DEPARTMENT OF THE PRIME MINISTER AND CABINET
TE TARI O TE PIRIMIA ME TE KOMITI MATUA

Proactive Release

The following document has been proactively released by the Department of the Prime Minister and Cabinet (DPMC) on behalf of Hon Jan Tinetti, Minister for Child Poverty Reduction:

Proactive Release: Making progress towards the child poverty reduction targets

The following document has been included in this release:

- **Title of paper:** Aide-Memoire: Making progress towards the child poverty reduction targets (DPMC-2022/23-1015)

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Coversheet

Aide-Mémoire: Making progress towards the child poverty reduction targets

Date:	9/03/2023	**Report No:**	DPMC-2022/23-1015
		Security Level:	~~IN CONFIDENCE~~
		Priority level:	Medium

	Action sought	Deadline
Hon Jan Tinetti **Minister for Child Poverty Reduction**	**discuss** issues at officials' meeting	

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Departments/agencies consulted on Briefing
Ministry of Social Development, Treasury, Stats NZ

Minister's Office

Status:

☐ Signed ☐ Withdrawn

Comment for agency

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Aide-Mémoire

Making progress towards the child poverty reduction targets

To:	Hon Jan Tinetti, Minister for Child Poverty Reduction		
From:	Clare Ward, Executive Director, Child Wellbeing and Poverty Reduction	**Date:**	9/03/2023
Briefing Number:	DPMC-2022/23-1015	**Security Level:**	~~IN-CONFIDENCE~~

Purpose

1. This briefing outlines the progress that's been made to reduce child poverty to date, the outlook for child poverty rates, and the actions needed to continue to make progress.
2. We will provide you with a separate aide memoire the evening before Stats NZ's child poverty data release for 2021/22 scheduled for 23 March 2023.
3. This will include an overview of the latest child poverty data for 2021/22 as well as media talking points covering a number of the issues canvassed in the current briefing.

The Government has set ambitious child poverty reduction targets with the aim of more than halving child poverty rates by 2027/28

4. As noted in our previous advice, the Minister for Child Poverty Reduction is required under the Child Poverty Reduction Act 2018 (the Act) to set three-year and ten-year targets on the three (current) primary child poverty measures:
   - BHC50 (REL): the number of children living in households receiving less than 50% of the median income, before housing costs, in that year
   - AHC50 (fixed): the number of children living in households receiving less than 50% of the 2017/18 median income, after deducting housing costs, and after adjusting for inflation
   - Material Hardship: the number of children living in households lacking 6 or more of the 17 basic needs listed in the DEP-17 material deprivation index.
5. The three- and ten-year targets were agreed by Cabinet in 2019 [SWC-19-MIN-0037]. The ten-year targets aim to more than halve child poverty rates by 2027/28 compared to the baseline year of 2017/18. The ten-year targets factored in a range of considerations including alignment with the United Nation's Sustainable Development Goal of halving poverty rates on national measures by 2030.
6. The three-year targets support achievement of the ten-year targets. While achieving the three-year targets is important in and of itself, they should also be seen as milestones towards the ultimate goal of the ten-year targets.

7. The first three-year targets were developed to take into account the average rate of reduction required to achieve the long-term targets (about 3-4 percentage points (ppt) every three years for the income poverty primary measures and 2 ppt every three years on the material hardship measure); the estimated impacts of the Families Package; and trends in the wider economy.

8. Cabinet agreed the second three-year targets – for the period 2021/22 to 2023/24 – in June 2021 [SWC-21-MIN-0095 refers]. The main considerations informing the level of the second intermediate targets was the modelled impacts of the substantial increases to main benefits announced in Budget 2021, the level of progress achieved to date, as well as the rate of progress required to keep on track towards the ten-year targets.

9. The baseline child poverty rates (as reported by Stats NZ for the 2017/18 baseline year), the intermediate target rates, and ten-year target rates are shown in Table 1.

10. The target rates are set as percentages of the total population of children, rather than in terms of the absolute number of children. This ensures the targets remain consistent and relevant even as the current population of children (1,149,000 children in 2021) increases. A useful rule of thumb is that a 1 ppt reduction in child poverty rates currently equates to about 11,500 fewer children in poverty.

Table 1: Baseline, intermediate, and ten-year target rates

Primary Measure	Baseline (2017/18)	First intermediate target (2020/21)	Second intermediate target (2023/24)	Ten-year target (2027/28)
BHC50 (REL)	16.5%	10.5%	10%	5%
AHC50 (Fixed)	22.8%	18.8%	15%	10%
Material Hardship	13.3%	10.3%	9%	6%

The Government has delivered a comprehensive package of child poverty reduction policies

11. Government has made very substantial investments in child poverty reduction policies since 2017/18.

12. The first three-year target period (to 2020/21) included the following investments.

- In 2018 the $5.5 billion Families Package increased the incomes of 330,000 families with children (more than half of all families) in the first year of the package. The package included:
  - increases to the Family Tax Credit and the Working for Families (WFF) abatement threshold
  - a new Best Start Tax Credit to help families with costs in a child's early years
  - an increase to paid parental leave from 18 to 26 weeks
  - a new Winter Energy Payment to help low-income New Zealanders heat their homes during the colder months
  - increases to the Accommodation Supplement.
- Through Budget 2019 main benefit abatement thresholds were increased and main benefits were indexed to align with net average wage growth, rather than inflation. This latter change helps ensure benefit incomes keep pace with income growth for middle

New Zealand and so is particularly critical for maintaining progress towards the BHC50 target[1].

- Main benefits increased permanently by $25 per week on 1 April 2020, the Winter Energy Payment was temporarily doubled and a suite of other measures were introduced to mitigate the impacts of COVID-19.

13. Budget 2021 and Budget 2022 delivered further investments to reduce child poverty rates over the second intermediate target period (to 2023/24).

- Main benefit abatement thresholds and benefit rates were substantially increased over two stages, bringing rates at 1 April 2022 in line with a key recommendation of the Welfare Expert Advisory Group.
- The Family Tax Credit rate was increased, over and above the routine inflation adjustment, from 1 April 2022. s9(2)(g)(i)
s9(2)(g)(i)
- A one-off $350 cost-of-living payment was delivered in 2022 to low- and middle-income households over three monthly instalments.
- Changes were made so that all child support payments are "passed on" to sole-parent beneficiaries as income. s9(2)(g)(i)
s9(2)(g)(i)

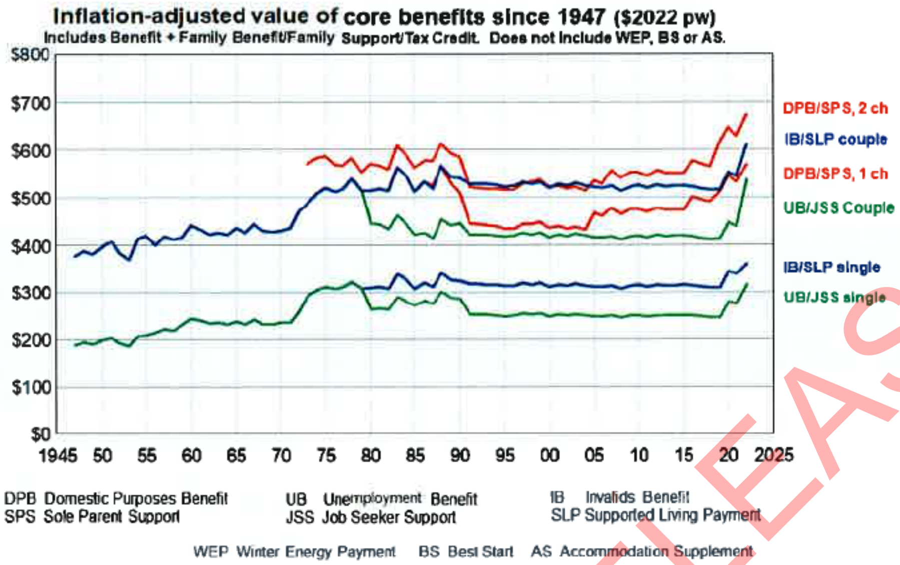
14. Since 2017 the Government has also delivered successive increases to the minimum wage and made substantial investments to deliver better employment outcomes, more affordable housing and address cost of living pressures on household budgets.

- The Ka ora Ka Ako Free and Healthy School Lunches programme was rolled out to 220,000 learners across 950 schools.
- An additional 263 additional work focused case managers were funded to support people into work.
- The Government reinstated the Training Incentive Allowance so that sole parents on benefits, and disabled people, can gain higher qualifications that may then lead to better jobs and incomes.
- More than 11,600 new public homes have been delivered providing warm, dry and affordable housing for low-income families.
- The quality of housing and conditions for renters was improved through the Healthy Homes Guarantee Act 2017 and changes to the Residential Tenancies Act 1986.
- To help parents with education costs funding was increased for deciles 1-7 schools that agree not to request donations, and by removing NCEA fees
- To support parents with health costs, free and low-cost doctors' visits were extended to all children under 14, and free, school-based health services were expanded.

15. The increases to main benefit rates are the largest, in real terms, in more than a generation, as shown in Figure 1.

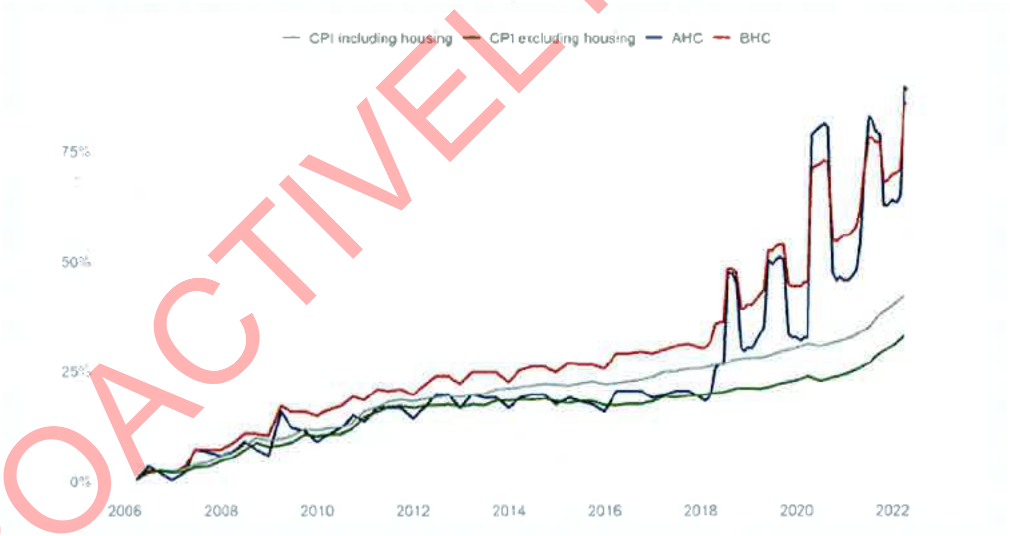
[1] Remembering that BHC50 is a "relative" income poverty measure and so to make progress, incomes at the bottom need to increase faster than middle income growth in a given year.

Figure 1: Real value of core benefits over time[2].



16. As a result of these changes, weekly incomes after housing costs in 2022 were, on average, 43% higher in real terms than in 2018 for people supported by a main benefit, as shown in Figure 2 below. This means that, even taking into account recent high inflation, beneficiaries are now substantially better off than they were in 2017.

Figure 2: AHC and BHC, equivalised "total incomes"[3] *for people on main benefit (including all family types)*



[2] See Perry (2022, p. 14)

[3] The definition of "total income" used by MSD includes employment income, main benefit income, income from second and third tier payments, as well as deductions for debt repayments to MSD or child support. The volatility in the trend from 2018 reflects the winter energy payment. See wp-total-incomes-of-msd-main-benefit-clients-as-at-april-2022.pdf

The most recent data shows all nine measures of child poverty have been trending downwards

17. The most recent Stats NZ data from 2020/21 – the final year of the first intermediate target period – showed all nine measures of child poverty trending downwards. Two of the three targets for the first intermediate target period were met (AHC50 and Material Hardship), as shown in Table 2 below[4].

Table 2: Compliance with first three-year targets

Primary Measure	Baseline rate in 2017/18 (%, # of children)	First intermediate target (2020/21)	Rate achieved in 2020/21 (%, # of children	Reduction since baseline (ppt, # of children)
BHC50 (REL)	16.5% 183,400	10.5%	13.6% (+/-1.2ppt) 156,700	2.9ppt 26,700
AHC50 (Fixed)	22.8% 253,800	18.8%	16.3% (+/-1.3ppt) 187,300	6.5ppt 65,000
Material Hardship	13.3% 147,600	10.3%	11.0% (+/-1.0ppt) 125,700	2.3ppt 21,900

18. The improving trend is also corroborated by other, related indicators, from different data sources. For example, data from the New Zealand Health Survey shows that rates of food insecurity for children aged 0-14 in 2022 are 38% lower than in 2020.

19. While there is much more to be done, it is important to recognise the positive progress that has been made – a point not always reflected in wider public discourse about child poverty rates. Partly this reflects legitimate concerns about the sharp increases in cost of living since early 2022, which are not reflected in the most recently reported child poverty rates from 2020/21, as well as a lack of awareness of the scale of investments in child poverty reduction initiatives since 2017.

There are some early signs of progress in narrowing disparities on AHC poverty rates for sub-populations, but disparities on material hardship persist

20. There are some positive signs that poverty rates are improving for priority populations on the AHC50 primary measure, including for Māori and Pacific children.

21. However, care needs to be taken when assessing poverty rates for subpopulations because the sample size underpinning sub-population estimates is smaller and so the estimates are less precise[5].

22. While it's possible to assess broad trends over multiple years, it's not feasible to set targets or to reliably assess year-on-year changes in child poverty rates for sub-populations. We also can't assess the full impacts of the introduction of the Families Package (which came into effect in 2018) for sub-populations because robust year-on-year data by ethnicity has only been available since 2018/19 and by disability since 2019/20.

[4] It should be noted that the headline rate of material hardship (11.0%) is higher than the target rate of 10.3%. However the target is considered to have been met because it falls within the sample error of the estimate (1.0ppt). See: https://www.stats.govt.nz/methods/interpreting-child-poverty-targets

[5] This is a statistical issue related to the so called "sampling error" around the central, estimated rate. This important issue will be explained in more detail in forthcoming briefings.

23. What we can say is that rates of poverty on AHC50, which have historically been much higher for Māori and Pacific children[6], have now narrowed to the point that the most recent data shows there is no longer a statistically significant difference in poverty rates for these population groups (or for children impacted by disability) compared to New Zealand children overall. This is shown in Figure 3 below.

24. This finding is consistent with Treasury modelling indicating that income support increases tend to disproportionately benefit groups, including Māori and Pacific, that are over-represented in poverty to begin with.

25. Despite this progress on AHC50, disparities on rates of material hardship have persisted. Although rates of material hardship have decreased for all groups over the past decade, rates for Māori and Pacific children, and children impacted by disability, are about double the rates for New Zealand children overall, as shown in Figure 4 below.

Figure 3: AHC poverty rates over time by ethnicity and disability

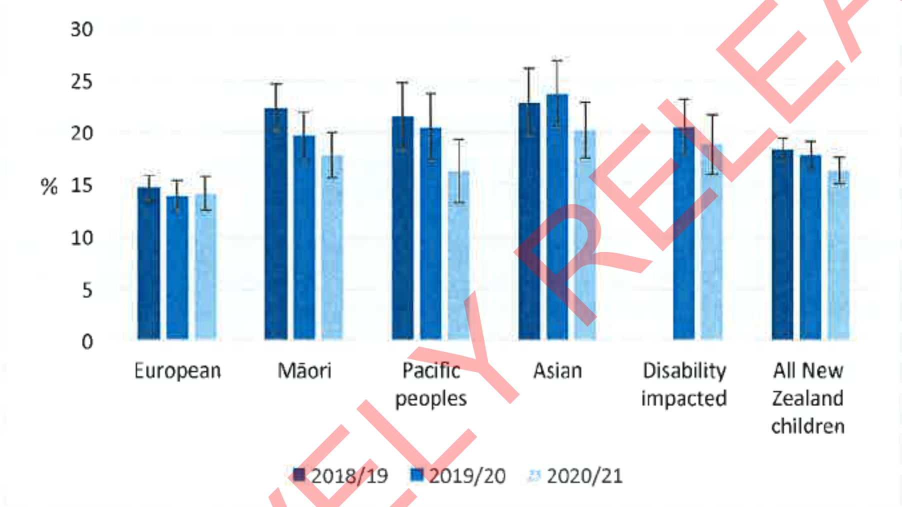
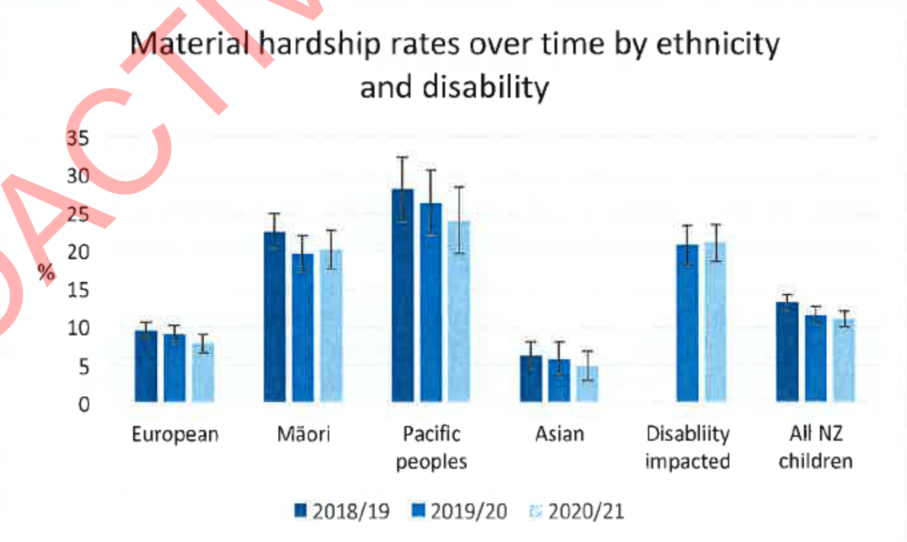


Figure 4: Material hardship rates over time by ethnicity and disability



[6] See Perry (2022, p. 91)

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26. Further work is needed to get a clearer picture about the underlying factors that may be causing these disparities. For example, the higher costs experienced by households impacted by disability are likely to play a role in the high rates of material hardship. But there may be other factors – like the over-representation of single-parent households – that explain the gaps for different groups.

27. Better understanding the drivers of disparities in rates of material hardship is a priority for DPMC and we have a number of projects underway across different agencies that will help deepen our analysis of this issue. For example, DPMC has been consulting with the Ministry of Social Development, which is currently leading a programme of research that aims to explore the drivers of material hardship experienced by households impacted by disability.

Economic headwinds will make further progress especially challenging without significant additional investment

28. The positive overall progress achieved over the first intermediate target period underscores the scale of further investment required to achieve the ten-year targets, particularly given the economic headwinds we're confronting.

29. Treasury's Tax and Welfare Analysis (TAWA) model provides the best estimate of current and future child poverty trends, taking into account up-to-date forecasts of key economic parameters like inflation, interest rates and unemployment.

30. The most recent, publicly available forecasts (based on the Budget Economic and Fiscal Update for 2022) are set out in the 2022 Child Poverty Budget Report. These forecasts confirm that the war in Ukraine, coupled with the lingering impacts of COVID-19 on global supply chains and labour supply shortages will cause significant cost-of-living pressures in the short term, as well as higher interest rates over the short to medium term.

31. TAWA modelling further shows these economic headwinds have distinct impacts on the two primary poverty measures that can be modelled (BHC50 and AHC50).

32. These forecasts are subject to various assumptions and caveats that need to be kept in mind.

    - They take account of policies up to and including Budget 2022, and the indexation of the Family Tax Credit and Best Start Tax Credit from 1 April 2023. They don't reflect the impacts of any new income support policies that may be introduced through Budget 2023.

    - The forecasts themselves are subject to significant uncertainty, particularly the further out in time you go. This uncertainty does not just reflect statistical uncertainty (which is quantified and shown in the light-red shaded area in Figures 5-6 below), but also the inherent and unquantifiable uncertainties and assumptions about future events that impact the economy.

    - For example, the Half Yearly Economic and Fiscal Update (HYEFU), from December 2022, indicated inflation is likely to be higher and more persistent, and economic growth and employment weaker than the earlier forecasts on which the May 2022 modelling was based.

    - The TAWA forecasts are based on a 12-month fixed reference period for the tax year. Stats NZ's measured child poverty rates will lag these forecasts because they are based on a rolling reference period over two *financial* years.

BHC50 is forecast to increase after 2023/24 without further policy intervention

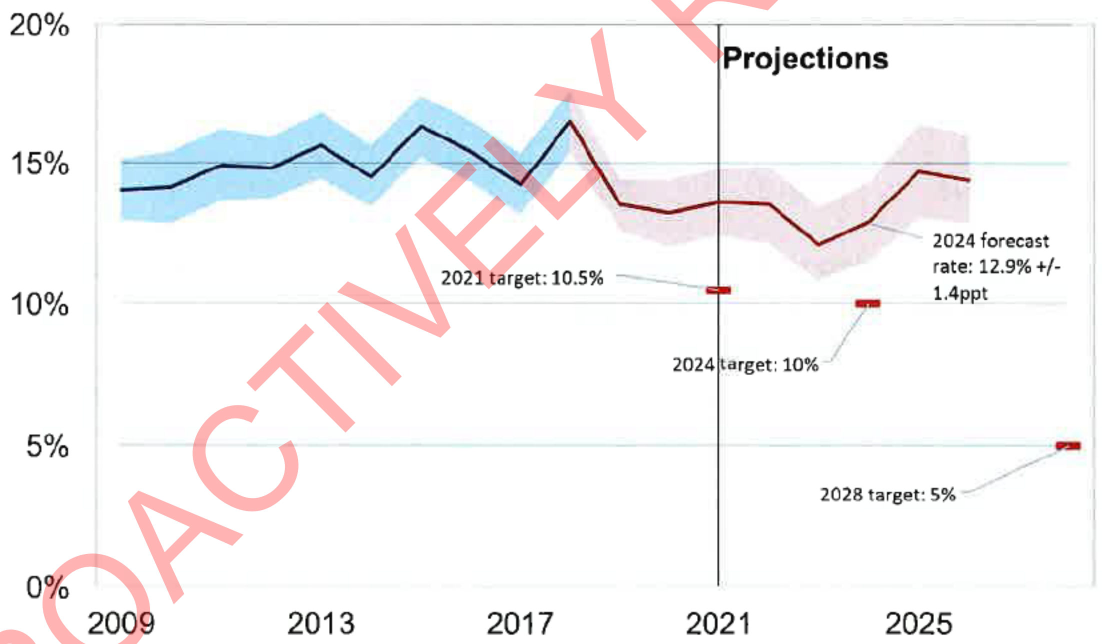
33. As shown in Figure 5, BHC50 rates are forecast to reach around 12% as low-income families benefit from the increases to main benefit rates and Working for Families from 1 April 2022.

34. By the 2023/24 (second intermediate) target year, rates are forecast to go back up to 12.9%. This central estimate is 2.9 ppt (~30,000 children) short of the second intermediate BHC50 target rate of 10.0%. It should also be noted that there is statistical uncertainty in Treasury's estimate of about 1.4ppt, as well as sampling error in Stats NZ's measured rates in 2023/24 of about 1 ppt.

s9(2)(g)(i)

[redacted]

Figure 5: Percent of children in households below the BHC50 poverty line (actual and forecast)



High inflation will put upward pressure in the short to medium term on AHC50 child poverty rates

36. High inflation in 2021/22 will mean that the primary AHC50 poverty line (which is indexed in line with inflation for low-income households) will increase, and so poverty rates on that measure are forecast to increase too, as shown in Figure 6.

37. Rates are then forecast to gradually fall after that as income growth outpaces inflation and housing cost growth.

38. By the (second intermediate) 2023/24 target year, Treasury's central estimate on the AHC50 primary measure is projected to be approximately 1.4ppt (~15,000 children) short of the target rate. These estimates are subject to a similar level of statistical uncertainty in the modelling and Stats NZ measurement noted in paragraph 34.

39. It should be noted that around a quarter of children in households in AHC50 poverty are (currently) living in households that make mortgage payments (cf about 62% paying rent). This group will be subject to significantly higher housing costs as mortgage interest rate increases flow through to households.

Figure 6: Per cent of children in households below the AHC50 poverty line (actual and projected)

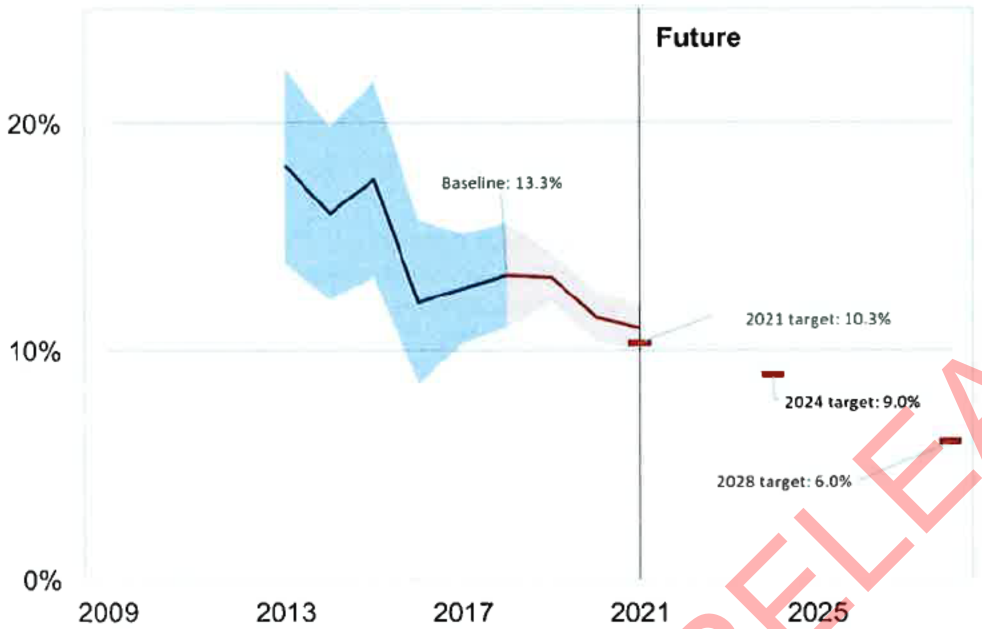
And inflation will also put upward pressure on rates of material hardship

40. It's not possible to model material hardship rates but we know they're very sensitive to changes in the wider economy, including higher inflation.

41. Impacts from higher inflation will be offset to some extent by the full range of initiatives announced in Budget 2022, and subsequently, that boost incomes and reduce costs for households.

42. While it's difficult to say what material hardship rates are likely to be with any certainty, we can't presume a continuing downward trajectory.

Figure 7: Percent of children living in households living in material hardship (actual)



Making progress towards the second intermediate targets will require further investments to boost incomes and address wider cost-of-living pressures

43. The Government's plan to achieve the second intermediate targets [SWC-21-MIN-0095 refers] is focused on:

- lifting family incomes through increases to main benefits and WFF
- lifting wages and supporting sustainable employment
- reducing housing costs and other pressures on household budgets.

44. While there are a number of inherent uncertainties associated with the modelling, the evidence indicates there is likely to be a shortfall on at least one of the second intermediate targets without further, significant, policy initiatives being implemented.

45. Following on from the substantial main benefit increases introduced in 2021 and 2022, the review of WFF is the main opportunity for making progress. However, as noted in our earlier advice [DPMC-2022/23-856 refers], only about half of the impact of any increases to WFF, if fully implemented by 1 July 2023, will be reflected in measured rates in the 2023/24 target year.

46. Additional measures introduced since Budget 2022 are also likely to buffer low-income households from some of the impacts of high inflation, including:

- raising the abatement thresholds for Childcare Allowance from 1 April 2023
- the extension of the fuel tax cut to 30 June 2023
- the 7% increase to the minimum wage from $21.20 to $22.70 from 1 April 2023
- the proposed indexation of main benefits in line with inflation, rather than average net wage growth.

47. The combination of all these measures will help counter the upward pressure on material hardship rates. The latter two changes could also be expected to help mitigate the impacts of inflation on AHC50 to some extent – although this has not been quantified.

Achieving the ten-year targets

48. Beyond the second intermediate targets, substantial further investment will be needed through the four remaining budgets after 2023 where there is an opportunity to make progress towards the ten-year targets.

s9(2)(g)(i) [redacted]

50. We will provide you more advice over coming months about the levers and high-level strategy needed to make progress towards the 10-year targets.

Next steps

51. We are available to meet with you to discuss the issues set out in this briefing.

s9(2)(a) [redacted] **Clare Ward** **Executive Director,** **Child Wellbeing and Poverty Reduction**	**Hon Jan Tinetti** **Minister for Child Poverty Reduction**
9 March 2023	17/03/2023