

Chair Cabinet Social Policy Committee

SIX MONTHLY REPORT OF THE MINISTERIAL COMMITTEE ON POVERTY

Proposal

1. This paper summarises the measures to prevent and alleviate poverty that are being overseen by the Ministerial Committee on Poverty (MCOP) and proposes a further response to child poverty-related issues.

Executive summary

2. The MCOP coordinates government workstreams that relate to the prevention and alleviation of poverty. Since its last report, the MCOP has been focused on addressing poverty's long term drivers, including in the areas of housing, education, healthcare and welfare.
3. In 2012, the Children's Commissioner commissioned an Expert Advisory Group (EAG) to prepare advice on what could be done to reduce child poverty. A substantial set of recommendations has now been made to the Government and we have undertaken to respond to these recommendations. A proposed Government Response document is attached to this paper as Appendix 2. The Government Response outlines the Government's investments to date in low income families and summarises new measures funded through Budget 2013 or agreed separately by Cabinet.
4. As Chair of the MCOP, I propose three additional measures to help tackle child poverty. The first is an extension of the Warm Up New Zealand home insulation scheme. The second is a Government contribution to support the expansion of Fonterra and Sanitarium's KickStart breakfast programme for schools. The third is a low / no interest small loans scheme, to be designed and piloted in collaboration with the banking and philanthropic sectors.
5. The final scope of these initiatives will be finalised through Budget 2013 deliberations.
6. Several other relevant initiatives are being progressed. The Associate Minister and Minister of Health also have a rheumatic fever initiative that is being considered as part of Budget 2013. The Minister for Social Development will provide interim assistance to Budgeting Advice Services that work with families in hardship and will report back in November if they require extra funding. In addition, approval for work on a new warrant of fitness for social housing is being sought by the Minister of Housing through a separate Cabinet paper. More work will be needed by the MCOP before decisions can be taken on any measures additional to these.

Background

7. The MCOP provides a forum for coordinating action, allowing its members an early opportunity to discuss relevant work with their colleagues.
8. The Government has had a firm commitment to supporting the vulnerable through a sharp recession and the deepest financial crisis since the 1930s. The income support that allows many New Zealanders to manage from week to week has been maintained,

despite very tight fiscal constraints. Since its last report, the MCOP has been particularly focused on addressing the long term drivers of difficult social issues, because this is how enduring, intergenerational change will be achieved. The committee has provided advice, for example, on work on home insulation and overcrowding, foundation education and trade training.

9. The MCOP has tested agencies' plans for achieving the Prime Minister's welfare, education, crime and child wellbeing Better Public Services targets. These are aimed at demonstrable improvements to people's lives, such as more parents in work, more immunisations, less re-offending, and more NCEA Level 2 passes.
10. The MCOP has also received a number of reports that have helped to deepen its understanding of the issues. The most substantial of these is a report from the Treasury on poverty drivers, effects and responses in New Zealand. This is attached as Appendix 1. The MCOP was broadly comfortable with this analysis.

Child poverty report from the Children's Commissioner

11. In December 2012, the Children's Commissioner released a report on child poverty prepared for him by a group of independent experts. The report contains 78 detailed recommendations, covering tax credits, benefits and income support; child support; employment, skills and training; housing; particular issues for Maori and Pacific children; problem debt; health and disability issues; education; local communities and family; the justice system; accountability arrangements; and research and evaluation.
12. The key recommendations of the EAG's report are broken into two groups. The first comprises short term actions that the EAG believes could be comparatively inexpensive. These are:
 - passing on child support payments to sole parents who are on a benefit
 - a Warrant of Fitness for all rental housing (both social and private sector)
 - public-private partnership "micro-financing", providing modest low-interest and zero-interest loans
 - a collaborative food-in-schools programme
 - support for young people who are pregnant and/or parenting to remain in education, and
 - support for the delivery of local services through community hubs.
13. The EAG also made a second set of longer term, more expensive recommendations:
 - a review of all child-related benefit rates and relativities, with a primary goal to reduce child poverty
 - a new, simpler income support payment for families with dependent children, allocated to 100 per cent of children aged 0 to 5 years, and then targeted (based on family income) from age 6 onward
 - increasing the number of social houses by a minimum of 2,000 units per year through to 2020, and
 - free primary care visits for all children, 24/7, from birth to age 5; then extending over time to all children to age 17.

14. The EAG emphasised the disproportionately high rates of poverty among Maori and Pacific children, and recommended that Whanau Ora play a key role in addressing Maori child poverty.

Comment

15. The Government is already making a very substantial investment in tackling intergenerational poverty and its effects. We are spending each year:

- almost \$5 billion on benefits
- \$2.1 billion on the Family Tax Credit
- around \$2 billion on subsidising housing through Income Related Rents and the Accommodation Supplement
- \$1.4 billion on early childhood education, and
- \$241 million on a wide range of child health initiatives¹.

16. I am satisfied that the Government has the critical planks of its response to poverty in place. However, more can always be done, particularly to improve children's life chances. The key here is balancing our desire to increase opportunities for disadvantaged children with affordability and incomplete evidence on what will work.

17. After consultation with the MCOP, I propose that three additional measures be advanced in Budget 2013.

Extending Warm Up New Zealand

18. Warm Up New Zealand: Heat Smart is a nationwide grants programme installing insulation. The programme delivers significant health, economic, and social benefits. While the primary benefit of the programme has been fewer deaths in people aged over 65 years old with cardiovascular illness, children have benefited from this programme through fewer doctors' visits, fewer sick days from school and associated caregiver costs. These benefits are more pronounced in low income households.

19. Insulation helps to create a warmer, drier home and this has tangible links to reducing infectious diseases, including rheumatic fever. Appropriate targeting of the Warm up New Zealand initiative to low income families with children could help to reach the Better Public Services rheumatic fever reduction target.

20. Funding under the current programme is due to end around September 2013. The programme has been a success. The original target of 188,500 houses was reached six months early and under budget forecasts – allowing another 41,500 houses to be budgeted for delivery. This means that, by the end of the programme, 230,000 houses will have been insulated. To date, more than 200,000 houses have been retrofitted with insulation. The Energy Efficiency and Conservation Authority estimates that, once the current programme ends, around 600,000 homes will remain to be insulated. I seek your agreement in principle to a new two-year programme which would target delivery to those households most in need.

21. Five options have been put forward for consideration as part of Budget 2013:

¹ This relates to Ministry of Health directly funded services and does not include other services provided to children funded via district health boards.

- Option 1: target 80,000 homes with children, including rentals, for retrofitting at a cost of \$150 million. Some provision could also be made for people aged over 65 with health needs. The Ministry of Business, Innovation and Employment estimates that within this up to 65 per cent of children in low income homes could potentially be reached through this approach.
- Option 2: target 40,000 homes for retrofitting at a cost of \$100 million. This would allow targeting to low income homes (including rentals) where children are present, and also allow targeting to support special regional projects. It is estimated that 32.5 per cent of low income households with children could be insulated through this option.
- Option 3: target 30,000 homes where children are living in low income households, on a regional basis, at a cost of \$75 million. This option would cover an estimated 24 per cent of children in low income households.
- Option 4: target 20,000 homes using special projects in areas of high deprivation and health needs, with the assistance of third party community funders, at a cost of \$50 million. This option would cover an estimated 16 per cent of children in low income households.
- Option 5: target 10,000 homes using special projects in few areas of high deprivation and health needs, with the assistance of third party community funders, at a cost of \$30 million. This option would cover an estimated 8 per cent of children in low income households.

Support for an expansion of the KickStart school breakfast programme

22. Fonterra and Sanitarium have partnered to run the KickStart breakfast programme. Currently, this is running in 550 decile 1-4 schools, which have volunteered to organise KickStart Breakfast clubs. The programme provides breakfast one or two days a week for children who have come to school hungry. Fonterra and Sanitarium provide the food; the local community runs the club and provides utensils, a venue, and labour.
23. Fonterra and Sanitarium intend to expand their KickStart programme so that it can be offered to all schools by Term 1 of 2014. They also propose to provide breakfast five days a week. This is in line with evidence for effective practice and would be welcomed by participating schools, many of which are currently trying to stretch two days' food across five days to meet student need. Fonterra and Sanitarium have indicated that they will work in an open and collaborative way with other organisations active in this space, to enable good targeting of all parties' efforts.
24. I think this is an excellent opportunity for the Government to capitalise on private sector and community energy and innovation. KickStart appears to have been successful in reaching students in genuine need, while creating little deadweight. Fonterra and Sanitarium projections suggest that there will be relatively low uptake by higher decile schools. However, I think it would be worthwhile supporting the scheme's expansion across all deciles, because a significant proportion of children from low income families do not attend low decile schools. Where higher decile schools and communities saw a need, they would be able to opt into the scheme.
25. I propose that Cabinet agrees in principle to explore a contribution of 50 per cent of the costs of the expansion of KickStart, by way of a grant. Subject to legal advice from the Ministry of Social Development, Treasury and the Ministry of Business, Innovation and Employment, I propose that the Government commit to make this contribution for 5 years, to match Fonterra and Sanitarium's commitment, with a review to be conducted after 2 years.

A low / no interest loan scheme for low income families

26. The purpose of this initiative is to support the market to provide low cost credit to families who would otherwise not be able to source affordable lending or who are experiencing problem debt. This would provide access to a range of families who otherwise tend to turn to higher cost lending options, often leading to them ending up with unsustainably high debt levels.
27. I am aware that some organisations already provide low and no interest loans - the Nga Tangata MicroFinance Trust which has operated in South Auckland for the last two years, for example, or AWHI Credit Union, which operates in Rotorua and the East Coast. In addition, there are moves underway by international schemes to set up in New Zealand. Good Shepherd, a relatively large low and no interest loan provider in Australia, has a branch in New Zealand that is planning to pilot a low and no interest loan scheme in New Zealand later this year. I am keen for government to investigate how we can support the work that such organisations do.
28. Support for a low and no interest lending scheme would sit well within the Government's current agenda, alongside the Credit Contracts and Consumer Finance Amendment Bill which is due to be considered by the House in early 2013. This legislation represents a regulatory response to the problem of unsustainable lending practices and provides more protection for consumers. Catalysing the provision of a low and no interest loan scheme would improve the options available to low income families and help to reduce the need to turn to higher-cost lenders in the first place. This initiative will also support efforts to improve New Zealanders' financial literacy, as well as the redesign of the Ministry of Social Development's procurement practices, which aims to help its clients avoid problem debt.
29. Treasury, the Ministry of Social Development and the Ministry of Business, Innovation and Employment will work with banks and non-government organisations (NGOs) already active in low and no interest lending to develop options for how government can be involved with and build on these initiatives. This will involve discussions with the NGOs and banks, initially to be led by Ministers. Under the Australian Good Shepherd scheme, a private sector bank provides capital and subsidised interest costs, while government subsidises administrative and some other costs for the NGO providers. A similar model could be considered for New Zealand.
30. With this in mind, I propose to announce a programme of work to develop options for how government can be involved with and build on existing schemes as part of Budget 2013. Initially a small amount of funding for costs such as administrative support will be attached to this work (\$50,000 from Vote Finance), with Ministers making any decisions on larger investments once options have been developed and evaluated. I envisage officials developing options in 2013 for Ministers to decide on later in 2013. I also expect a limited pilot or pilots for the preferred option to be undertaken in early 2014.

Additional measures

31. The Associate Minister and Minister of Health intend to invest an additional \$5 million per annum over the next 4 years to expand the Rheumatic Fever Prevention Programme. Funding for this initiative has been agreed through the Budget process and details are being finalised between the Ministers.
32. Budgeting Advice Services play an important role in helping people to manage their finances and cope on modest incomes. These services are also playing an important role in the success of our welfare reforms, but have had to manage considerable demand pressures arising from this and from the economic climate. In recognition of this pressure, the Minister for Social Development is increasing funding for these services by

\$1.5 million in the 2013/14 financial year as an interim solution, and has directed officials to conduct a strategic review of funding arrangements for the sector. Additional funding may need to be found to support the sector on an ongoing basis as a result of this review. The Minister will report back to Cabinet if necessary in November 2013.

33. Approval for work on a new warrant of fitness for social housing is being sought by the Minister of Housing through a separate Cabinet paper. Officials will investigate the possibility of bottom-line quality standards being rolled out gradually from Housing New Zealand Corporation stock to social housing that is eligible for income-related rents and potentially the Accommodation Supplement. There will also be a focus on improving standards in boarding houses.
34. The MCOP may sponsor further initiatives at a later point, but Ministers need more information to make decisions. MCOP will consider advice on further measures that may be required over the medium to longer term.

Consultation

35. The Treasury, the Ministry of Social Development, the Ministry of Education, the Ministry of Health, the Ministry of Business, Innovation and Employment, and Te Puni Kōkiri were informed of these proposals and given an opportunity to comment.

Financial implications

36. The indicative cost of the package proposed in this paper is between \$39.5 million and \$159.5 million over five years, depending on which option is chosen for the extension of Warm Up New Zealand. The detailed design and costs of these initiatives will be worked through as part of Budget 2013, with Budget Ministers making the final decisions on them.

Human rights implications

37. Nil.

Legislative implications

38. Nil.

Regulatory impact and business compliance cost statement

39. Not required.

Gender implications

40. Sole parent households are over-represented in poverty-related statistics and the majority of sole parents in New Zealand are mothers. Women and their children are therefore likely to benefit disproportionately from the measures proposed in this package.

Disability perspective

41. Children with disabilities and the children of disabled parents are both more likely to be living in poverty, due to a range of family stressors and dynamics. Such children are therefore also likely to benefit disproportionately from the measures proposed in this package.

Publicity

42. Subject to Cabinet approval, I intend to release this paper and its two appendices (including the Government Response to the Children's Commissioner's Expert Advisory Group on Solutions to Child Poverty) after Budget 2013 announcements. The Minister for Social Development will continue to engage with key stakeholders in the meantime.

Recommendations

43. I recommend that the Committee:

1. **note** that the Ministerial Committee on Poverty is overseeing a substantial programme of work designed to prevent and alleviate the effects of poverty
2. **note** that an Expert Advisory Group convened by the Children's Commissioner has called for more focus on child poverty and recommended a range of initiatives for Government consideration
3. **note** that while the Government is already making a very substantial investment in tackling intergenerational poverty and its effects, more can always be done, particularly to improve children's life chances
4. **note** that after consultation with the Ministerial Committee on Poverty, three additional measures are proposed for advancement in Budget 2013
5. **agree in principle**, subject to paragraph 7 below, to the following initiatives that will increase our focus on disadvantaged children:
 - i. an extension of the Warm Up New Zealand: Heat Smart home insulation scheme, with the scale of the extension to be agreed through Budget 2013
 - ii. exploration of a Government contribution to support the expansion of Fonterra and Sanitarium's KickStart school breakfast programme to all schools, five days a week
 - iii. a low / no interest loan scheme, to be designed and piloted in collaboration with the banking and philanthropic sectors
6. **note** that the total indicative cost of these initiatives is between \$39.5 million and \$159.5 million over five years, depending on which option is chosen for the extension of Warm Up New Zealand
7. **agree** that final decisions on the initiatives outlined in recommendation 5 will be made by Budget Ministers through the Budget 2013 process
8. **note** that the Associate Minister and Minister of Health intend to expand the Rheumatic Fever Prevention Programme and that funding for this initiative has been agreed through the Budget process and details are being finalised between the Ministers
9. **note** that the Minister for Social Development is increasing funding for Budgeting Advice Services in 2013/14 as an interim solution to increased pressure on this sector
10. **invite** the Minister for Social Development to report to the Cabinet Social Policy Committee in November 2013 if additional funding is required for Budgeting Advice Services working with families in hardship

11. **note** that the Minister of Housing is seeking approval for work on a new warrant of fitness for social housing through a separate Cabinet paper
12. **note** that the Ministerial Committee on Poverty will consider further measures that may be required over the medium to longer term
13. **note** that a Government Response to the Children's Commissioner's Expert Advisory Group on Solutions to Child Poverty is attached as Appendix 2, and that this document outlines the Government's investments to date in low income families and summarises new measures funded through Budget 2013 or agreed separately by Cabinet
14. **agree** to release the Government Response to the Children's Commissioner's Expert Advisory Group on Solutions to Child Poverty, attached as Appendix 2
15. **delegate** to the Deputy Prime Minister authority to make any final editorial changes to the Government Response that he deems necessary before its publication
16. **note** that the Deputy Prime Minister intends to release the Government Response after the Budget has been announced.

Hon Bill English
Deputy Prime Minister

Date signed: / /

APPENDIX 1

Improving outcomes for children – Initial Views on Medium-term Policy Directions

Summary

There is a significant amount of current discussion about the wellbeing of children in New Zealand, through the white paper on vulnerable children, the reforms to reduce long-term welfare receipt, the continued focus on low achievement in New Zealand's schools, and the Children's Commissioner's expert advisory group on child poverty. This reflects the high priority that the community places on the wellbeing and development of children.

The purpose of this paper is to outline Treasury's initial judgements about child poverty, child wellbeing and development and identify priorities drawing on relevant existing material rather than to undertake any new or original work on child wellbeing or child development. Due to the potential for wide-ranging scope in the area of child wellbeing, this paper focuses on several key areas - the structure of financial assistance for families, welfare reform and implications for education. There are important issues in health and housing that have not received a focus that would be important in any complete discussion of child wellbeing.

The first part of the paper discusses the importance of looking at child wellbeing, beyond simple measures of household income. It then provides an overview of the current evidence on child poverty in New Zealand. It highlights that the proportion of New Zealand children living in households with low income is close to the OECD average, but notes that there appear to be significant issues with a large group of children spending the majority of their childhood reliant on benefits and low incomes. As a consequence, despite New Zealand having benefit levels close to the OECD average, we have high rates of material hardship.

Section 1 Summary: Initial key conclusions on measuring and understanding child poverty

- The measurement of child poverty should be done as part of a broader approach of measuring child wellbeing that also includes emotional wellbeing, physical health and wellbeing, and childhood development, with a particularly strong weight put on childhood development, because of its importance for life-long outcomes.
- While a snapshot of household income measure of child poverty is relatively simple and may be effective at mobilising action around child material living standards, the focus of child poverty should be on those households with persistently low income and who are at high risk of hardship and poor ongoing outcomes, rather than those whose experience of low income is transitory.
- There is currently a gap in the monitoring of the material living standards of New Zealand children, because persistence, hardship and low income are not looked at in an integrated way. There are data constraints to developing this further, but it remains an important issue over the medium term.

The second part of the paper discusses some of the key evidence of child poverty and child wellbeing. This includes a discussion of what features of the New Zealand welfare system seem to be driving our long rates of benefit receipt of parents, how important income is for child development and achievement and what are the key disadvantages that are important for child wellbeing at a point in time and their development over time.

Section 2 Summary: Initial key conclusions on improving material living standards of children

- The group of New Zealand households with children with the lowest incomes, and at the highest risk in the vulnerability statistics, are those in the benefit system. Because of the structure of New Zealand's tax-transfer system, only around 25% of children in households in low income have an adult in full-time employment.
- One priority for addressing child poverty in the New Zealand benefit system is increasing the hours and employment of sole parents with school aged children in New Zealand with long benefit durations, because it is fiscally neutral and does not risk of drawing more people into poverty by undermining work incentives.
- The highest priority from an investment approach, as well as a child poverty approach, is supporting sole parents with a high likelihood of long-term benefit receipt into employment.
- Making progress to support sole parents into employment should be a priority with specific implementation plans and strategies for different cohorts being developed. Following up on the ambitious targets should be a priority.
- Over time consideration could be given to further changes in settings (such as services funding, childcare¹, tax-benefit interface, work expectations) to enable an effective investment approach to support sole parents into work
- There may be a case for moving the support for parents in work who have low incomes, with some consideration being given to larger families
- We think that there is not a strong argument for a universal payment, but a strong argument for moving to a more targeted approach to those most in need over time including a rebalancing of the Accommodation Supplement to those with high accommodation costs and away from groups that are relatively better off.
- The evidence is strong enough to suggest that the mix of expenditure on child payments over time should move from households with older children to those with younger children (without work expectations), particularly if gains can be made in full-time employment for sole parents with older children.

The final part of the paper discusses what is currently going on to support child wellbeing and development across government. This involves a short stock-take of the most important agendas across welfare, health and housing, early childhood services and education. It highlights some promising directions within current reform agendas and some promising areas for investigation over the medium term. There is a particular focus on options within current reform agendas in welfare reform, early childhood and education services, and parental behaviour training.

¹ Particularly non-standard hours care.

Section 3 Summary: Initial key conclusions on interpreting the evidence on supporting disadvantaged children

- While there is a very strong association between living in a low income household and a range of other poor outcomes, there is debate about the extent to which low income causes poor outcomes across a range of dimensions. Income *by itself* probably has a small, albeit statistically significant, relationship with a range of child outcomes
- There is a group of children living in households with persistently low incomes who are supported by benefits, and a range of disadvantages (including parents with mild to moderate mental health issues) who should be the focus of significant policy attention.
- There is a strong justification for focusing early in a child's life because average gaps in student achievement typically are present at the time when disadvantaged children enter school. However, it also appears that gaps in achievement increase over the course of schooling, and attention needs to be given to ensuring that schooling lifts the achievement of all children, regardless of their family background.
- Intensive early childhood interventions for the most disadvantaged children (that are combined with support for positive parenting approaches) combined with high quality teaching approaches are critical components of lifting performance.
- Effective early childhood interventions need to be followed and reinforced by an effective schooling system, with an emphasis on high quality teaching. Early and intensive interventions for the under-achieving most disadvantaged children, combined with high quality teaching approaches, are critical components of lifting educational performance.
- There appears to be no single risk factor leading to poor outcomes, suggesting the pathways are multi-factorial. There appears to be a very strong and enduring relationship between parental health status, foetal health and early childhood health on health across the life-cycle.

Drawing on a wide range of evidence and analysis, including earlier work by the Ministry of Social Development, Treasury, Heckman, Gluckman and others, Treasury's starting point is that the following connections between low income issues and health, educational, and employment outcomes, are areas of broad agreement:

- Child wellbeing is about more than family income, or even material wellbeing – other dimensions are crucial, particularly the family environment.
- No single factor on its own drives poorer outcomes for children, but rather it is when multiple challenges / disadvantages are faced that poorer outcomes are much more likely.
- The impact of low income on outcomes for children is greatest when the low income is persistent over a number of years and when it is combined with a range of other risk factors.
- There is evidence that impact on child outcomes of stressors (including material hardship) seems to be more significant in the very early years (0-5 years).
- Emotionally warm, cognitively stimulating and physically safe home environments matter for positive child development.
- Material hardship and other more direct measures of material wellbeing, rather than low income by itself, are very useful for many purposes. In particular,

they better focus on material wellbeing itself rather than on one (albeit crucial) input, current household income

Where to focus future policy attention?

While there is a relatively large group of households experiencing low and medium levels of low income, there is a strong policy case for targeting assistance at the most disadvantaged in New Zealand. This is because around 1 in 5 children will spend more than half of their first 14 years in household supported by main benefit. This group is at the highest risk of material hardship and poor outcomes across a range of dimensions.

A notable feature of long-term poverty in New Zealand is the higher risk of sole parents, particularly those with no qualifications and a range of other disadvantages. Therefore, an important issue for child poverty in New Zealand over the medium term are issues relating to supporting sole parents on a benefit into work.

Specific areas where attention should be focused in the short term are in implementing the investment approach in welfare reform and further targeting and investment in early childhood services for the most disadvantaged. The evidence suggests that further significant gains could be made in the following areas:

- Increasing the provision of “full-service” early childhood centres, in which a range of services (early childhood education, health, welfare, budgeting, parenting support) are co-located.
- Additional programmes and resources for schools to provide a higher level of intensive support for some disadvantaged and under-achieving children. For example, the early identification (most likely between the ages of 3 and 7) and referral to effective programmes of children with conduct disorders.
- Reviewing home visitation programmes and focussing on those which are shown to be effective e.g. Nurse Family Partnerships and Early Start (see Gluckman (2011) for further information).

Consideration could be given to reviewing and refocusing TFEA/decile funding for schools. This could include reviewing the extent to which the current TFEA/decile school funding is effective in supporting schools to provide additional support to children from disadvantaged backgrounds.

Current approaches to the measurement of child material living standards typically are not well-integrated into broader measures of child physical and emotional wellbeing and child development. Consideration could be given to developing a framework for the measurement of child material living standards as part of broader measures of child wellbeing.

Areas for further investigation

There remain some important policy questions that are more controversial where we have not yet fully formed our view. These include:

- The magnitude of the impact of income on educational, social and emotional wellbeing of children. Many authors such as Susan Mayer have argued that the effect is quantitatively small by itself, but others such as Professor David Fergusson see it as more significant.
- The degree to which limited resources should be targeted to the most at need versus distributed more widely including to those in lower and higher paid work. Given the significant growth in income support to middle income households over the past decade, there may be justification for greater targeting of expenditure, rather than a move to a universal child benefit.
- The degree to which higher benefit levels will support or undermine the social and economic objectives that they are seeking to solve. If a high weight is put on this issue, it may be that the direct provision of social services targeted at early childhood (and maternal health) are more likely to generate significant benefits without the risks of higher payments for those not in work.

It may be worthwhile investigating these areas further to support our understanding of the issues facing families in poverty.

Improving outcomes for children – Child poverty, child wellbeing and child cognitive development

Section 1: Introduction and measurement of child poverty in New Zealand

Treasury's interest in child poverty, wellbeing and development

There is a significant amount of current discussion about the wellbeing of children in New Zealand, through the white paper on vulnerable children, the reforms to reduce long-term welfare receipt, the continued focus on low achievement in New Zealand's schools and the Children's Commissioner's expert advisory group (EAG) on child poverty. This reflects the high priority that the community places on the wellbeing and development of children.

Treasury's interest in child poverty and child wellbeing stems from our interest in improving the living standards of New Zealanders.² . An increasingly large evidence base highlights that material living standards (economic growth), their distribution (equity), their sustainability over time, broader community wellbeing (social capital) and risk are all critically related to experiences in childhood, particularly early childhood (see Cunha and Heckman (2006)). In addition, this evidence base highlights that poor environments in early childhood can undermine all of these dimensions.

The Government and community spend significant resources to improve these outcomes and a key question is whether this funding is appropriately targeted. Our reading of the evidence is that there is a broad consensus that the family environment in the first years of life is critical for child development and later outcomes

Child poverty as part of a child wellbeing framework

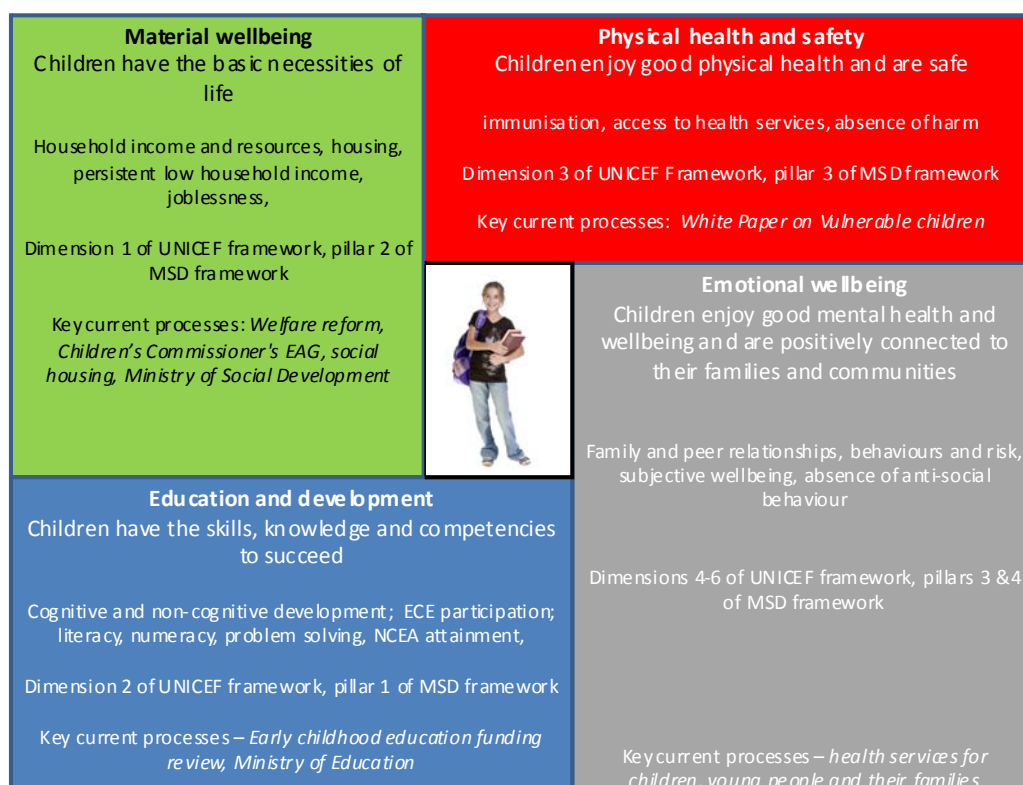
There has been a significant attempt over the past 20 years to understand and measure child wellbeing (see OECD (2011), Statistics New Zealand (2012), UNICEF (2007)). There are four broad areas of consistent focus across all these different approaches: Emotional wellbeing; Material living standards; Education and development; and Physical health and safety (see Figure 1).

One key conclusion from the child wellbeing literature is that it is important to consider all of indicators together, rather than to focus on one area in isolation. No one single factor is deterministic of poorer childhood outcomes - it is when multiple challenges are faced by children that outcomes are impacted. New Zealand research using the longitudinal Christchurch Health and Development study reinforces this message. One in five of the children living with many aspects of disadvantage entered adolescence with multiple problems where as only two in a thousand did from the families with only one or two markers of disadvantage.

It is therefore critical to see income as one driver of child wellbeing, but the key central area of focus of this paper is on material living standards as part of child wellbeing, because it is of particular focus in the current debate.

² Treasury's living standards framework also identifies a range of key dimensions that impact on the whole community including children.

Figure 1: Dimensions of child wellbeing



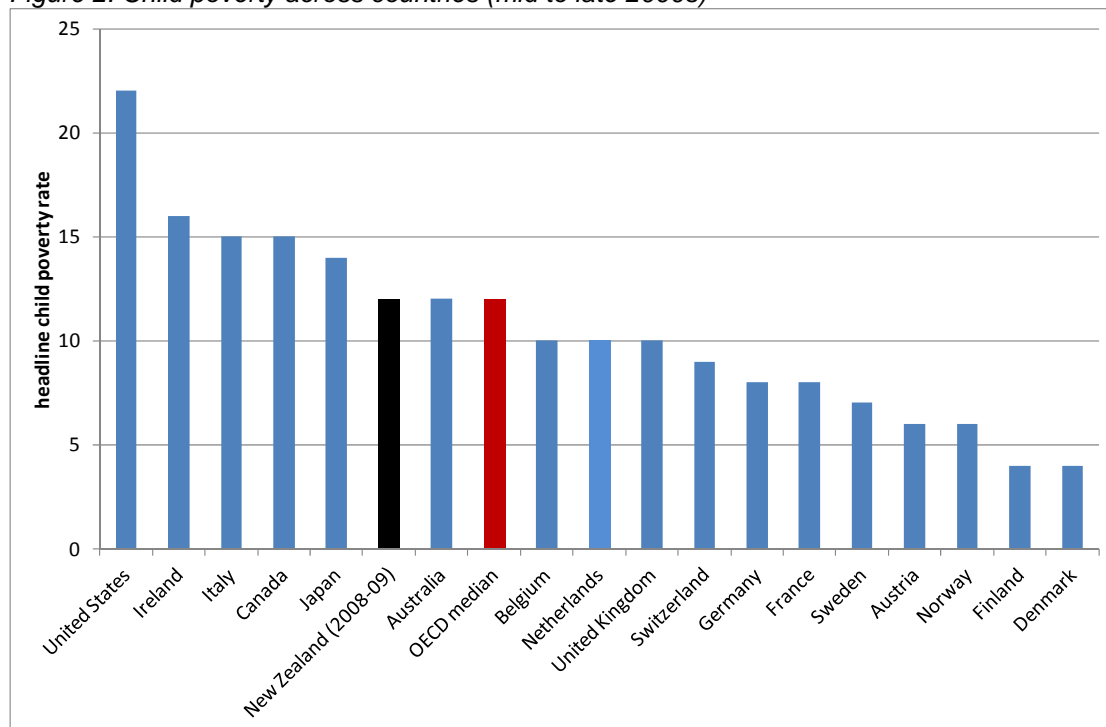
Headline child poverty measures

Introduction

At their most basic level, material living standards mean that children have the basic necessities of life - access to adequate housing and heating, food and nutrition, critical learning materials (e.g. books and computers), and enough income to access to health services and to participate broadly in family, school and community activities.

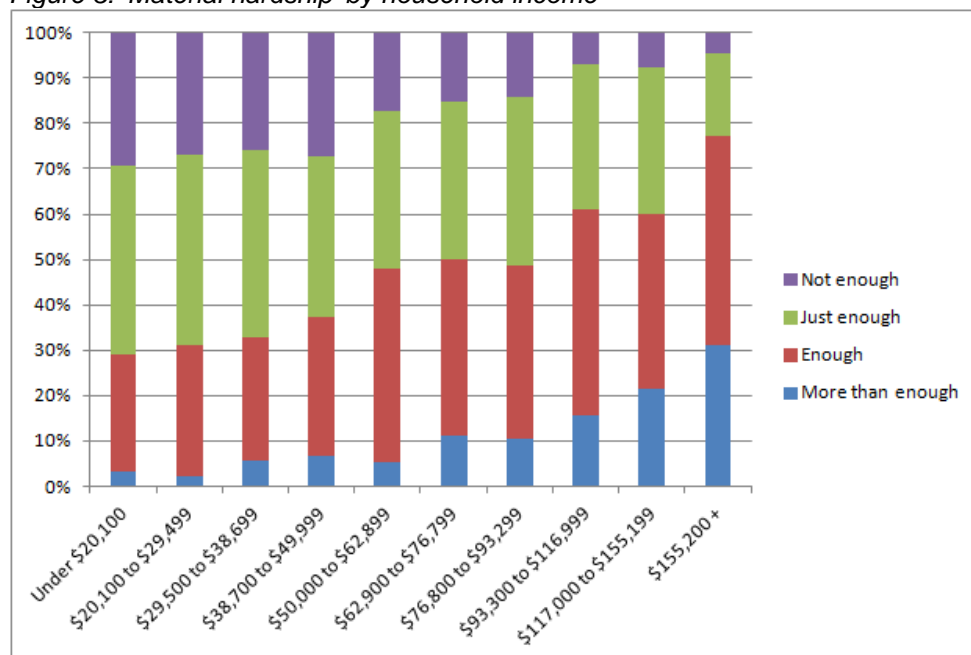
One approach to measuring poverty is to measure the resources available to households and set a level at which households must meet to be outside of poverty. This approach is a simple and flexible one in that household income measures are available and it does not necessarily prescribe narrow value judgements about what household choices are consistent with poverty. Under this measure around 12% of the population aged 0-18 years have income below a key threshold (50% of median equivalised household income) – see figure 2. Using an alternative measure (60% of median equivalised household income or around \$645 per week for a sole parent with 2 children) around 19% of children are in poverty. Under the 50% approach, New Zealand's child poverty rate is close to the OECD average.

Figure 2: Child poverty across countries (mid to late 2000s)



Source: Perry (2012). Child poverty rates (%) in the OECD-34, mid to late 2000s: 50% of median threshold (BHC)

Figure 3: 'Material hardship' by household income



Source: Statistics New Zealand – General Social Survey - Would you say you have not enough money, just enough money, enough money, or more than enough money?

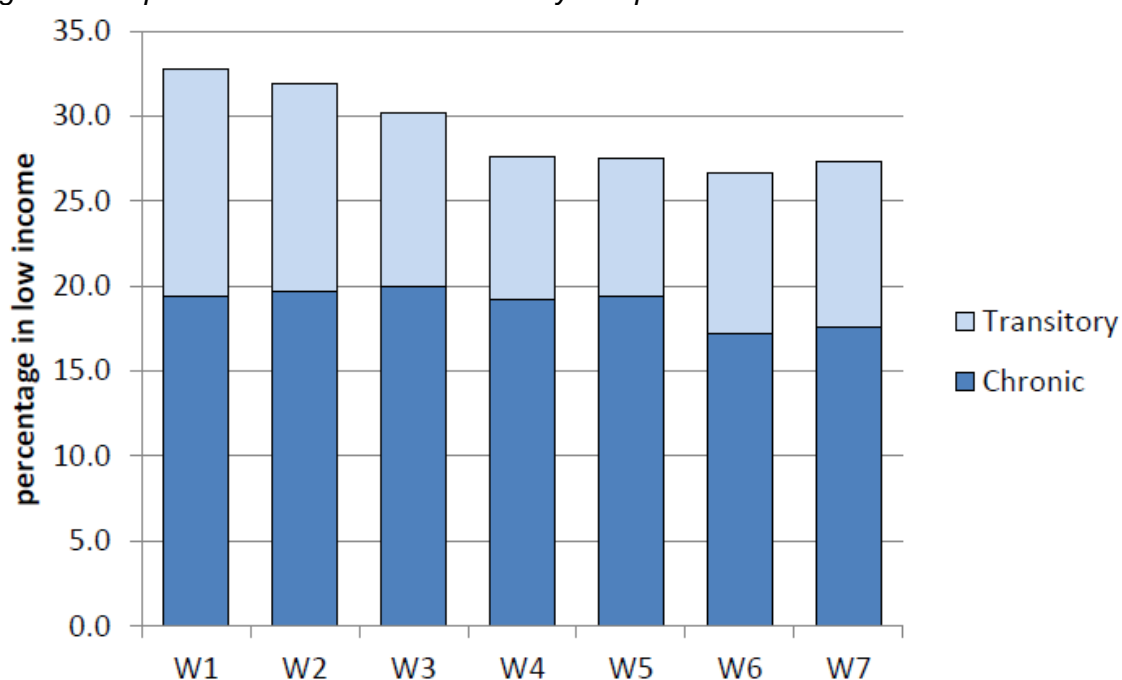
The advantage of this approach is that we can simply see what proportion of families is likely to have a high risk of poor material living standards with an easily understood benchmark. We see from figure 3 that households with low levels of income (below \$30,000 per year) are more likely to report that they do not have enough household income (around 30%) compared to less than 10% of households that earn more than \$93,300.

The time dimension is critical

The disadvantage of this approach also becomes very clear from figure 3. We see that around 70% of households with the lowest incomes report that they have just enough, enough, or more than enough income. Part of this story may relate to the fact that households on low incomes have adapted to lower incomes, but it also highlights that any measure of poverty based on a single income threshold is not related to individual circumstance, costs and choices.

A second weakness of the headline child poverty measure is that it simply measures income at a point in time, rather than how many children are or are likely to be at high risk of long spells of income. Evidence from analysis undertaken by Carter and Gunasekara (2012) for the Treasury highlights that around one third of households in low income are experiencing a transitory spell of low income (see figure 4). This highlights that there is a lot of variation in the experience of households with low measured household income.

Figure 4: Proportion of household in transitory and permanent low income



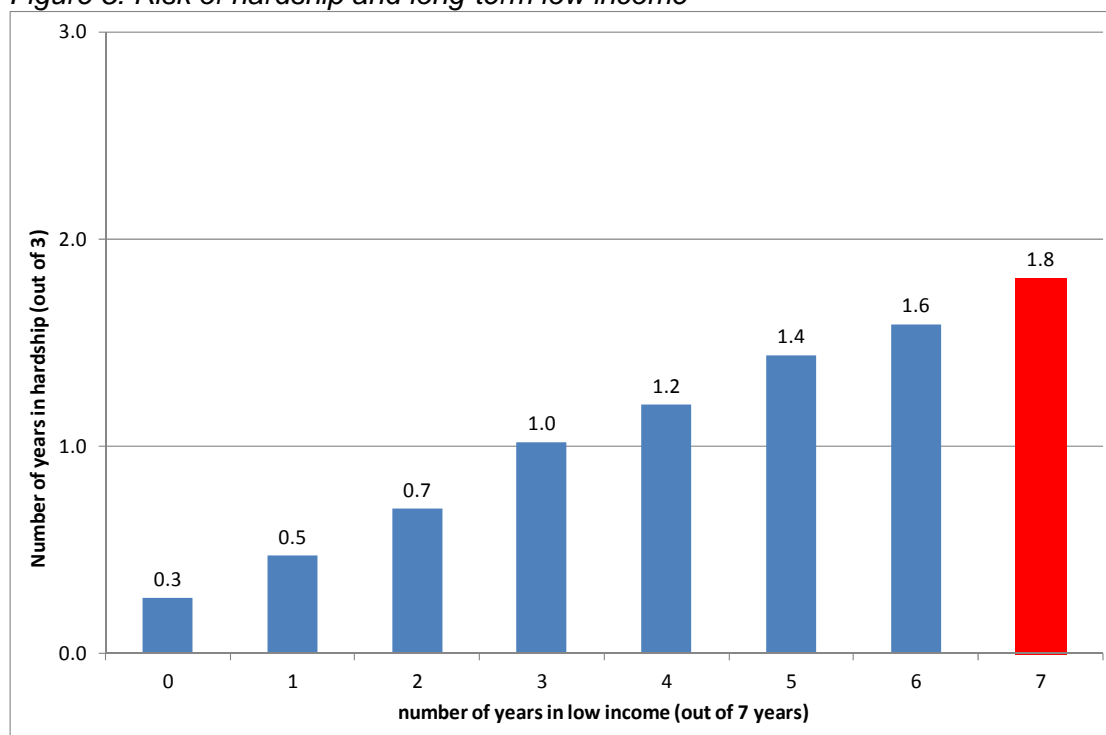
Source: Carter, K and Gunasekara, F (2012). This method classifies child as having chronic low income where they live in a household with income across all the waves being below the average low income line.

This matters because long spells of low income tend to be associated with significantly worse outcomes. Financial hardship measures tend to increase steeply with length of spell with low incomes.³ New Zealand data shows that families that had low income for seven years on average were more than three times more likely to report being in hardship than those people who had low income in one year.⁴

³ Bertould, Bryan and Bardasi (2004)

⁴ Figure 5 shows the number of people with low income along the x axis. Then in three surveys (or waves) households were asked a number of questions about whether they had economised on various expenditures or activities. These questions were then aggregated to create a measure of hardship. The figure on the y axis shows the average number of times each of the groups was reported to be in hardship across the three surveys (or waves).

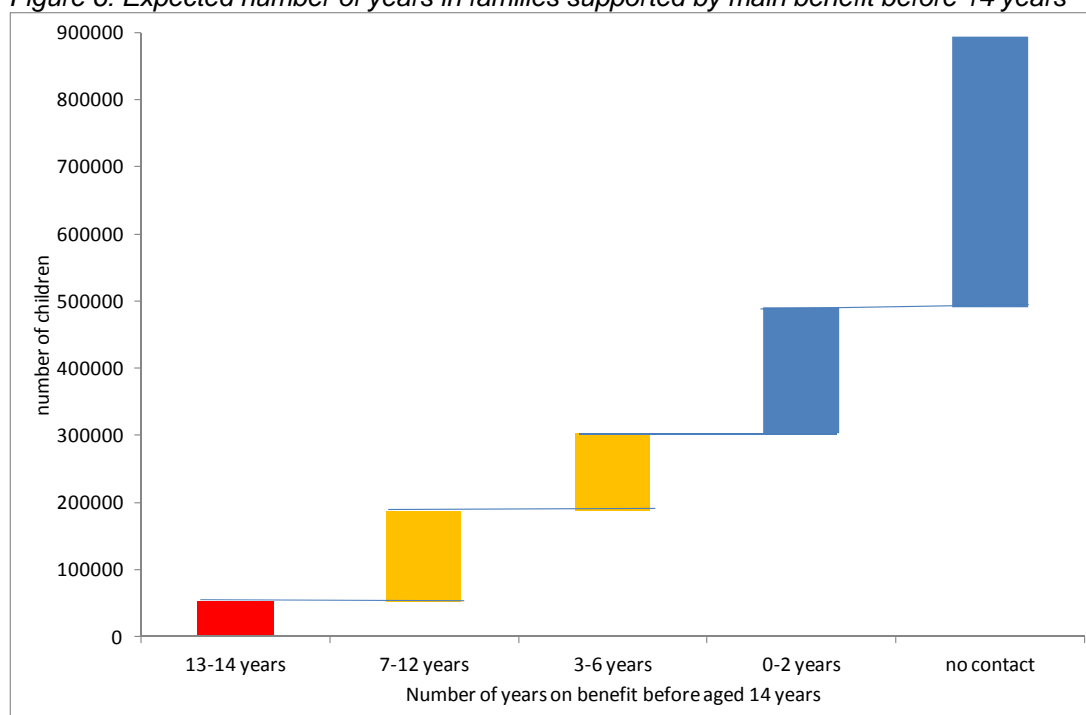
Figure 5: Risk of hardship and long-term low income



Source: Carter, K and Gunasekara, F (2012)

There is a significant group of children that spend most of their childhood in a benefit-supported household family and on low incomes for most of their childhood. According to Wilson and Soughton (2011) around 6% of children spend 13 or 14 years in benefit supported households families by the time they are 14 years. Thus, if we translate this to the current group of children aged 0-14 years, this translates to over 50,000 children (see figure 6). We also see that a further 130,000 children aged 0-14 years are expected to have spent more than half of their first 14 years on a benefit (or a further 15% of children), but less than 13 years. These children aged 0-14 years are likely to have the highest risk of material hardship.

Figure 6: Expected number of years in families supported by main benefit before 14 years



Source: Treasury calculation based on Wilson and Soughton (2011) and Stats NZ population estimates

Understanding material deprivation in New Zealand

A second approach, rather than using income thresholds, is to measure poverty using self-reported measures of risk or deprivation from the General Social Survey.⁵ Evidence suggests that income measures do not map well onto the experience of having to go without. While less than half of the children in low income households are also found to be in households that are in deprivation (see figure 7). The overlap is less when more harsh income and deprivation measures are used. The longitudinal SoFIE data has enabled Carter and Gunasekara (2012) to estimate relationship between low income and deprivation. While they find that most households in the deprivation group have low income, they find that the 'deprivation group' makes up a minority of the low income group.

⁵ The categories used in the General Social Survey are descriptive and while there was no formal calibration of the categories the indicators were chosen because they are 'believed to adversely affect children's development or wellbeing'. Some caution is required because the income thresholds used were higher than the deprivation thresholds (27% in poverty, 19% in deprivation).

Figure 7: The relationship between low income and hardship (% of population)



Source: Carter, K and Gunasekara, F (2012)

Describing hardship for children

Material hardship means going without goods, services, and experiences that people can reasonably be expected to have. Statistics New Zealand, with the advice of the Ministry of Social Development, has provided an analysis of what this means using the New Zealand General Social Survey data. They identified eleven key indicators of vulnerability such as:

- having a smoker or a victim of crime living in the house (both about 20%)
- living in a high deprivation area (22%)
- living in an overcrowded house (13%)
- having a low socioeconomic rating on the ELSI scale
- having more than one housing problem like damp, cost, cold, or inadequate heating (10%)
- having limited access to facilities like shops, schools, libraries and medical facilities (9%).

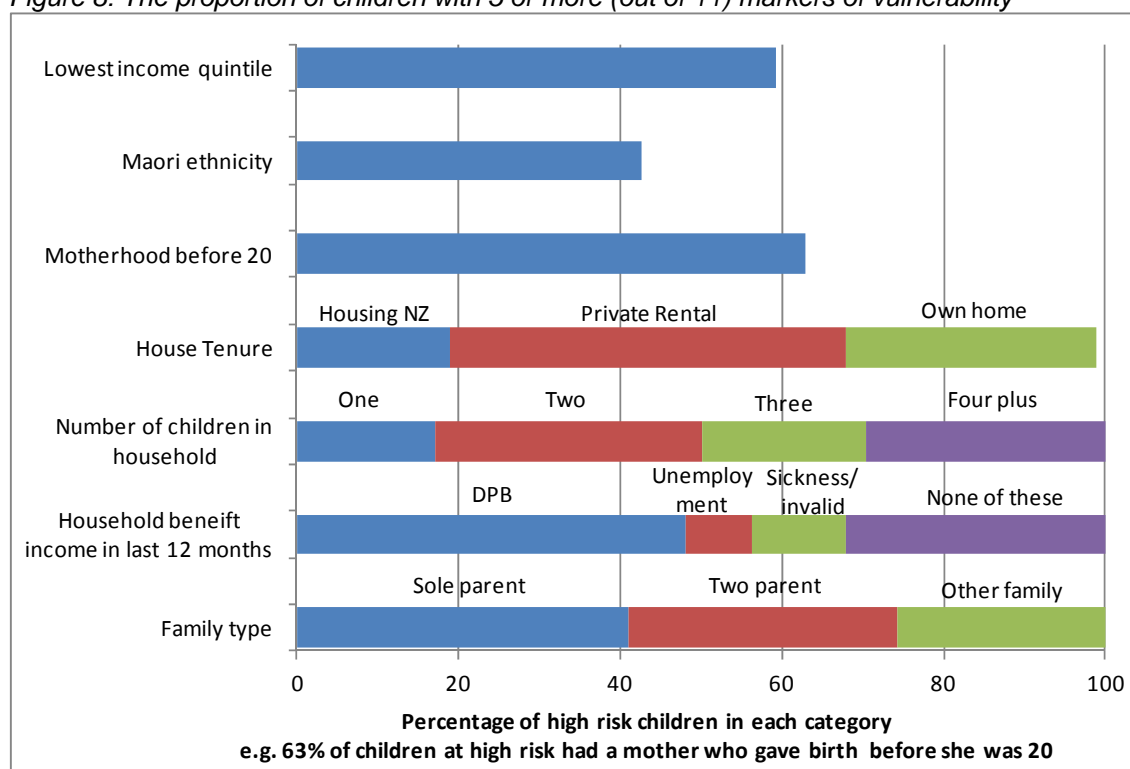
They assessed the six percent of children with five or more of these indicators as being at high risk of being in deprivation. In figure 8 below we show the risk factors for different groups in children being assessed as having five or more markers of high risk of poor outcomes.

Box 1

A child in the high risk category is more likely to

- Be born to a mother who had children before she was 20, and in the lowest income quintile, probably on the DPB or another benefit
- Have a sibling, and about half the time to have two or more siblings.
- Live in a private rental accommodation.
- While many of them are Maori, the majority are not.

Figure 8: The proportion of children with 5 or more (out of 11) markers of vulnerability



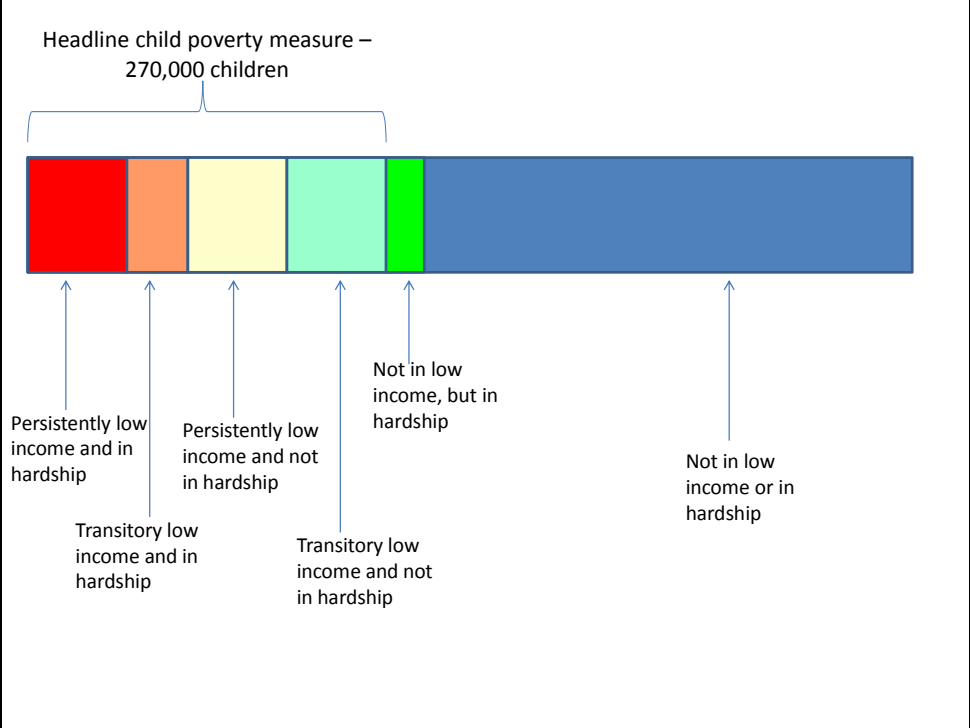
Note: These figures differ from the published ones because they are the number of children whereas the published figures are the number of households. The housing tenure is for low income from Perry (2012) as this was not included in the Statistics analysis
Source: Statistics New Zealand and Perry (2012 for housing tenure)

Towards an integrated measure of material living standards

The above analysis has highlighted that there are a range of complexities in measuring child poverty and that we should have some concerns about the headline income measure of child poverty. The group of households with low income is a diverse group and such a measure means that the focus is not on the small group that has high needs. For these individuals, levels of income are significantly constraining the ability of families to provide the basic necessities of life.

We think that there is value in a monitoring approach on child material living standards taking an integrated approach across hardship, persistence and low income measures, rather than looking at the measures in isolation. This is because the group we should be most concerned about is the group with persistently low income (who are most likely to have the worst outcomes across a range of dimensions, including hardship (see further discussion below)). Figure 9 is how we conceptualise the integrated approach to the measurement of child poverty.

Figure 9: integrated measurement of child poverty – from most at-risk to least



Section 2: Addressing the causes of low income and material hardship

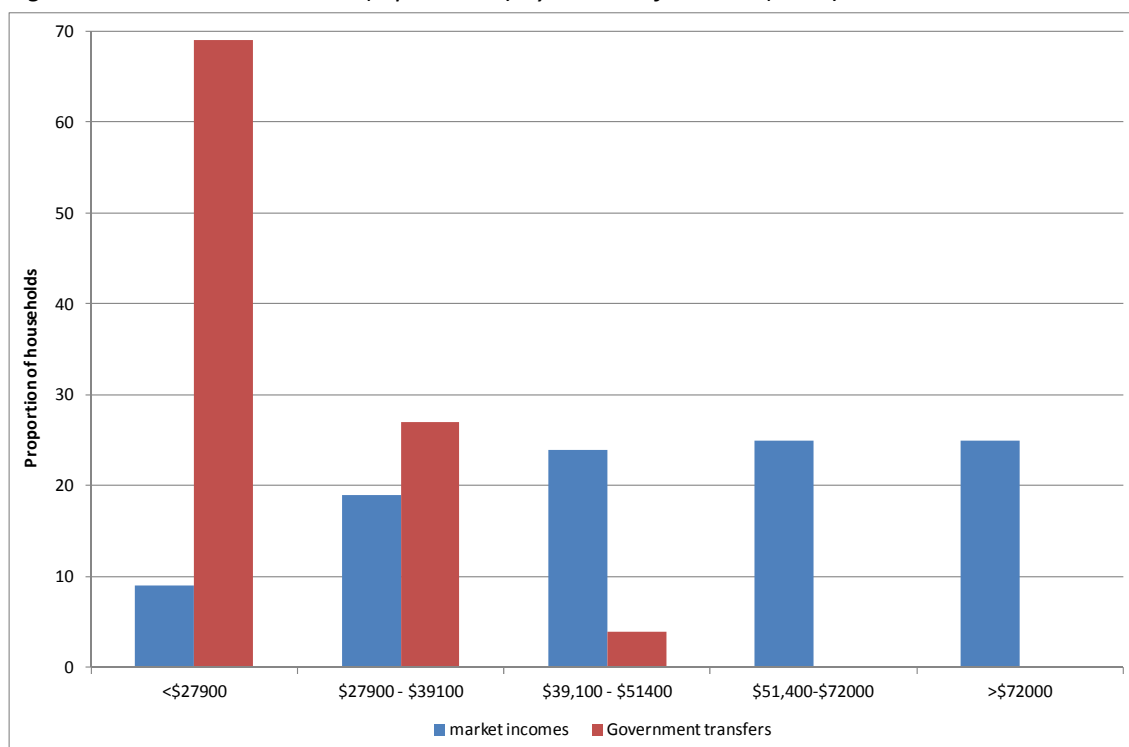
Introduction

In this section, we discuss the key features of the New Zealand system that are associated with higher risks of low income and what policy and delivery settings should be adjusted to lower child poverty, particularly those households with persistently low income.

The role of benefit payments in child poverty

In New Zealand the single most important risk factor for whether an individual will be on a low income is whether a household has market income as the primary source of income. This factor is not one experienced by New Zealand only. Whiteford and Adema (2007) found that all OECD economies which had child poverty rates under 5% had low levels of joblessness. We see from figure 10 that nearly 70% of households who are supported by government transfers have equivalised incomes below \$27,900, compared to less than 10% of households with market incomes as their primary source. Around 20% of both household groups have income between \$27,900 and \$39,100. Around 20% of both household groups have income between \$27,900 and \$39,100. Around 20% of both household groups have income between \$27,900 and \$39,100.

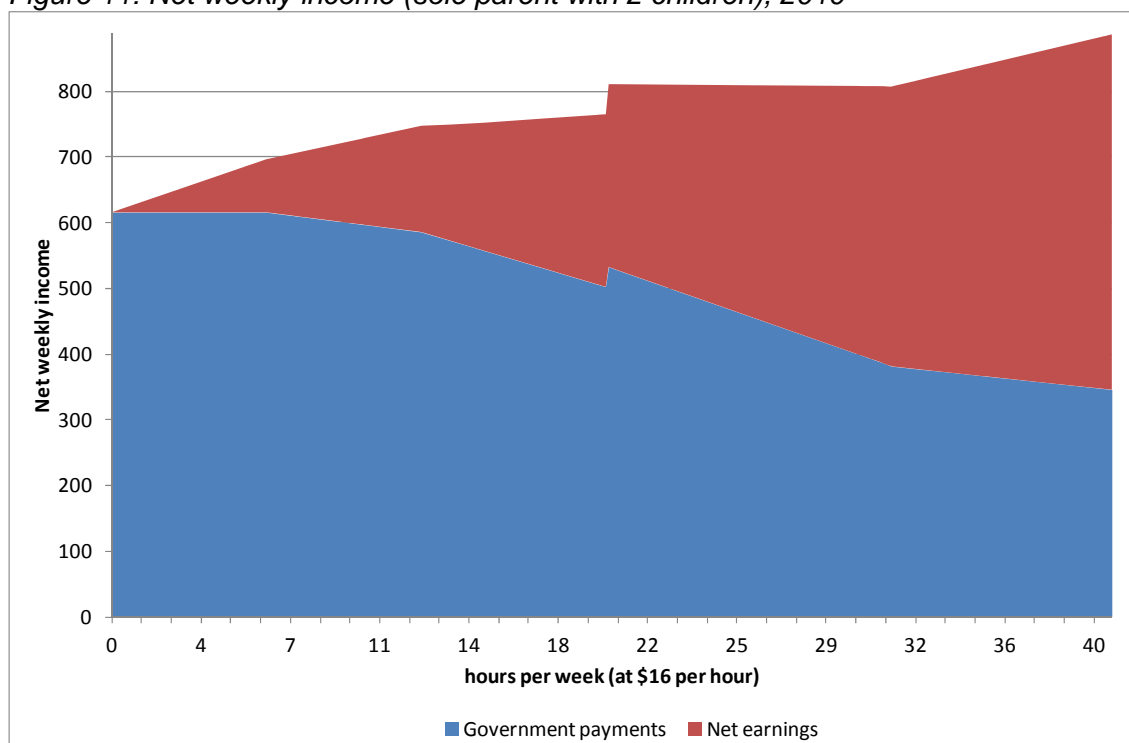
Figure 10: Household income (equivalised) by source of income (2009)



Source: Perry, B (2012)

To look at it another way, around 65% of all children in poverty are in households without an adult in full-time work (see figure 12b). In most of these cases, given the design of New Zealand's welfare system, these children will be in households where the parent is on a main benefit. While there is a medium-sized group of children in households where an adult is in full-time employment the weekly income is likely to be significantly higher than those solely reliant on a main benefit (see figure 11).

Figure 11: Net weekly income (sole parent with 2 children), 2010

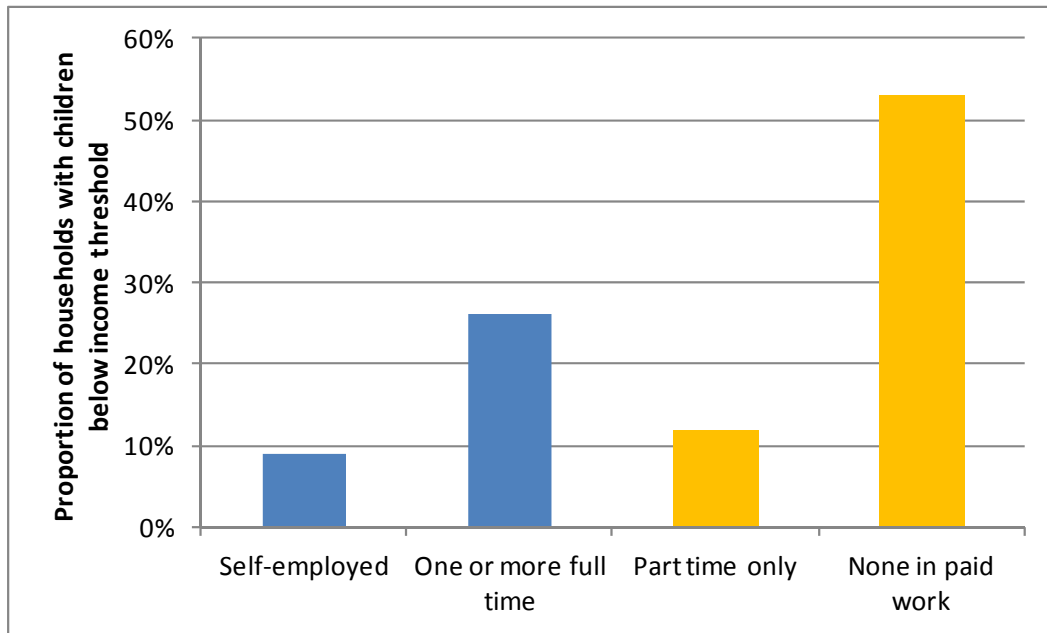


Notes: Payments covered include: main benefit, accommodation supplement, family tax credit, minimum family tax credit, in-work tax credit.

What this highlights is that issues of poverty, child poverty and benefit receipt are closely related in New Zealand with a high degree of overlap between the groups. This is in part because of New Zealand's system of Working for Families and in part because New Zealand's distribution of wages is not as wide as in the United States. It is a legitimate policy question whether there is more that could be done to support low income working families. However, given New Zealand's system of Working for Families, the growth in social services expenditure to middle income households, and the issue that those families with the lowest incomes are in the benefit system, the following discussion focuses on groups in the benefit system.

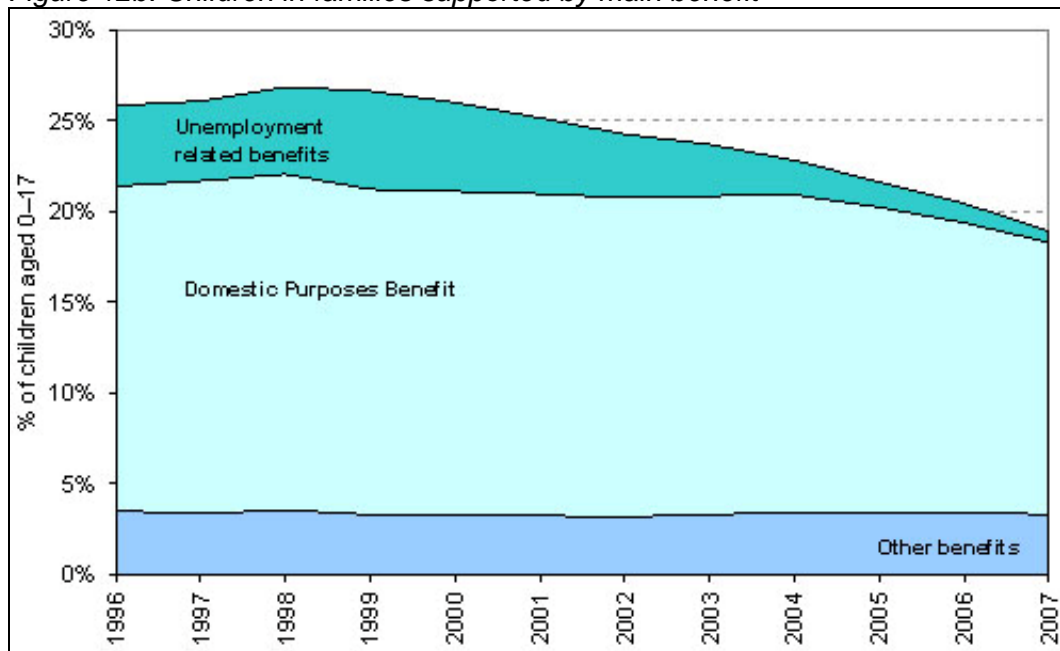
So, given that long-term benefit receipt has a strong association with headline child poverty measures: what are the main features of the households that children are in? The most notable statistic is that eight out of ten of the 205,000 New Zealand children in households families that receive a main benefit in 2007 were supported by the Domestic Purposes Benefit (see figure 12b).

Figure 12a: Proportion of households with children in poverty by household type, 2011



Source: Perry, B (2012);

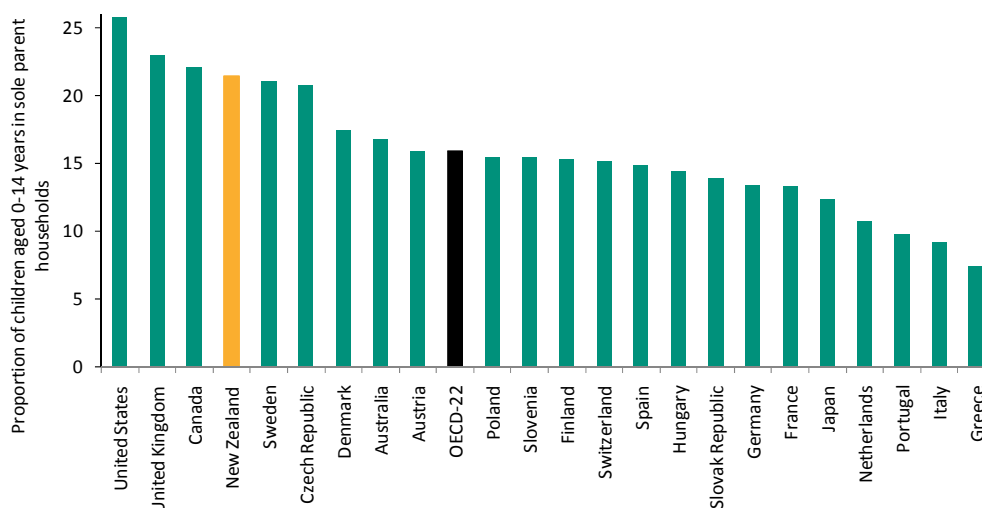
Figure 12b: Children in families supported by main benefit



Wilson and Soughton (2009)

New Zealand is one of a number of countries, that includes the US, UK, Canada, Sweden, Denmark and Australia, with high rates of sole parenthood (see figure 13). Again there is no simple relationship between levels of sole parenthood and child poverty across countries, with Sweden and Denmark combining high rates of sole parenthood with low rates of child poverty.

Figure 13: Proportion of children in sole parent families, around 2007

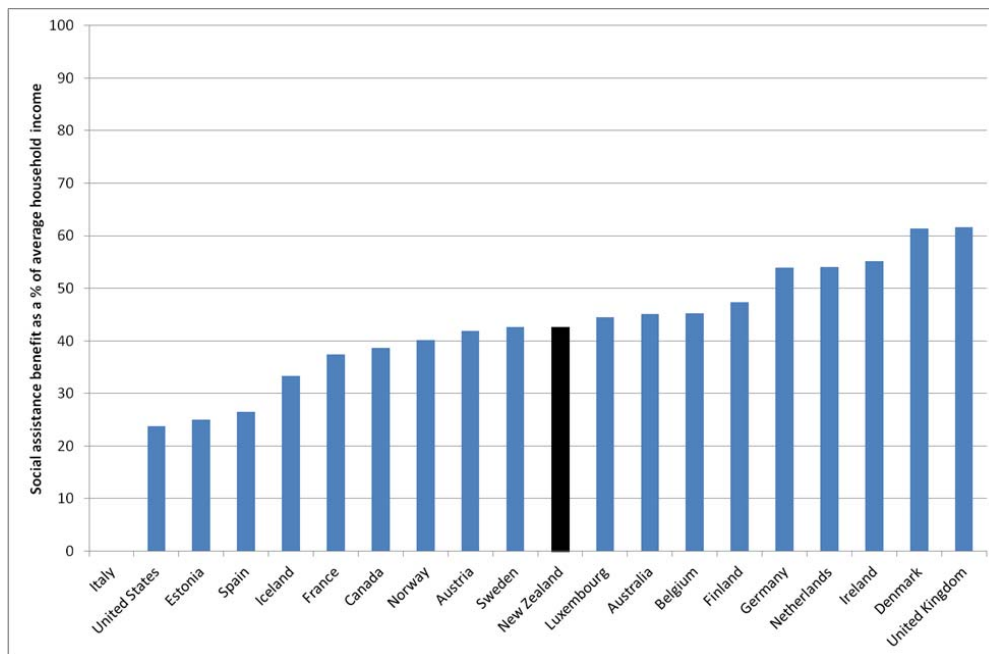


Source: OECD Family Database (www.oecd.org/els/social/family/database).

A key question to ask is whether it is more effective to focus on having a benefit strategy to reduce child poverty (using government transfers to raise income), or to have a focus on encouraging as many families into work as possible through work-focused strategies. Whiteford and Adema (2007) conclude that both a focus on the appropriately designed income support combined with a work focus was important. So, how does New Zealand compare on both dimensions?

Looking at benefit levels, it is evident that sole parent benefit levels (or social assistance equivalents) in New Zealand are neither particularly high, nor particularly low (see figure 14). Indeed, New Zealand benefit rates are higher than two countries with low headline child poverty – Sweden and France (see figure 2 above).

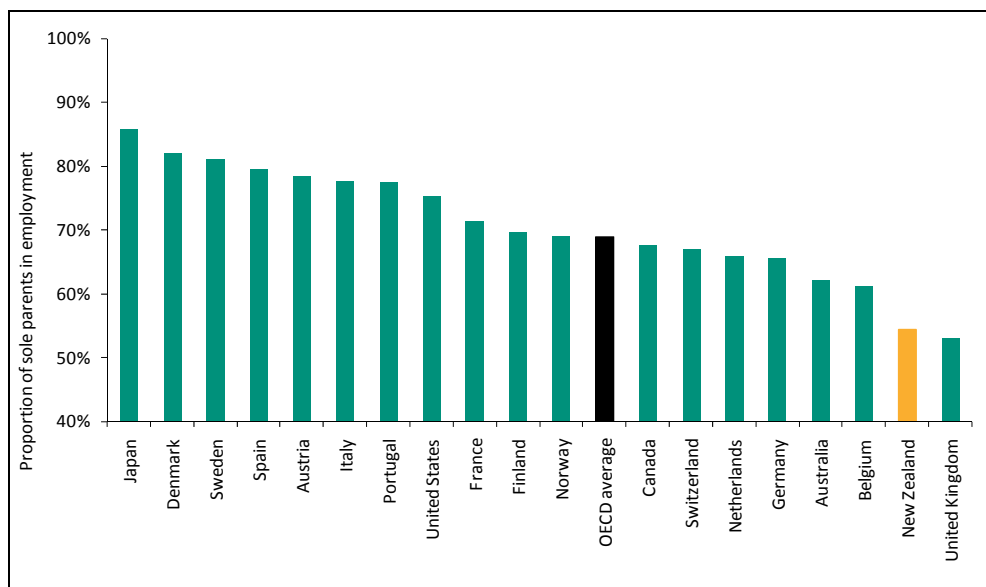
Figure 14: Sole parents benefits (including housing) relative to median household income, 2010



Source: http://www.oecd.org/els/socialpoliciesanddata/Minimum_Guaranteed_Income_EN.xlsx

Figure 15 shows that New Zealand and the United Kingdom have very low rates of sole parent employment considerably below the OECD. We see that consistently the low child poverty countries have high rates of sole parent employment – Denmark, Sweden, France, Norway and Finland.

Figure 15: Sole parent employment rates across the OECD, around 2007



Source: OECD family database (www.oecd.org/els/social/family/database)

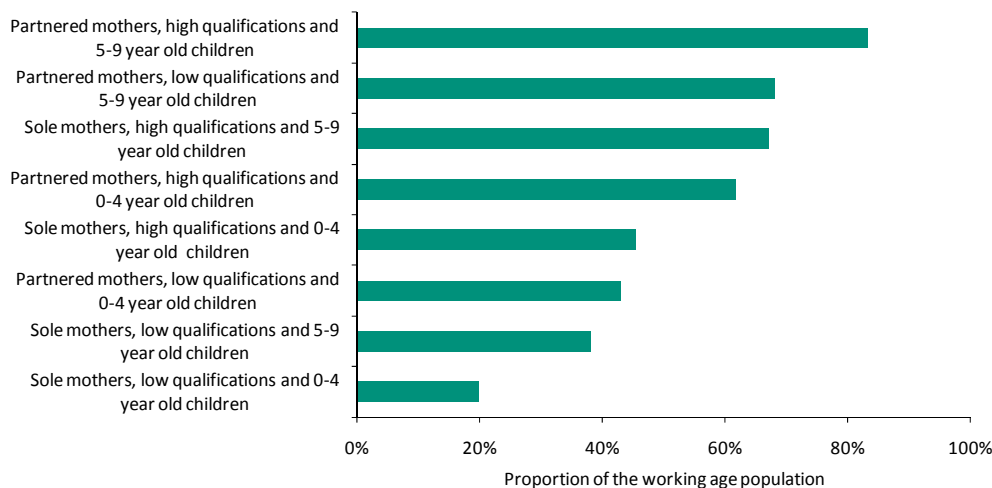
It should be noted that in many of the economies with high rates of sole parent employment, the age of the child when sole parents are expected to start looking for work is comparatively low. For example, in Nordic economies, parents are expected to

return to work when their child is 13 months old, although the supports for them to do so (such as access to childcare etc) are also significant.

Within New Zealand's group of sole parents, there is a considerable diversity of employment experience within them (see sub-groups of sole parents on next page). Indeed, the employment rate of sole parents with high qualification and children aged five to nine years is not that dissimilar to that of partnered mothers. The key group with very low employment rates in New Zealand are those sole parents without qualifications (see figure 16).

Two key notable features of sole parenthood in New Zealand are that around 45% of children supported by the benefit system are children of sole parents who can be classified as early starters (see below) and that there is a significantly higher rate of sole parents without qualifications than for women as whole. While it is a complex and sensitive topic, the EAG highlights that income and employment policies should not undermine family structures. The Welfare Working Group notes that incentives in the benefit system should not encourage fertility and partnering decisions that are not in the best interests of the mother and her children. They also noted that consideration could be given to interventions inside and outside of the benefit system to support fertility and partnering decisions that are in parents and children's long-term interests.

Figure 16 Employment rates for different groups of mothers



Source: Statistics New Zealand (2006 Census).

Subgroups of sole parents (from CSRE (2010))

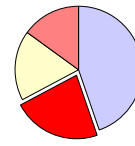
A EARLY STARTER average age 29

- Young when oldest child born (58% aged under 20).
- Young when first received main benefits.
- Almost all history spent on benefit on average.
- Most have a child aged under 5, most have more than one child.
- Three subgroups:
 - A1 Younger, 1–2 children, youngest aged under 5.
 - A2 Older, 1–2 children, youngest aged 5 or over.
 - A3 Older, 3 or more children, youngest aged under 5.

91,000 children of sole parent clients (45%)

B LATER STARTER average age 30

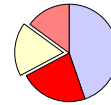
- Not as young when oldest child born.
- Older when first received main benefits.
- Just over half of history spent off benefit, some time in employment.
- Most have a child aged under 5, most have only one child.
- Three subgroups:
 - B1 Younger, 1 child, half with youngest aged under 2.
 - B2 Older, 1–3 children, youngest aged 2 or over.
 - B3 Ex-jobseeker, 1 child, youngest under 5.



46,000 children of sole parent clients (22%)

C OLDER LONG-TERM DPB average age 42

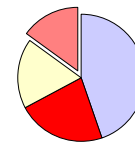
- Don't appear to have parented as teens
- Most of history spent receiving benefit, mostly DPB.
- One-third have earnings in addition to benefit. Most have a youngest child aged 5+, most have only one child.
- Two subgroups: C1 Non-earner, 1 child, youngest aged 10 or over. C2 Earner, 1 child, youngest aged 10 or over.



36,000 children of sole parent clients (18%)

D OTHER GROUPS average age 43

- Some of history spent off benefit, little time spent on DPB.
- More likely than average to have been partnered in last 10 years.
- Most have a youngest child aged 5+, most have only one child.
- Four subgroups:
 - D1 Invalid's Benefit recipient, 1 child, youngest aged 5 or over.
 - D2 Ex-jobseeker, 1 child, youngest aged 10 or over.
 - D3 Ex-off benefit partner, 1–2 children, youngest aged 5 or over.
 - D4 Ex-on benefit partner, 1–3 children, youngest aged 5 or over.

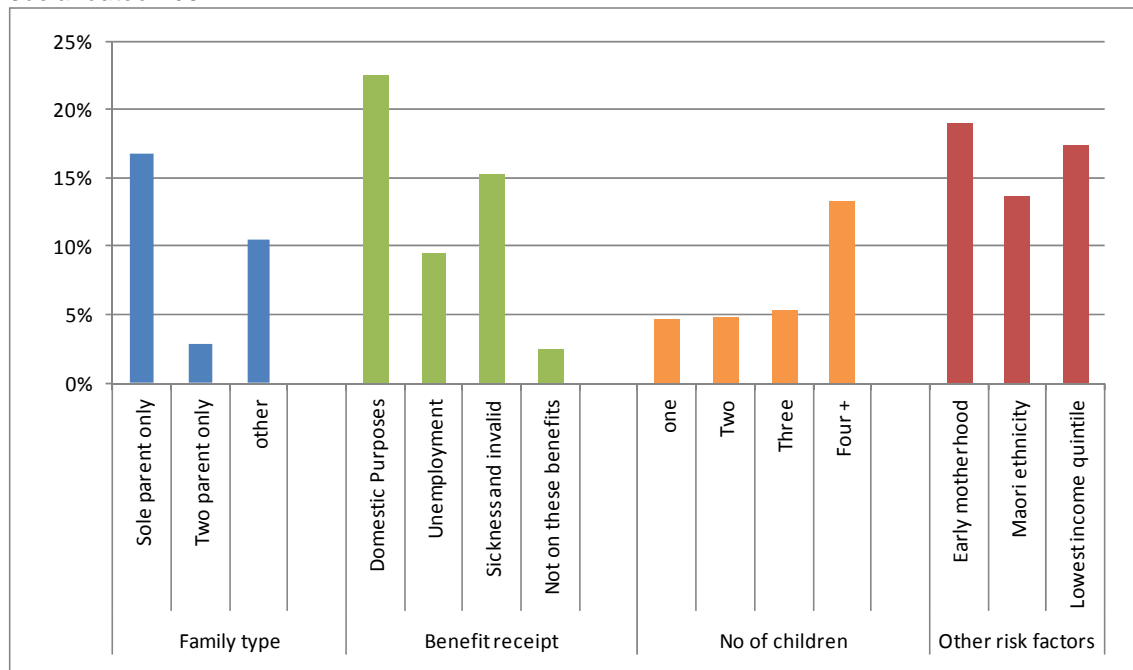


31,000 children of sole parent clients (15%)

Maori and other groups with high concentrations of material hardship and other risk factors

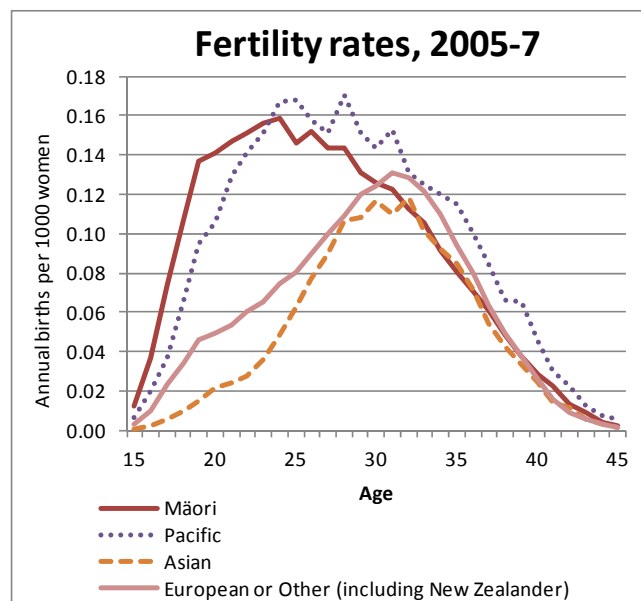
A key dimension of material hardship in New Zealand is that some groups have higher concentrations than others. In particular, the groups with the highest rate of poor material and social outcomes are those on the Domestic Purposes, Sickness and Invalid benefits, those born to mothers who had children before they were 20, and those with incomes in the lowest quintiles (see Figure 17). Maori and large families also have a higher risk.

Figure 17: Proportion of children in each category that are at high risk of poor material and social outcomes



Source: General Social Survey, refers to the proportion of households who have a number of risk factors associated with poor material and social outcomes (for example, low economic standard of living)

Difference in the age of child-bearing is one factor behind the ethnic differentials in poverty rates. Maori and Pacific have a significantly higher rate of young pregnancy, with the result their average age of childbearing is 25.9 and 27.7 respectively compared to 31.1 for New Zealand European and others. Research suggests that for Maori parenthood prior to age 20 is still apparent even when their rates are adjusted for other socio-economic and family functioning factors (Mare, D et al).



Source: <http://www.stats.govt.nz/~media/Statistics/browse-categories/population/births/tables/ethnic-fert-rates-2001-2006.xls>

Welfare reform and child poverty

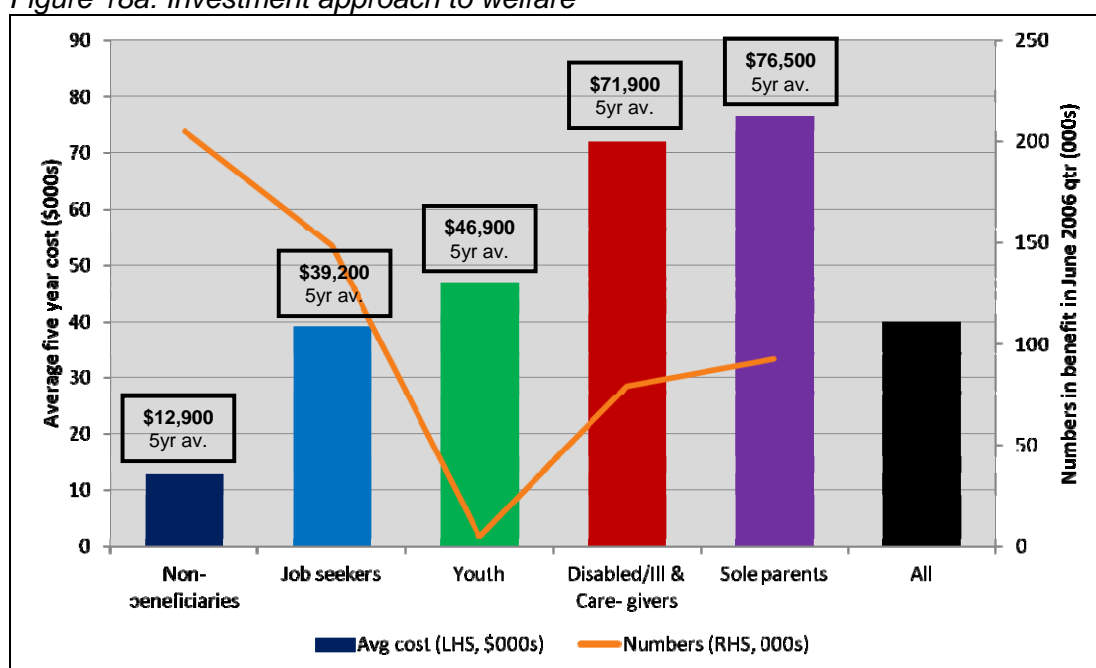
There appears to be a strong rationale for employment support to be prioritised to parents in welfare system as part of welfare reform. Significant welfare reform is currently underway that includes a focus on encouraging more sole parents into employment, consistent with the current strengths and weakness of the New Zealand welfare system. This included changes to the work expectations for sole parents,⁶ more support and the development of an investment approach to welfare. The changes to work expectations in particular bring New Zealand closer to the approach of other developed economies, but still leave room for other changes.

As part of the investment approach, recent work has been undertaken to look at the key segments that should receive significant focus in policy and delivery. This work has shown that sole parents have a high probability of having a high liability (\$76,500) and there is a large group of them (almost 100,000) – see figure 18a. Therefore, focusing on sole parents with a high probability of being on a benefit for a long time was found to reduce child poverty using both the statistical approach based on benefit liability and the review of where the most important area is from a social perspective.

A continued policy and delivery focus on supporting sole parents into paid work is therefore critical in achieving higher incomes. Barriers which sole parents may face include factors such as financial incentives, access to affordable childcare at appropriate hours, as well as a lack of skills and/or qualifications, patchy work history/long periods out of work and mild to moderate mental health issues. The delivery approach will continue to develop as the Ministry of Social Development further develops the investment approach, develops new tools and approaches to support sole parents into work (based on the evidence about what works). This welfare work highlights that paid work should be a significant priority and focus for government. Further policy, delivery and funding changes may be required over time to support a continued focus on paid work for parents with school aged children in the welfare system to lift incomes.

⁶ The welfare reform changes mean that sole parents will have a part-time work expectation when their child is aged 5 and a full-time work expectation when their child is 14. For subsequent children born while on benefit, part-time work expectations will kick in when the child is aged 1.

Figure 18a: Investment approach to welfare



Source: Taylor Fry (2012)

Targeting benefit expenditure to where it is needed most

Universality or targeting in Income Support expenditure

A key point of contention is whether a universal child benefit, particularly targeted at those families with children aged under five years, should be introduced.

There is concern that, at a high level, there is an increasing amount of expenditure being targeted to high income households. For example, in the 2011 Treasury BIM it was noted that government spending on social services (health, education and income support) increased by almost 20 percent more for households in the top half of the income distribution than for households in the bottom half between 1997/98 and 2009/10 (see figure 18b below).

There are significant efficiency costs from the collection of taxes to fund expenditure that is not targeted at need. Instead, it can be argued that government provided income support should be targeted to those households that need it most.

Careful targeting means that systems are designed to best meet their objectives (such as reducing poverty), while not creating unnecessary work disincentives, administrative costs or complexity. For instance, higher benefit levels may undermine work incentives and lower some household incomes. However it seems that, given where the New Zealand tax-transfer system is at now and within a limited fiscal envelope, the balance should move towards a more targeted approach to those with lower incomes, rather than to a more universal approach.

Internationally there is not a simple relationship between outcomes and whether the system is primarily targeted or universal. For example, both Sweden and Canada have universal payments but the child poverty rates are much lower in Sweden than in Canada.

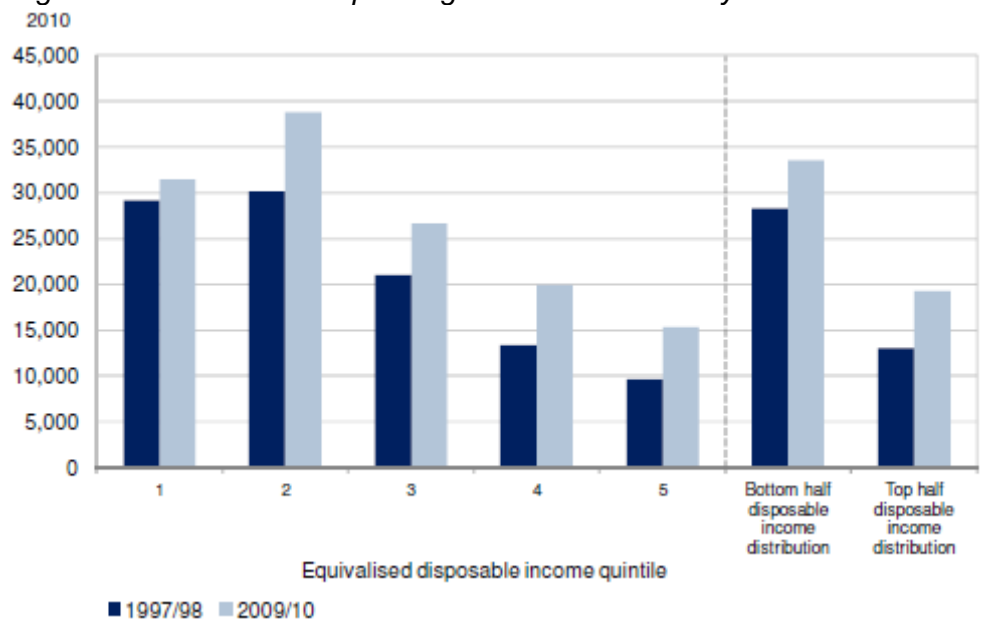
A key question is can we learn from the strengths of the universal New Zealand Superannuation system? The New Zealand Superannuation scheme has the strengths that it is simple, has strong work incentives, and provides adequate support. The key draw-back is that it is a large expenditure item, which is expected to grow. In many ways this highlights the key issue – a move to a universal scheme creates simplicity and does not undermine incentives, but it is expensive compared to alternative designs. Universal payments always face the issue that for a given fiscal cost the level of payment received by each person is lower than with targeted assistance. So, what does this discussion mean in relation to family payments?

Firstly, the issues of low income and material hardship in New Zealand are primarily concentrated within a small group of households that are *persistently* on benefit, on low incomes and in hardship, rather than being broad based across households. Therefore, providing income to the larger group of households who have high or even medium levels of market incomes at a high cost will not be effective at reducing child poverty, or at targeting at those households that need it most.

Secondly, there is an argument that increasing the hours of work of the parents currently in the benefit system is the most important priority. There may be a case for increasing the level of work related payments targeted to those parents, including sole parents, with the lowest wages, and away from families with medium and high incomes. This would provide additional support to those families while also increasing the advantage of being in work compared to being on the benefit.

So, overall, there does not appear to be a strong justification for providing more support to medium and high income households who do not have significant income constraints, but instead limited resources should be targeted to those with the lowest incomes. What this means in practice is that support should be re-balanced away from households with higher income to those households with no one in work or who are in low waged work, rather than towards medium and high income households.

Figure 18b: Government spending on social services by decade



Accommodation support

The system of housing support (Accommodation Supplement, Temporary Additional Support and Income Related Rents) in New Zealand is complex and it has long been acknowledged has a range of issues with equity. This is currently being investigated by an expert group. It is clearly the case that families with high accommodation costs for reasons beyond their control are at greater risk of hardship when they receive the Accommodation Supplement, rather than Income Related Rents. It is also the case that there are some groups receiving the Accommodation Supplement, such as non-beneficiaries and those with low and medium levels of accommodation costs who appear to be less in need than the most disadvantaged. There are significant trade-offs in any decisions, but this remains an important priority for addressing hardship over the medium term.

Effective targeting of services

The above discussion was focused on where government provided income support should be targeted. The issues in the targeting of services and in-kind support are now briefly discussed.

As the Ministerial Committee on Poverty notes, social services must be well-designed and cost-effectively delivered, particularly given that some households face multiple disadvantages that significantly raise the chances of poor outcomes for children. A key priority is to deliver modern public services within a tight budget. This means focusing existing resources on improving performance. In practice this may mean nesting targeted services within universal services, for example through schools and early childhood centres, or it may mean supporting the strengths within community and family structures (rather than government departments). It is therefore not clearly the case that stand-alone services targeted to the most disadvantaged is the most cost-effective way to boost outcomes.

The Government has ten key results for the public sector to achieve over the next five years. These targets are to be used to highlight opportunities for new ways of working together to deliver better public services to New Zealanders. These highlight the areas where the government has prioritised a focus for improving child wellbeing, including rheumatic fever, early child education participation rates, NCEA achievement and long-term welfare dependency.

Targeting earlier or targeting later in a child's life

Another important issue in the benefit system is whether expenditure should be targeted at younger children or older children. A majority of studies looking at this issue, including Duncan and Brooks-Gunn (1997), Levy and Duncan (2000), and Morris et al (2004), as cited in the Experts Advisory Group report (2012) found that income early in the life-cycle of the child was more important for children in vulnerable families. However, there are conflicting views in this space e.g. NICHD (2005), Mayer (2002), and Jenkins and Schluter (2002). On balance, the evidence suggests that income support is better targeted earlier in a child's life when parents face more barriers to employment and when child outcomes may be sensitive to their environment.

Ultimately it is home and educational environments that matter more than income by itself. Therefore there may be a rationale for further linking income support to particular parental actions (ECE, immunisation etc); increasing case management / regular

review and working toward expectation of going off benefit after a defined period; providing low-cost or free services and ensuring work incentives, including for part-time work.

Section 3: Evidence on the most disadvantaged in early childhood, education, health and other services

Introduction

The primary focus of this section is on what is likely to be the most cost effective way to improve measures of child wellbeing and development, with a particular focus on whether income transfers are likely to be more effective than alternative approaches. Child cognitive and non-cognitive development are focussed on because the potential life time social and individual benefits are more significant than in other areas.

An enduring area of policy and analysis focus has been the impact of parental income and socio-economic status on child development (see for example Meyer (2002), Treasury (2002), EAG (2012)). This is an important area because there may be relatively simple solutions to lift student achievement, if child development is closely related to income. Child development is a particularly important area because there is an emerging consensus about the close association between poor child development and poor later outcomes.

Focusing on students at risk of low educational achievement and poor life outcomes

There is a concern in New Zealand about the bottom 20-30% of students

The vast majority of students achieve well in education. Over two thirds attain NCEA level 2 and score at level 3 or higher in PISA. This appears to be a function both of strong family environments, a good system of ECE and an education system that is performing well on average (OECD).

Below the aggregate level of performance, there appears to be around 20-30% of children who do not achieve at the levels that we would expect. These children are disproportionately from low income and low socio-economic families and disproportionately attend decile 1 – decile 3 schools. However, equally, many children in families without low household income also are at-risk of poor outcomes for other reasons, including child disposition and capacities, family environments and characteristics. This group is likely to be harder to identify ex-ante, but may make up the majority of the group that is at-risk of poor outcomes.

What matters most for educational performance?

A key question is to what extent low income is the cause of poor educational outcomes, compared to other factors such as other parental influences, child characteristics and broader school and community influences. The relationship between household income and educational achievement has been a contested literature for some time. However, there is some consensus about some key elements:

- the importance of development in the early years and school readiness,
- disadvantages are important and influential on child development, and
- that a high performing school system can lean against broader social and economic influences.

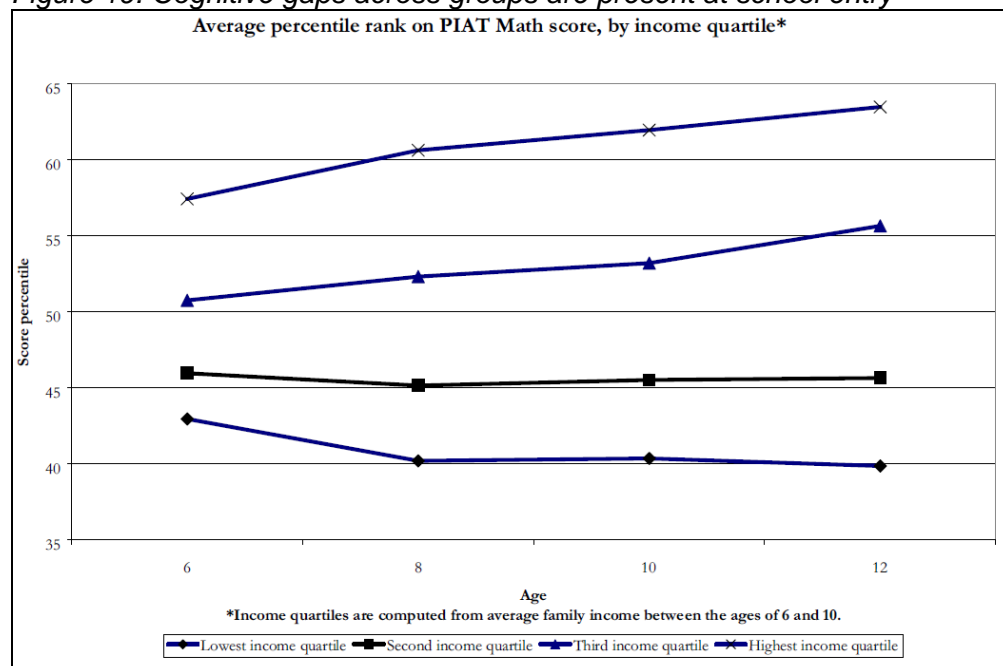
Ministry of Education (2003) and Treasury (2002), while somewhat dated, provide a broad discussion about the broad range of family and community influences on educational development. These include family attributes (for example, ethnicity, resources, maternal education, mobility between schools), family processes (for

example, education expectations, disturbed parent-child relationships, deprivation of stimulation and affection and a rich home environment), community influences (for example, peer groups), and partnerships between families and schools.

The more recent evolving literature on children's cognitive development highlights that the 'average' gaps that we observe in measured cognitive ability open up early and rather than narrowing over the school years tend to open up further (see figure 19). While the following graph is from the US, there is consistent finding that school readiness seems to matter a lot. This means that the average gaps observed in schooling are fundamentally linked to the average capacities that children have when they enter school. When this is combined with our understanding from the new brain science that the early years are critical for development this highlights that if we seriously want to reduce gaps between groups then an early focus, including in early educational settings, is important.

Another area where there is some consensus is that child development seems to be critically linked to the family environment, particularly whether it is emotionally warm and cognitively stimulating and physically safe. Many families with low levels of household income do appear to provide these settings. Children who experienced poverty and/or maltreatment and/or social isolation are more likely to suffer poor outcomes as adults. But children in these groups don't necessarily overlap e.g. the majority of children who were maltreated or socially isolated did not experience poverty (see for example – White Paper on Vulnerable Children (2012)).

Figure 19: Cognitive gaps across groups are present at school entry

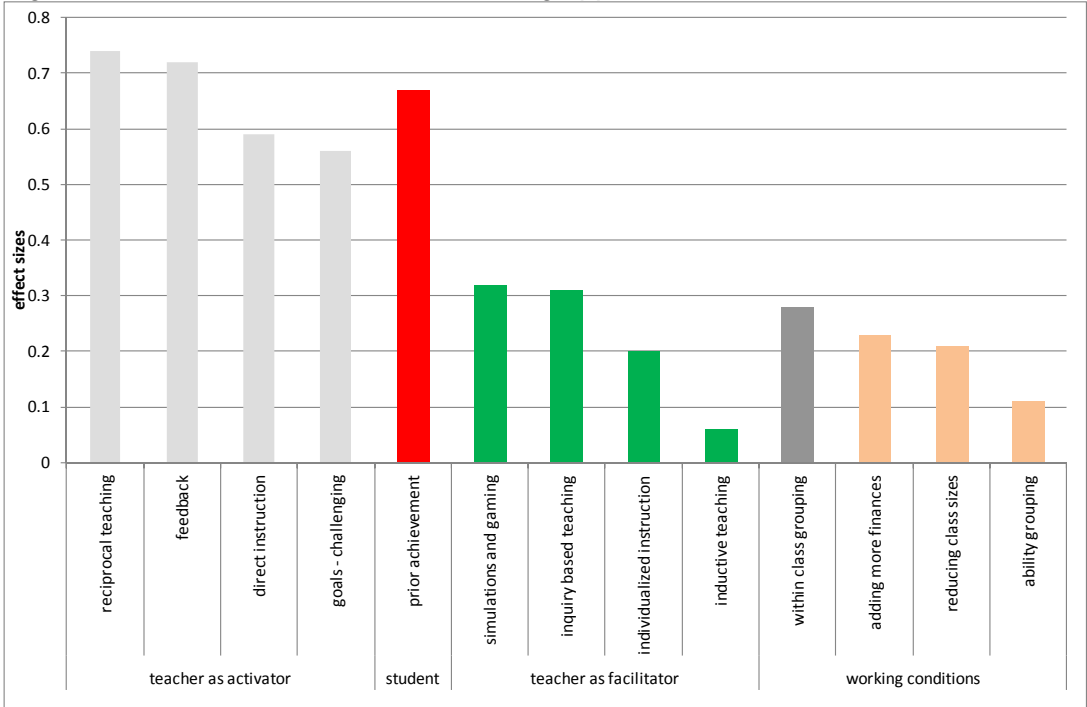


Source: Cunha and Heckman (2006)

The third area where there is some consensus is that the school environment does matter for learning outcomes (see figure 20). While there is some disagreement about what matters most, there is agreement that high quality teaching can be influential on later outcomes and that there are some features of teaching that seem to matter more (see Treasury (2012)). If a high weight is put on this objective then the key areas for

focus (and additional expenditure) include ensuring consistently high quality teaching in all classrooms; use of formative assessment for early identification of children who are falling behind; and effective interventions to address learning and other needs.

Figure 20: effect sizes of different teaching approaches on educational outcomes

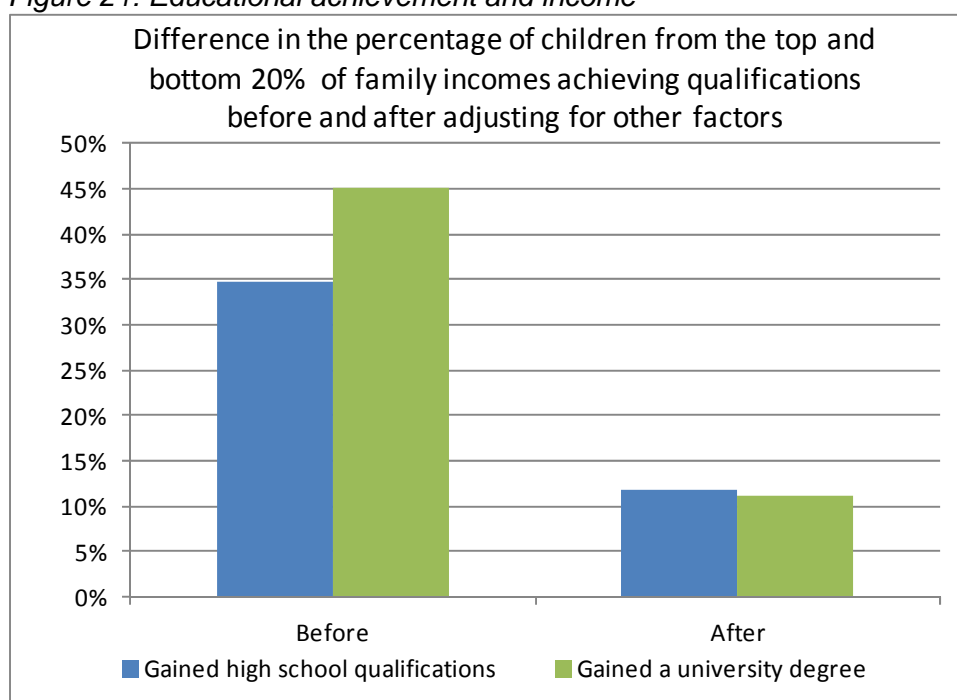


Source: Hattie (2009)

A closer look at income, socio-economic status and educational achievement

The major area where there remains significant debate is the scale and importance of the impact household income and educational achievement. The debate on this topic varies from those who conclude that most of the raw association between income and educational achievement is caused by income, to those who conclude that none of the raw association is caused by income. A reasonable conclusion from Mayer (2002) is that when other factors of the family environment are held constant the impact of income on educational achievement drops considerably in size and often becomes insignificant (see for example, figure 21, taken from New Zealand research). This is consistent with the impact of income not having a direct large causal effect on educational achievement.

Figure 21: Educational achievement and income



Source: Gibb et al (2012)

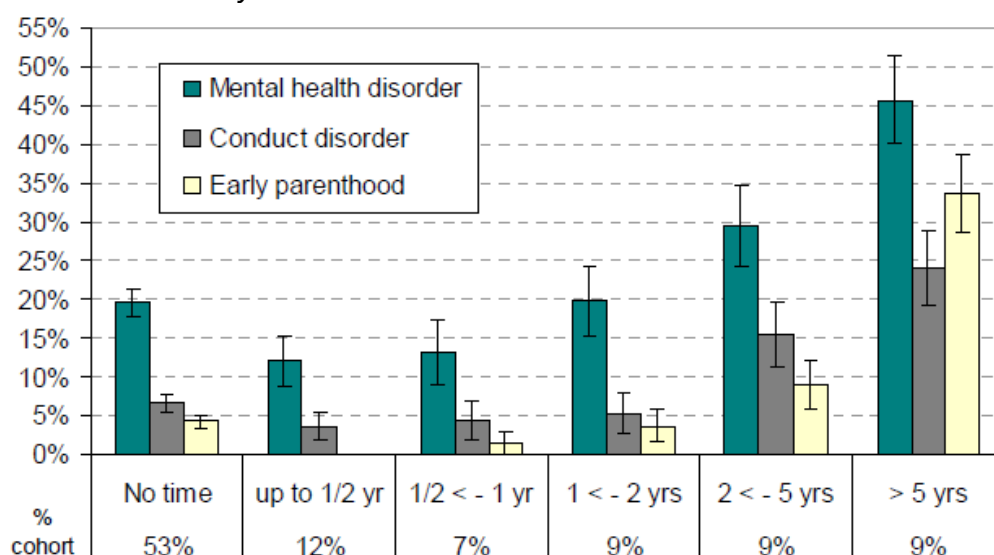
There is a group of authors who argue that the impact of income / *socio-economic status* is pervasive, and that this impact occurs through mediating pathways. So, for example, persistent low income may lead to household stress that affects parenting style, which in turn influences educational achievement. The evidence is still ambiguous on whether income and socio-economic status has a pervasive impact on educational achievement. Nevertheless, it is reasonable to conclude the following:

- Income at a point in time appears to have only a weak direct impact on educational achievement (see Mayer (2002)) - it is likely that the same evidence about the effect of persistent hardship on child outcomes also applies to the effect of income on education outcomes.
- There is a group of household characteristics that appear to have a stronger association with educational achievement, one of which is persistent low material living standards (see for example Maani, S and G Kalb (2007)), others include mild to moderate maternal mental health conditions, joblessness, low parental educational achievement and features of the family and community environment (see for example Violata et al (2011)).

A key point is that there do seem to be groups of individuals with a range of disadvantages who have low income and are on benefit. We see from Welsh and Wilson (2010) that there are a group of individuals in the Dunedin Study cohort that are disadvantaged, including having a range of mild-moderate mental illness, few educational qualifications, little history of full-time employment and are more likely to be long-term on benefit. From figure 22 over 40% of longer-term beneficiaries in the cohort had a diagnosed mental health condition at age 15 years, more than twice the rate for members of the cohort who spent little or no time on benefit in early adulthood that of non-beneficiaries. What this highlights is that many people within households have a group of disadvantages including low income, health issues, labour market experience, which together have a large and pervasive effect on a range of outcomes.

It would seem a reasonable conclusion that these issues should be looked at as a group, rather than as individual issues.

Figure 22: Proportion of Dunedin Study members with any mental health disorder or conduct disorder at 15 years and early parenthood by time spent receiving benefits between 19-20 and 32 years



Source: CSRE (2010)

Intensive early childhood programmes and interventions

There is significant evidence that increasing the participation of children from low socio-economic backgrounds in high quality early childhood education (ECE) will help to improve educational outcomes for this group who tend to perform less well at school. This is supported by statistics which show that the groups who are most likely to benefit from ECE currently participate at the lowest rates – Maori, Pasifika and low socio-economic groups.

The range of evidence includes the Perry Pre-School and the Abecedarian early childhood programmes which involved high quality, intensive interventions for disadvantaged children over an extended period of time (usually more than a year). These programmes included not just early childhood education but health and nutrition services as well as active engagement with parents to improve parenting skills and family management. They have proven positive outcomes well past the teenage years, including higher educational achievement, higher employment rates, lower rates of juvenile and adult crime, and lower rates of teen pregnancy than for those who did not experience the programme.

There is also an increasing body of evidence which shows the non-cognitive benefits of ECE participation are at least as great, if not greater, than the cognitive benefits. ECE can help to build key personal, interactive and emotional skills which children from troubled backgrounds may not otherwise be well situated to develop. These include things like self-confidence, persistence, self-control, empathy, and team work. The non-cognitive benefits of ECE are complementary to the cognitive benefits, but will also be hugely beneficial for children who might not pursue an academic pathway beyond

compulsory schooling in that they will still have the key skills which make them employable later in life.

The results achieved by intensive programmes, as well as the potential highlighted in community hub-type approaches which have been developed in the UK and the US, are encouraging. Therefore a reasonable future direction in the early childhood space would be further investigation of options to provide more intensive services for low socio-economic groups in particular.

It is also important to note that ECE by itself is often not enough to significantly raise educational achievement. Following up in the schooling system with high quality teaching and possibly continued programmes of support for children and parents may be necessary to achieve the full benefits.

Material living standards and emotional and physical wellbeing

As with child development, there is a large, diverse and extensive literature on the relationship between material living standards and emotional and physical wellbeing (see for example Treasury (2002), Doyle et al (2007), Hoynes et al (2012), Milligan and Stabile (2008), D'Onofrio et al (2009), Cancian et al (2010)). There is a long history in documenting social disparities in health. These have documented that children from low socio-economic families typically do significantly worse across a range of domains than other households (see for example PHAC (2011)). Most children and young people appear to have reasonable levels of non-cognitive skills, resilience, absence of anti-social behaviour and absence of self harm. However, there is a worryingly large group of young people particularly where these skills are not present (e.g. Gluckman et al (2011)).

The influences of income on child emotional wellbeing vary significantly with age. What we know is that early family environment seems to matter a lot (Gluckman et al (2011)). Those children who are likely to experience significantly worse emotional outcomes as youth and adults are more likely to have come from poor family environments. Wellbeing from children's perspective was much more strongly associated with the quality of relationships than with family structure. There is an increasing recognition of the relationship between emotional wellbeing, personality, child development and later outcomes (e.g. Heckman (2010)). This suggests that understanding non-cognitive development and personality development in children is important and warrants further investigation.

Gluckman et al (2011) suggest that a potential policy response to help overcome early-onset conduct disorder issues is to identify children early and refer them to services which can assist. These services largely focus on more effective parenting techniques to better respond to children's needs and control behaviour. Some examples internationally of programmes which have proven effective include the Triple P, The Incredible Years (both of which operate in New Zealand already) and others such as Parent Behaviour Management Training. To be most effective, children should be identified between the ages of 3 and 7 years old.

There is also a role for effective home visitation programmes. For young, at risk first time mothers, programmes such as the Nurse Family Partnership programme which has operated in the US since the 1970s can be effective in changing outcomes. Follow up to age 15 showed that those children who experienced the intervention had fewer arrests, convictions and probation violations which suggests NFP can effectively reduce severe anti-social behaviour. In New Zealand, the Early Start programme has promise, but needs to be evaluated further when participating children are older.

Again while children from low income families are significantly more likely to experience a range of emotional deficits and poor outcomes, it seems likely that this is related to the disadvantaged households, rather than being wide-spread across all low income households. People in low

socio-economic areas were significantly more likely to have used drugs recreationally or to have used cannabis (MoH 2007/08), although evidence suggests this is not a major cause of welfare dependency (NZ Drug Foundation 2012). People living in low socio-economic areas are more likely to be smokers (MoH 2006/07) and more likely to be problem gamblers (MoH 2010).

One finding from the health literature is that no single risk factor emerged as a key factor in leading to poor outcomes, suggesting the pathways are multi-factorial (for example, Mayer (2002) discusses the importance of the health status of parents). There appears to be a very strong and enduring relationship between parental health status, foetal health and early childhood health on health across the life-cycle.

There is a literature that shows that there is a strong association between housing and health outcomes (Maani et al (2006)). Overcrowding, heating, and cooking and sanitary conditions all seem to have a strong association with health outcomes. Indeed Maani et al (2006) hypothesise that it may be the key driver of the relationship between income and health. Nevertheless, as with other areas, this relationship may be somewhat over-stated because it is picking up a variety of omitted variables.

Section 4: Current agendas and future directions

The overarching story

The overarching story about child wellbeing and child poverty should include the following elements:

- Child poverty and child wellbeing is an important issue to New Zealanders
- While there is a relatively large group of households experiencing low and medium levels of low income, there is a strong policy case for targeting assistance at the most disadvantaged in New Zealand.
- A notable feature of long-term poverty in New Zealand is its concentration amongst sole parents, particularly those with no qualifications and a range of other disadvantages.
- The most effective way to target resources to the most disadvantaged children is likely to be through the delivery of services and support more directly to those families than through big changes in the rates of benefit
- Any consideration of child wellbeing needs to recognise all of the work and funding that is currently in place through families, early childhood and health services, the education system, the benefit system, NGOs and community organisations
- The two specific areas where attention should be focused in the short term are in implementing the investment approach in welfare reform to support as many of the most disadvantaged beneficiary sole parents into work and further targeting and investment in early childhood services for children from the most disadvantaged households.

Where to focus future policy attention?

While there is a relatively large group of households experiencing low and medium levels of low income, there is a strong policy case for targeting assistance at the most disadvantaged in New Zealand. This is because around 1 in 5 children will spend more than half of their first 14 years in household supported by main benefit. This group is at the highest risk of material hardship and poor outcomes across a range of dimensions.

A notable feature of long-term poverty in New Zealand is the higher risk of sole parents, particularly those with no qualifications and a range of other disadvantages. Eight out of ten of the 205,000 New Zealand children in households that receive a main benefit in 2007 were supported by the Domestic Purposes Benefit. Therefore, an important issue for child poverty in New Zealand over the medium term are issues relating to supporting sole parents on a benefit into work.

Specific areas where attention should be focused in the short term are in implementing the investment approach in welfare reform to support as many of the most disadvantaged beneficiary sole parents into work and further targeting and investment in early childhood services for the most disadvantaged. Further significant gains could be made in the following areas:

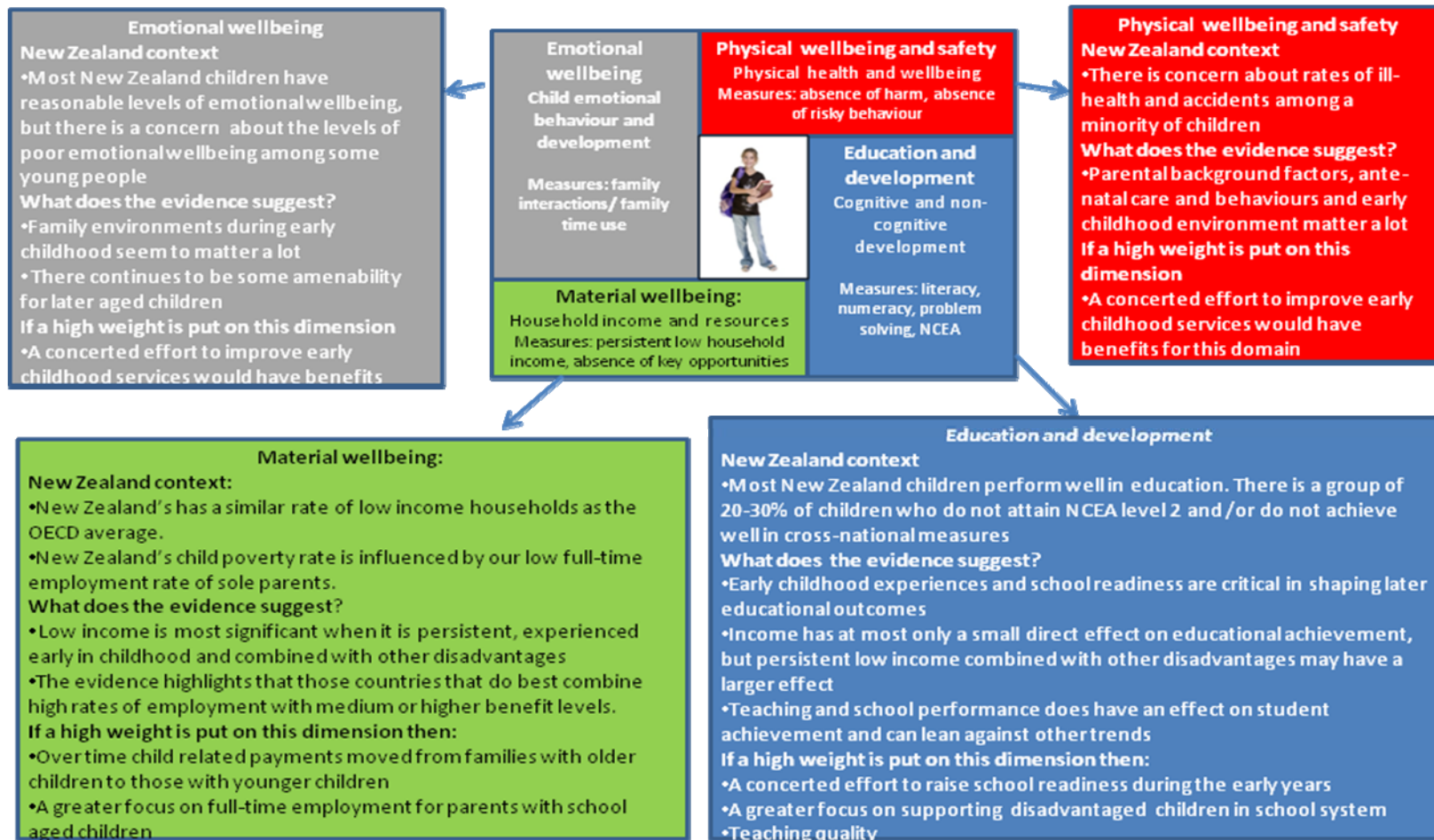
- Increasing the provision of “full-service” early childhood centres, in which a range of services (early childhood education, health, welfare, budgeting, parenting support) are co-located.
- Additional programmes and resources for schools to provide a higher level of intensive support for some disadvantaged and under-achieving children is probably worth further attention. For example, the early identification (most likely between the ages of 3 and 7) and referral to effective programmes of children with conduct disorders.
- Reviewing home visitation programmes and focussing on those which are shown to be effective e.g. Nurse Family Partnerships and Early Start (see Gluckman (2011) for further information).

Beyond the immediate decisions in welfare and in early childhood education funding, consideration could be given to reviewing and refocusing TFEA/decile funding for schools. This could include reviewing the extent to which the current TFEA/decile school funding is effective in supporting schools to provide additional support to children from disadvantaged backgrounds.

Current approaches to the measurement of child material living standards typically are not well-integrated into broader measures of child physical and emotional wellbeing and child development. Consideration could be given to developing a framework for the measurement of child material living standards as part of broader measures of child wellbeing.

Child wellbeing and development

There is currently a lot of work going on across Government on child wellbeing and development. There is an opportunity to consider how it all fits together and begin to prioritise areas for action. Within current agendas there is an opportunity to push further in key areas to make overall progress. Some scepticism is required when interpreting claims that one policy level or dimension can overcome entrenched issues.



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