

Some Policy Issues for Reforms of Assistance to Sole Parents

Introduction

The National-led government is currently considering a number of major policy initiatives that potentially have significant implications for sole parents, especially sole parents on benefit. These include changes to welfare following the Welfare Working Group's (WWG) final report (WWG, 2011), and possible amendments to child support (see Dunne, 2010) and to early childhood education and care (ECEC) arising from the recommendations of the Early Childhood Education Task Force (which at the time of writing had not reported). Following the Christchurch earthquake on 22 February, the government has also indicated that it is considering tighter targeting of family tax credits.

This article does not attempt to make an assessment of these proposals and recommendations. Rather, its purpose is to set out some of the factors which will need to be taken into account by policy advisers and the government, and to highlight some underlying issues to be considered.

Moreover, its focus is only on a subset of the policy questions – principally those relating to financial issues affecting sole parents whose youngest child is over three years of age, a group for whom the WWG proposes new or extended work search obligations. Important issues relating to

parents with younger children and also to the group's proposals regarding structural and delivery changes are not covered. Questions regarding benefit adequacy – which were outside the WWG's terms of reference – are also not discussed.

Financial factors are focused on not just because of their obvious importance to the sole parent families concerned but because they are central to achieving the stated goal of promoting sole parents' labour market participation. There is

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evidence that work-testing alone has some impact on domestic purposes benefit (DPB) receipt (Wilson and Ball, 2000; WWG, 2010), but its effect is likely to be muted (as well as potentially detrimental for the families) if not aligned with financial gains from increasing work hours that are large enough to increase income net of the costs of working.

The article is divided into two parts. The next section sets out some key features of the current situation and of some of the WWG's proposed changes. This is followed by a discussion of four issues that arise from that analysis.

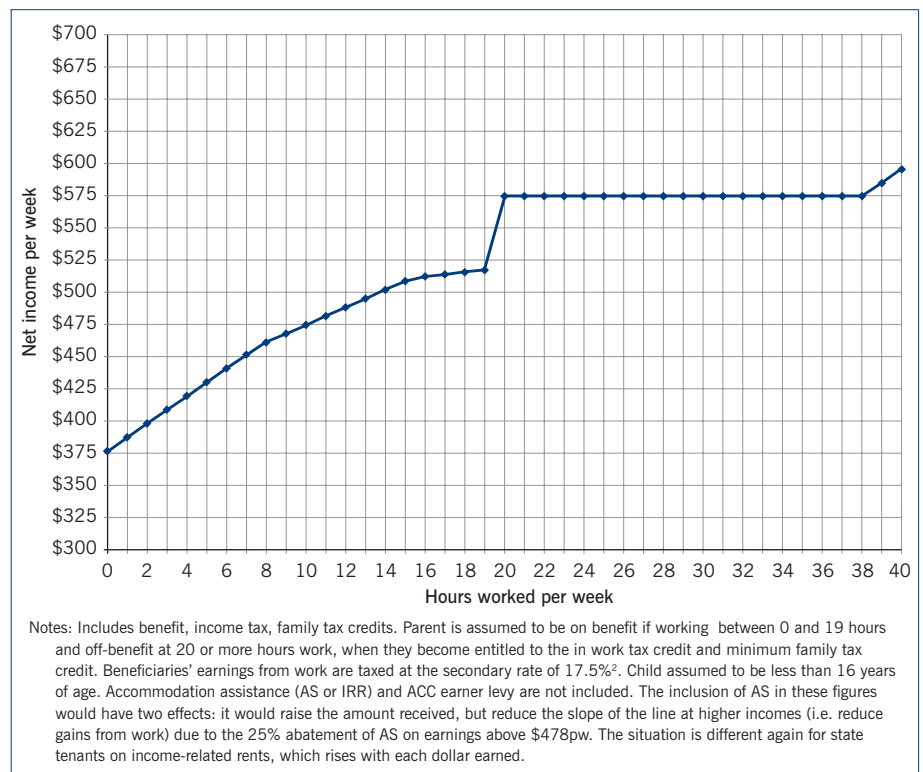
Current policy and some of the suggested changes

The returns to work for sole parents

Figure 1 presents the budget constraint for a sole parent with one child under 16 years of age. The data are graphed assuming the parent earns the minimum wage of \$13.00 per hour. Tax, family tax credit and benefit rates and rules are those applying as at 1 April 2011.¹ Accommodation assistance is not included as this varies greatly depending on location and tenure type (state housing or accommodation supplement (AS) for private costs). Where accommodation assistance would substantially affect the analysis, this is noted. Child care costs are presumed to be zero; ECEC costs are discussed below. The minimum wage is used first to show the 'base case' for a sole parent on the lowest wage. Wage issues are discussed in the next section.

Several key points are evident from Figure 1. First, even at the minimum wage there is a sizeable increase in net income resulting from moving from zero hour's employment on a benefit to full-time paid work. At 40 hours per week, the sole parent is \$219.38 per week (or 58%) better off in net terms than if she/he was on a benefit with no paid work. Second, however, all but about \$20 of that gain – \$198.53 – results from the first 20 hours of work – the minimum number of hours for entitlement to the in work tax credit (IWTC) and the minimum family tax credit (MFTC) if off benefit. At the minimum wage rate there is no gain at all for additional paid work between 20 hours and 38 hours. This is the result of

Figure 1: Budget constraint, sole parent with one child, minimum wage rate (\$13/hr)



the operation of the MFTC which 'tops up' the net wage to \$427 per week but which is reduced dollar-for-dollar for additional earnings.³

Third, the 'dual abatement' regime of a \$100 per week 'free zone', followed by 30 cents per dollar abatement on earnings between \$100 and \$200 dollars per week and 70 cents per dollar on earnings above that results in a relatively high return to work for part-time employment while on benefit. Sole-parent domestic purposes beneficiaries⁴ on the minimum wage have an increase in net income of \$84.60 from eight hours work and \$136.00 from 16 hours. The dual abatement regime was first introduced in 1995 as part of the then government's response to the Prime Ministerial Task Force on Employment.⁵ Its express purpose was to encourage labour market attachment through part-time work for sole parents on benefit. Currently about one in six domestic purposes beneficiaries reports earnings to Work and Income.

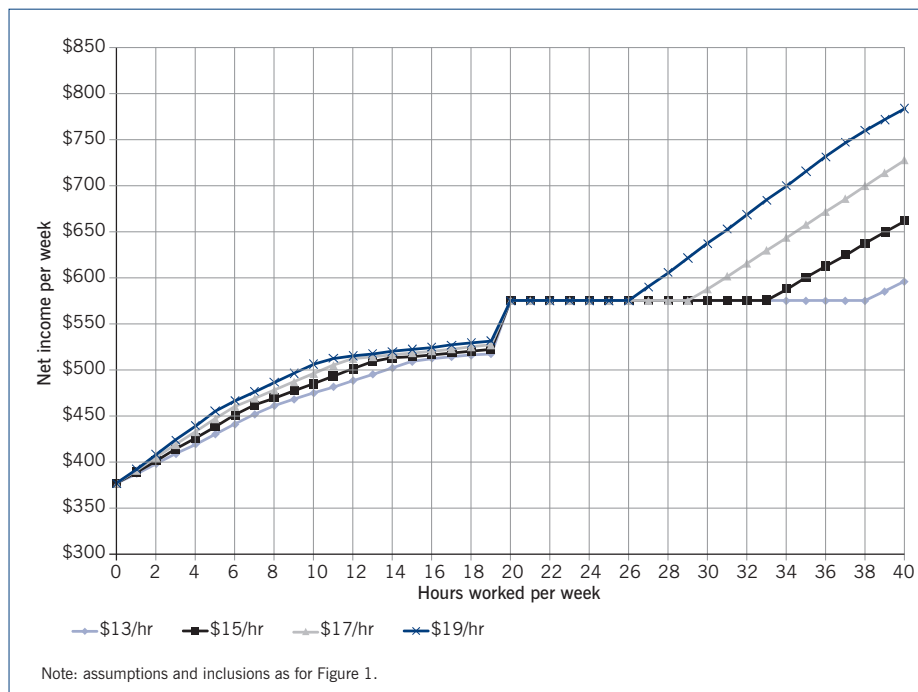
A separate point to note is that Figure 1 does not take into account child support. Child support generally increases a custodial parent's incentive to move off a benefit and into work, although by how much depends on the circumstances of the other parent. When

the custodial parent is on a benefit all child support payments up to the value of the core benefit are retained by the Crown. If the custodial parent moves off a benefit (or if they re-partner and are on a couple benefit), child support payments are forwarded to them. How much is received depends on whether the paying parent is on a benefit and their income and family circumstances. Proposed amendments to the child support system are not discussed in this article but will need to be aligned with any amendments to welfare rules.

The importance of wage rates

Low wages are likely to represent a significant barrier for many sole-parent beneficiaries seeking to work full time. Of sole parents on the DPB, 88% are women, and 52% Māori or Pacifica people. Median earnings for all waged women – across all levels of education and experience and in all regions – are \$19.00 per hour.⁶ For Māori and Pacifica women median wages are \$17.00 and \$16.88 respectively. Some 48% of domestic purposes beneficiaries have no formal educational qualifications and a further 44% have no post-school qualifications (Ministry of Social Development, 2010). Median hourly earnings for people (men and women)

Figure 2: Budget constraint, sole parent with one child, various wage rates



with no qualifications are \$16.00 and for those whose highest qualification is NCEA levels 1–3 (or their earlier equivalents) between \$16.50 and \$17.39. These figures are the median; many domestic purposes beneficiaries wanting to move into employment or increase their hours are likely to face wages below these levels.

Figure 2 shows the situation for the same sole-parent family but with different hourly wage rates, ranging from \$13.00 per hour up to \$19.00 per hour.

Two important features of the current system are evident in Figure 2. First, the current system – and specifically the MFTC – works to ensure a set level of income for low-paid sole parents working 20 hours per week. This is its basic objective. Second, the corollary is that the wage rate a sole parent is able to earn is crucial in their ability to escape the poverty trap created by the MFTC’s 100% abatement and improve net family income by increasing their hours of work. Thirty hours per week is treated as full time by the benefit system⁷ and in official statistics. A sole parent does not receive any gain from moving from 20 to 30 hours unless their wage rate is about \$17.00 per hour (and then only \$12.60 per week for the extra 10 hours work).

Working a full 40-hour week rather than 20 hours, a sole parent gains \$87pw for the extra 20 hours’ work if the wage rate

is \$15.00 per hour, \$120pw if it is \$16.00 per hour and \$153 if on \$17.00 per hour. These figures are before the abatement of AS and assume no additional child care or transport costs (or other work-related costs).

In summary, Figures 1 and 2 suggest that current policy settings encourage low-income sole parents to choose between one of four discrete labour supply choices:

- benefit receipt with no earned income;
- benefit receipt supplemented by income from a limited number of paid work hours;
- off-benefit and working 20 hours per week to gain the advantage of MFTC entitlement; or
- if they can achieve a wage rate of at least \$16.00 or \$17.00 per hour, full-time work of around 40 hours per week.

Which of these options makes most sense for any particular sole parent will depend on their circumstances, including the number and ages of the children, travel-to-work and travel-to-care costs and time, and, crucially, early childhood education and care and out-of-school service costs. Options may also be affected by government policy introduced in September 2010 requiring domestic purposes beneficiaries whose youngest

child is six or older to be available for and seek at least 15 hours paid work.

The Welfare Working Group’s proposals

The text of the WWG’s report makes clear that they are aware of most of the policy design issues discussed above. Their main recommendations relevant to the above are:

- that sole parents receiving welfare be required to seek at least 20 hours work per week once their youngest child is three years old and at least 30 hours per week once the youngest child is six (recommendation 5 b) i. (a) and (b));
- that abatement of Jobseeker Support (their proposed replacement for core benefits) be better aligned with paid work expectations and that consideration be given to an abatement-free zone that is as small as possible coupled with a single abatement rate designed to cut out at about 30 hours work at minimum wage for a single recipient; they suggest, as an example, a \$20 per week an abatement-free zone and 55 cent/dollar abatement rate (a 72.5% marginal tax rate for sole parents) (recommendation 20 d) ii and iii); and
- consideration be given to how the proposals will interact with Working for Families [i.e. family tax credits] and to ensuring the incentives for people to work 20 or more hours per week are increased (recommendation 20 d) iv).

The WWG does not devote much time to interactions between the benefit system and tax credits. This is not surprising given that the ‘tax-benefit interface and Working for Families specifically’ were ruled out of the scope of their terms of reference, and it would be unfair to hold them to account on the detail of policy parameters put forward as examples. Nonetheless, these are issues policy makers will need to consider, and it is useful to draw out some implications. To this end Figure 3 uses the same one-child sole-parent family to compare the group’s abatement proposals with the current system. Minimum wages are assumed, as

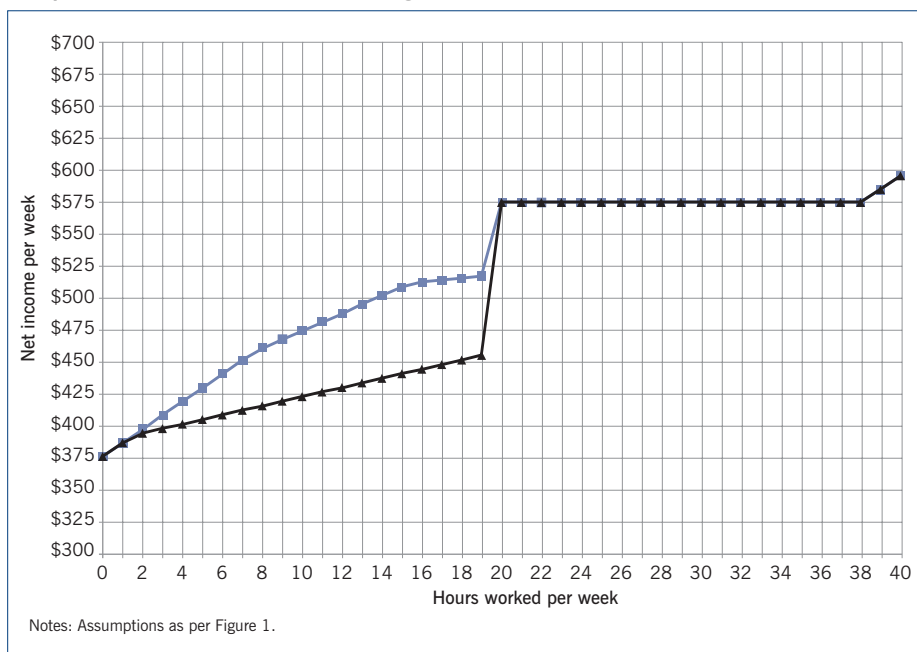
in Figure 1, but the choice of wage rate is not critical to the conclusions.

Three points arise from Figure 3. First, and most obviously, the alternative steeper abatement regime has the effect of incentivising beneficiaries to work 20 hours by reducing the gain from fewer hours. The EMTR on earnings above \$20 per week up until moving off benefit rises to 72.5%. Assuming no behavioural response, the WWG's suggestion would result in a considerable number of losers. Currently, approximately 15,800 domestic purposes beneficiaries (16%) and 44,400 beneficiaries in total (12.6%) report some earnings to Work and Income.⁸ These people would all have their benefit reduced by more than at present except for a small number reporting earnings of under \$20 per week and those deemed to have very little capacity to work, for whom the WWG proposes a different, more generous abatement regime. At the same time, if the change were to have the intended effect of encouraging sole parents to move to 20 hours work it is not clear that the fiscal savings would be great, given that at low wage rates, total assistance (benefit plus tax credits less income tax) may be greater at 20 hours work off a benefit than at fewer working hours on an abated benefit.

Second, unless other changes were made, the combined proposals introduce an inconsistency between the proposed work expectation rules and the financial incentives. The WWG recommends that sole parents whose youngest child is six or older be required to seek at least 30 hours work per week rather than the current 20 hours. However, based on the current MFTC, there is no financial gain at all from moving from 20 to 30 hours work unless the person's wage rate is above approximately \$17.00 per hour. It seems anomalous to target full-time work in the work test and part-time work in family tax credits. Moreover, it is likely to be difficult to make full-time work search obligations effective when the financial incentives favour part-time work.

Third, Figure 3 is plotted on the basis of the current MFTC. In fact, however, if the MFTC was set according to existing rules, its level would need to

Figure 3: Budget constraints, Welfare Working Group suggestions and current rules, sole parent with one child, minimum wage rate



be altered to ensure no one was worse off moving off a benefit at 30 hours for couples, or 20 hours for sole parents. The procedure for setting the MFTC is somewhat complex. The 'worst case' situation is found, which may or may not be at minimum wages and may be for either the sole parent working 20 hours or couple working 30 hours. The necessary top-up is then applied to both family types. Even though the alternative abatement structure results in a higher gain for a sole parent moving off benefit at 20 hours, by my calculations it would be necessary to set the MFTC higher to accommodate the effect on couple families moving off benefit at 30 hours.

The obvious policy design question this raises is whether there should be two MFTC top-up rates: one for those with a 20-hour work expectation and one for people (couples and sole parents with school-aged children) expected to seek full-time work. Such a scheme would have a number of other consequences. It would involve additional losers: namely, sole parents doing the 'right thing' by moving off a benefit and working between 20 and 29 hours. It would add complexity and it would require changes to the IWTC, which draws the same 20-hour/30-hour distinction between sole parents and couples. At one level these are technical issues of detail, but

on another they potentially have large implications for sole-parent families with low incomes and go to the heart of the objectives sought through these policies.

The impact of early childhood education and care costs⁹

So far the discussion has assumed zero child care costs, whereas in fact ECEC and out-of-school care costs can make a large difference to sole parents' financial incentives to take work, especially full-time work.

ECEC is funded through three main instruments. These are:

- Ministry of Education funding (at variable rates) for all occupied places in licensed services;
- additional Ministry of Education funding through the 20 Hours ECE policy, which provides 20 hours 'free' or near-free¹⁰ ECE for 3 and 4 year olds in centres that have opted in to the programme;
- Ministry of Social Development child care subsidy (CCS), paid at three rates dependent on family income and number of children for attendance at qualifying providers. The three rates are \$3.77, \$2.62 and \$1.46 per child per hour. The CCS is available for up to 50 hours care per week for those in work or approved

training. It cannot be claimed in respect of hours for which 20 Hours ECE is being paid.

Unfortunately, we do not have good data on the actual costs parents pay per hour for child care after accounting for the various subsidies.¹¹ The Childcare Survey does provide some data on the amount paid per week, but there is no way of knowing how many hours of ECEC is being paid for. That survey showed that for all children attending formal care for

Education Taskforce consider the benefits of extending the 20-hours provision to 25 hours to accommodate this.

The second issue is the difficulty in matching Ministry of Education rules for use of the 20 Hours ECE with the hours structure provided by ECEC services and with the hours of the job. The ministry funds a maximum of six hours per day under 20 Hours ECE, whereas most ECEC centres offer only full-day or half-day options. There is a logic

included in the remit of the WWG and other review committees and the scope of changes currently under consideration include many other significant matters.

How important is the 'on-benefit'/'off-benefit' distinction?

A first point is how much significance should be attached to the distinction between being 'on-benefit' and 'off-benefit'. The WWG clearly sees moving people off a benefit as very important. This is perhaps not surprising for a committee charged with advising on ways of 'reducing long-term benefit dependence'. However, it is important to be clear what that term means and why it is considered a desirable outcome, if indeed it is. If 'benefit dependence' is measured by the amount of direct cash assistance received (less income tax paid), then a sole parent off-benefit and working 20 hours per week on minimum wages would under the WWG's abatement suggestions be more 'dependent' than if she/he were working nine hours and receiving an abated benefit.¹³

Usually the term is used to refer to receipt of core benefits, yet nearly all sole parents (and many other beneficiaries) moving off a benefit would continue to be entitled to second-tier benefits, most commonly the accommodation supplement and child care or OSCAR Subsidy. In other words, if the objective of reducing benefit dependence is to detach people from contact with the welfare system, then simply shifting people off a benefit at 20 hours per week does not succeed as they continue to be clients of Work and Income. The WWG appears to be aware of this and suggests consideration be given to delivery of second-tier assistance through the tax system in the same way that family tax credits are delivered. This has some potential advantages, including the fact that it is likely to result in more complete take-up of entitlements, but may also lead to more debt due to innocent overpayment problems.

Another consequence of an 'off-benefit' focus is that it leads to the type of sharp abatement regime discussed above, where any labour force attachment below 20 hours per week is strongly discouraged.

While the 20 Hours ECE policy clearly made ECEC more affordable, one key difficulty, well-recognised by the Welfare Working Group, is fitting the ECEC hours around work hours.

at least part of the week (and excluding playgroups and Playcentre where a parent attends with the child), the cost to the parent was between \$51 and \$100 per week for 20% of the children and over \$100 for a further 23%. In addition, consumer price index data provided to the Early Childhood Education Task Force by the Ministry of Education show that fees fell by 34% on average immediately following the introduction of the 20 Hours ECE policy in mid-2007. A very rough check of websites suggests wide variation in costs for full-time, full-day ECEC services, with an average of somewhere around \$75+ per week for a 3–4 year old entitled to 20 Hours ECE plus the maximum rate of CCS for the remaining hours. If this figure is about right, a sole parent with one 3–4-year-old child and earning \$16.00 per hour would be only about \$45 per week better off shifting from 20 hours to 40 hours paid work.¹²

While the 20 Hours ECE policy clearly made ECEC more affordable, one key difficulty, well-recognised by the Welfare Working Group, is fitting the ECEC hours around work hours. Two issues face parents. The first is the additional time required to travel to and from the ECEC centre/provider and the workplace. The WWG suggests the Early Childhood

behind both arrangements: the ministry is modelling its policy on education delivery in primary schools and what is best for young children's learning; ECEC providers are driven by the practical and financial imperatives of running a centre. As a result, though, there are limited work patterns that permit a sole parent to move off benefit by working 20 hours without incurring at least some ECEC costs outside the 20 Hours ECE provisions. Five mornings or five afternoons per week might work, depending on travel times, but most other arrangements, such as two and a half days per week, do not. A sole parent who has a pre-schooler plus an older child at school and who wants to fit 20 hours paid work around school hours is likely to have to pay for five days full-time ECEC.

Discussion: some underlying issues

The above discussion of policy design details brings out some of the more basic issues policy makers will need to consider when implementing changes. In part these are about the objectives policies are seeking to achieve, and in part they relate to integrating policies across objectives that may in places conflict or compete with each other. The discussion below covers only four of these issues. As mentioned in the introduction, the range of issues

Is it better for a sole parent to work zero hours in paid work until she/he is in a position to shift to 20 hours per week than it is for her/him to work, say, 10 or 12 hours before later shifting to 20 or more? In part one's view on the on-benefit/off-benefit question depends on whether one believes contact with the benefit system is in some way corrosive or stultifying. The WWG report is clear in its concern to avoid situations where sole parents and other beneficiaries adapt to a low-income life where all or nearly all their income derives from benefits and tax credits. It is less clear, though, that the only positive alternative is 20 or more hours work and no core benefit.

Full-time versus part-time employment

The WWG is clear in wanting policy settings to encourage and expect sole parents to work full time once their youngest child is school-aged. One rationale it gives for this is that increasingly women, and specifically partnered mothers, are choosing full-time employment and the welfare system should be aligned with these preferences. However, the logic of this argument is open to question: couples where both parents work full time still have twice the number of non-paid work hours available to run the home and manage child-rearing and child care responsibilities. This includes greater opportunities to manage the day-to-day balance between paid work and care, such as morning start times, after-school care, school holidays and time off when children are sick.

Moreover, the data are less compelling than a reading of the group's report might imply. I do not have figures on both parents' combined paid work hours for couple families by age of child. However, figures on partnered mothers' employment rates suggest most couples with pre-secondary-aged children do not both work full time. Looking at 2006 Census data for partnered mothers who are aged 20–54 and who have no post-school qualifications (i.e. a group similar to sole parents on a benefit), only 40% whose youngest child was aged 5–9 years worked full time compared with 35% who work part time (defined as between one and 29 hours per week). For those whose youngest was aged 10–17 years the

Table 1: Full- and part-time employment rates, partnered mothers, by age of youngest child

	Full time (%)	Part time (%)	Total employment rate
Youngest child aged 5–9 years			
No post-school qualifications	40.2	34.9	75.1
All qualification groups	42.8	33.7	76.5
Youngest child aged 10–17 years			
No post-school qualifications	52.4	28.4	80.8
All qualification groups	55.3	26.9	82.2

Source: Ministry of Women's Affairs (2009), 2006 Census data.

full-time employment rate was just over a half (see Table 1). Allowing for the fact that in a number of cases the mother would have been the only earner in the family, the proportion of such families where both have full-time paid work would be lower still.

Wage rates and education and training

Figure 2 makes clear how critical the wage rate a sole parent can earn is in determining her/his ability to improve on the modest level of income guaranteed by the MFTC. However, prevailing wage rates for women who have few qualifications and limited labour market experience – who comprise the majority of sole-parent beneficiaries – are low. Durable strategies to allow sole parents to earn a greater proportion of their family's income and to reduce the amount paid in state assistance must surely include ways of raising sole parents' wages when in employment. Increases in statutory minimum wages and other regulatory support to raise low wages are part of this.

Also important are the education and training opportunities available to sole parents. The WWG recommends incentives for employers to provide more on-the-job and NZQA-approved vocational training. (It is not clear, though, what the report means by employer incentives 'such as through tiered training wages'. Lower training wages will not work if the constraint is the sole parent's income rather than the cost to the employer.)

The report also acknowledges the value of sole parents undertaking tertiary study. However, the group's recommendation on this needs more

work. They note the disincentive effects of the higher level of housing assistance available to sole parents on benefit (or in work) through the accommodation supplement compared with what is payable in accommodation benefit if they are tertiary students supported through StudyLink. They recommend that these effects be addressed 'to enable [sole parents] to move out of the welfare system and undertake tertiary study through the student support system' (recommendation 16).

Anomalies between the accommodation benefit for students and the accommodation supplement for beneficiaries and low-income workers are a long-standing and complex problem. My understanding of the current system is that sole parents on a benefit can sometimes continue to receive their benefit and accommodation supplement and also receive student assistance for fees and course-related costs but only where Work and Income deems the course to be part of a return-to-work plan. In general this would be for shorter courses and be unlikely to include multi-year tertiary education. One way of resolving the problem is to allow sole parents on a benefit to access assistance for fees and course costs for university and other tertiary study while retaining their benefit and accommodation supplement. The other is to transfer them to a student allowance (at the same rate as the DPB but with different abatement/earnings rules) but allow them to access an accommodation supplement. Both options would cost extra, but would provide recipients with the opportunity to raise their earning power to levels that

With (usually) only one adult to manage the occasional and often unpredictable problems that arise – children’s illnesses, doctors and other appointments, school events, school holidays and so on – a sole parent’s ability to sustain her employment is often dependent on her employer’s flexibility and co-operation.

would significantly reduce their likelihood of being long-term benefit recipients in the future. Which is preferable goes back to the question of whether it matters if a person is deemed ‘benefit dependent’ in the Work and Income system (as against being a student in the StudyLink system). The flow-on effects for other groups of students currently only entitled to accommodation benefit would also need to be addressed.

Supporting sole parents to balance paid work and care responsibilities

The above discussion of ECEC services concentrated on the impact of child care costs. However there are two other issues policy makers will need to address.

The first is implications of work-search obligations for sole parents. In order to enforce work obligations and to require sole parents to take jobs that are offered to them, Work and Income (or any other employment agency) needs to be able to resolve the sole parent’s child care needs. Clearly, where financial incentives to work are good this will be less of a problem, but where they are not the sole parent will be less willing to take work. Ultimately, to enforce obligations the agency needs to be able to say ‘here is a place in a safe, approved childcare service that is suitable for your child – you are required to take the job offer and either use this child care place or find your own alternative’. The other option of offering x dollars per week for a sole parent to pay a relative or friend to care for her/his child will not work for work-test purposes for the obvious reason that the sole parent can always say she/he has

no one who is willing to provide the care. In effect, Work and Income will need to buy a supply of child care (and OSCAR) places across the country to be used to enforce work-test obligations.¹⁴

A second issue relates to the relationship between early childhood education, formal child care and informal care provided by family, friends or paid informal carers. Many parents use informal care, either because it is convenient or because it allows contact between grandparents or other family members and their children. For many it is an important part of family life and the upbringing they want for their children. For policy makers focused on sole parents’ labour force participation (albeit also concerned more broadly with children’s well-being), the central question is whether the state should financially support such care. On the one hand, the deadweight costs would be high; on the other, care provided by others, especially grandparents, is an important factor in allowing sole parents to take work and move off a benefit.

Within the formal sector there is a long-standing tension between the provision of child care for parental labour supply purposes and the provision of ECE for child development and education purposes.¹⁵ The 20 Hours ECE policy can be seen as a useful building block towards reducing this tension. By universalising near-free education (on a voluntary basis) from age three it makes part-time parental employment more achievable once the youngest child reaches that age. The WWG’s proposal to extend it to 25 hours would help align

it with 20 hours paid work, although logic suggests moving towards a 9am–2.30pm or 3.00pm structure aligned with school hours, coupled with a ‘care and recreation’ focus outside those hours to accommodate parents working longer or different hours.

A final observation about measures to support sole parents to balance caring with paid work is about the role of the employer. With (usually) only one adult to manage the occasional and often unpredictable problems that arise – children’s illnesses, doctors and other appointments, school events, school holidays and so on – a sole parent’s ability to sustain her employment is often dependent on her employer’s flexibility and co-operation. There is potentially value in ongoing government-subsidised support for additional leave for sole parents whose employment arrangements would otherwise break down.

Conclusion

The WWG has put forward an argument and proposals for a strongly ‘work-focused’ welfare system. The purpose of this article is to draw out some of the issues of integrating this approach with other policies affecting the financial implications for sole parents moving off benefit and into work. Imposing stronger work obligations on sole parent beneficiaries may have some effect on the numbers recorded on benefit. However, the effect is likely to be limited and the risks of negative impacts on the sole-parent families themselves high unless work obligations are coupled with a package of policies that make it practical and financially beneficial for sole parents to balance paid work and caring responsibilities. This includes policies to raise sole parents’ wages, coherent integration of benefits, tax credits and abatement regimes and extended ECEC provision.

1 The ACC earner levy has also not been included, but this does not substantially alter the analysis. Benefit rates and rules are available at <http://www.workandincome.govt.nz/manuals-and-procedures.html>.

2 Unless there are exceptional circumstances, all beneficiaries’ earnings are taxed at secondary rates. In the case of sole parents who are on benefit full-year, this is also likely to be the ‘right’ end-of-year tax rate, as their gross benefit exceeds the \$14,000 lowest tax threshold. There will be some situations of part-year benefit receipt however where the final annual tax payable is different.

3 This MFTC rate applies from 1 April 2011; for the year prior the amount was \$408pw. Note that for many people

effective marginal tax rates (EMTRs) would be high (62.5% to 75% in most cases) even in the absence of the MFTC because of the 20% abatement of family tax credits on earnings above \$708.21pw (\$36,827pa) and 25% on AS on earnings above \$478pw on top of income tax. Third-tier assistance such as temporary assistance grants can also raise EMTRs.

- 4 Some other groups also have the same abatement regime. The abatement regime for unemployment benefit is 70 cents per dollar earned over \$80 per week.
- 5 Although until last year the thresholds were set at \$80.00 and \$180pw.
- 6 June 2010 New Zealand Income Survey.
- 7 The full-time work test refers to 30 hours or more per week

and persons working 30 hours or more cannot register as unemployed.

- 8 Ministry of Social Development *Benefit Factsheet*, December 2010.
- 9 At the time of writing the Early Childhood Education Task Force had not reported. It is likely that its recommendations will address issues of cost.
- 10 Centres may charge for certain items and activities.
- 11 Although it is possible that the Early Childhood Education Task Force may be able to obtain estimates as part of its work, none are available at time of writing.
- 12 This also assumes that child care costs for the first 20 hours are covered by the 20 Hours ECE provisions. If not, net income after child care is lower at 20 hours but the gap

between 20 and 40 hours is correspondingly larger.

- 13 Assuming the current MFTC.
- 14 The alternative, for the state to have no consideration for the child's care arrangements, would (I assume) be socially unacceptable and would in any case run counter to the legal requirement for parents and guardians to ensure adequate care.
- 15 See Baker (2011) for a discussion of these issues in relation to New Zealand and Canada.

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THE IRON CAGE RECREATED

The Performance Management of State Organisations in New Zealand

Edited by Derek Gill

Wouter Van Dooren, a highly respected international academic, suggested that "politicians don't use performance information; citizens don't understand it and don't bother with it; and public managers don't trust it or don't take it seriously". A former New Zealand Controller and Auditor-General, Kevin Brady, has described the quality of non-financial performance information produced by public sector agencies in New Zealand in highly derogatory terms. In a similar vein a former Cabinet minister observed that "no one in their right mind" would rely on New Zealand government management reporting.

This book explores the results of a major three-year research project by a team of academic researchers and public officials on the use of performance information in the New Zealand state sector. It examines the formal design of the performance management system and how this system has evolved, then uses survey and case study evidence to show how performance information has been used in state sector organisations.

The New Zealand public sector pioneered comprehensive and rigorous systems for planning, managing, and reporting government performance in the 1990s. Twenty years on, we ask whether performance information has fallen into disrepute, and whether the production of such information has degenerated into an exercise in compliance. Do managers in the New Zealand state sector actively use

performance information in decision-making?

The research finds decision-makers at all levels of executive government actively using performance information for control purposes, rather than solely as an exercise in compliance (which in part it is). What emerged within public agencies was the picture of an iron cage of control based on performance measurement. This was not how the designers of the formal system envisaged performance information would be used. The book concludes with proposals for the ongoing development of organisational performance management in New Zealand.

Derek Gill is a senior scholar at the Institute of Policy Studies at the School of Government at Victoria University of Wellington. Before joining the institute, Derek had a long career in the New Zealand public service, with a particular emphasis on public sector management system issues, and extensive international experience with public governance issues.

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