urgency” last month. The Bill increases the rate of excise duty and excise-equivalent duty payable on cigarettes and loose tobacco. The increase takes effect in three stages. Cigarette and tobacco prices rose immediately (cigarettes by 10% and loose tobacco by 24%) with further 10% increases due in January 2011 and January 2012.

(While it is not uncommon for the House to move into urgency to pass all or part of a Bill, extraordinary urgency motions are rare. The Speaker has to agree that the circumstances or business before the House justifies the motion. If granted, the sitting hours of the House are extended so that it may, if necessary, sit right through the night).

News

Update: Management of Prisons

Following on from the announcement last month that the new prison to be built at Wiri will be designed, built and operated under a public-private partnership, the Government has announced that the joint Mt Eden–Auckland Central Remand Prison will be run under private contract. (The Auckland Central Remand Prison was under private management 1999-2005, but the contract ended after Labour repealed the law introduced by the 1996-9 National Government that had originally allowed for private management.) The tender process has already begun and the successful tender will be announced by the end of the year. The prison will still be required to operate within the Department of Corrections framework, meaning, for example, that rehabilitation requirements will be written into the contract, and the Chief Executive of Corrections will still be responsible for prisoner safety.

Update: Social Assistance (Future Focus) Bill

The Human Rights Commission believes that the Government’s Social Assistance (Future Focus) Bill requires a number of changes to ensure it does not discriminate against some groups of people, and it agrees with the Attorney-General that some parts of the Bill are inconsistent with the Bill of Rights.

In its submission to the Social Services committee, the Commission said that the Bill will discriminate against some people on the grounds of sex (widows with children will not be work-tested but widowers will be), marital status (solo parents whose partner has died will not be work-tested but those who are separated or divorced will be) and family status (those receiving the DPB will be treated differently from those receiving the women-alone benefit).

The Commission has offered to help redraft the Bill.

Update: Whanau Ora funding

Last month we wrote about the Government’s Whanau Ora policy. At the time of writing details of the policy had yet to be released, but since then it has been announced that the programme will receive \$134.3 over the next four years. Most of the funding (\$120million) is unallocated funds from the previous Labour Government’s Pathway to Partnership programme, intended to fully fund some non-government service providers. The process to select the first Whanau Ora providers will begin in June. “Expressions of Interest” will be called for and reviewed by the Whanau Ora Governance Group and it is intended that implementation of the programme will begin in October 2010. For more information see www.tpk.govt.nz

Problem Gambling Levy

The Government has announced the Problem Gambling Levy, used to fund problem gambling services, will be set at 0.9% for the following three years. With gambling estimated to earn \$5.9billion in gross profits in that period, the levy will provide \$55million in funding. The levy is administered by the Ministry of Health and will be used to fund problem gambling services, including specific services for Maori, Pacific and Asian communities.

The levy will be applied to the profits of casinos, non-casino gambling machines, the New Zealand Racing Board and the New Zealand Lotteries Commission and will take effect from 1 July 2010. For details of the service plan for the next three years see www.moh.govt.nz/problemgambling

New Zealand Federation of Voluntary Welfare Organisations

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