



Proactive Release

The following briefing has been proactively released by the Department of the Prime Minister and Cabinet, on behalf of Rt Hon Jacinda Ardern, Minister for Child Poverty Reduction:

The Impact of the Families Package and Budget 2019 on Child Poverty Rates

Date of release: 25 February 2020

The following documents has been included in this release:

Briefing: The Impact of the Families Package and Budget 2019 on Child Poverty Rates

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant section of the Act that would apply has been identified. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to redaction code:

- 9(2)(a): to protect the privacy of natural persons, including that of deceased natural persons.

Briefing

THE IMPACT OF THE FAMILIES PACKAGE AND BUDGET 2019 ON CHILD POVERTY RATES

To: Rt Hon Jacinda Ardern, Prime Minister, Minister for Child Poverty Reduction
 cc: Hon Grant Robertson, Minister of Finance; Hon Carmel Sepuloni, Minister for Social Development; Hon Tracey Martin, Minister for Children

Date	23/01/2020	Priority	MEDIUM
Deadline	27/02/2020	Briefing Number	DPMC-2020/20-619

Purpose

- 1 This report provides you with advice on the expected impact of the Families Package and Budget 2019 on child poverty, and how that impact could be reflected in the rates of child poverty released by Stats NZ in February this year.

Executive Summary

- 2 Reporting on child poverty by Stats NZ has a significant length of time (around 18-24 months) between income support changes being introduced and their impact being seen in the official reporting on child poverty rates. Furthermore, Stats NZ's reporting is based on a survey which surveys households over the course of a year, asking them their income in the 52 weeks prior to the survey date – effectively measuring household incomes over a two-year period. This means that, when the reporting does begin to show the impact of policy changes, this impact takes time to feed through to reported rates.
- 3 Consistent with this, the upcoming reporting on 25 February by Stats NZ will be the first to show any impact from the Families Package in 2018/19, but we expect this impact will only be partially seen in the release this year. Officials' 'best estimate' is that the reduction will be around a third to a half of the modelled estimate of the full impact for the 2018/19 year, but even this estimate still has a considerable degree of uncertainty.

Recommendations

It is recommended that you:

- 1 **note** that the majority of the Families Package was implemented in April and July 2018, with the Best Start payment progressively phased in between 2018 and 2021
- 2 **note** the Stats NZ's upcoming reporting (due to be released on 25 February 2020) is based on household incomes over a two-year period: incomes from mid-2017 to mid-2019
- 3 **note** the child poverty rates released by Stats NZ in February will only partially show the impact from the Families Package

IN CONFIDENCE

- 4 **note** that Stats NZ's reporting in 2021 and 2022 will provide the best basis for assessing the impact of the Families Package on child poverty rates
- 5 **note** that the Budget 2019 changes will take effect from April this year, so their impact on official rates will be first seen in the 2022 release
- 6 **agree** to proactively release this report in full at the same time that Stats NZ releases the child poverty rates

YES / NO

Kristie Carter Director, Child Poverty Unit, Department of the Prime Minister and Cabinet
...../...../2020

Rt Hon Jacinda Ardern Prime Minister Minister for Child Poverty Reduction
...../...../2020

Contact for telephone discussion if required:

Name	Position	Telephone	1st contact
Kristie Carter	Director, Child Poverty Unit	s9(2)(a)	✓
Tim Garlick	Principal Analyst, Child Poverty Unit		

Minister's office comments:

- Noted
- Seen
- Approved
- Needs change
- Withdrawn
- Not seen by Minister
- Overtaken by events
- Referred to

The impact of the Families Package and Budget 2019

- 7 The vast majority of the Families Package has now been implemented, with increases to the Family Tax Credit, Accommodation Supplement, and Winter Energy Payment implemented in the first half of 2018, and the Best Start payment progressively phased in from July 2018 onwards. In addition, indexation and the other income support changes announced in Budget 2019 will begin to take effect in April this year, with their impact steadily increasing over time. **Appendix One** explains the implementation timeframes for specific initiatives in more detail.
- 8 The best information we currently have on the overall impact that these changes are having on incomes and child poverty continues to be modelling using the Treasury's microsimulation model, TAWA. As you know, it is estimated that by 2020/21 the Families Package and Budget 2019 changes combined will mean the BHC50 measure is reduced by between 41,000 and 66,000 children and the AHC50 measure by between 50,000 and 74,000 children. A summary of the various modelling of the impact of both sets of changes on incomes and child poverty for each year is provided below and in **Appendix Two** - note that the gains and reductions are not cumulative.

	Families Package: weekly gains for families with children		Budget 2019: further weekly gains for families with children		Estimated reduction in child poverty compared to 17/18 tax year	
	Families gaining	Average gains			BHC50	AHC50
2018/2019	385,000	\$66			40,000-62,000	41,000-63,000
2019/2020	385,000	\$68			40,000-62,000	46,000-68,000
2020/2021	384,000	\$75	146,000	\$8	41,000-66,000	50,000-74,000

- 9 The impact of the Families Package has not yet flowed through to the official reporting on annual child poverty rates by Stats NZ however. The previous Stats NZ figures (released in February 2019) related to the period July 2016 to June 2018 – before the package was implemented. We expect that the first reporting to show any of the impact of the Families Package will be the upcoming release in February this year.
- 10 As you know, reporting on child poverty by Stats NZ has a significant 'lag' in the length of time between income support changes being announced and the impact being seen in the reporting. There are several reasons for the delay, including:
- *The time it takes to implement income support changes* - there is generally a period of at least several months before income support changes are fully implemented, including time to pass relevant legislation, make the necessary changes to administrative systems and processes, and, in some cases, align the changes with timeframes for other processes (e.g. timing adjustments for 1 April).
 - *The time it takes to collect the data* - the reporting is based on the Household Economic Survey (HES), which surveys 20,000 households and is carried out over the course of a year.

- *The time period the incomes data refers to* - data is collected about household incomes for the previous twelve months (from the point at which each household is surveyed).¹
 - *The time it takes for data to be collated and analysed* - Stats NZ's reporting has reduced the timeframe by several months, but there still remains a gap of around seven months from the end of the survey period to the point at which official figures are released.
- 11 Reporting methods also make it difficult to assess the individual impact of any particular initiative on child poverty rates – particularly early on. Because the survey is carried out over the course of the year (from July to June), and data is collected on household incomes for the twelve months prior to the date on which a household is surveyed, reporting is effectively based on incomes spread across a two year period. This means that, when any impact of any initiative can eventually begin to be seen, this impact will initially only be partially shown.
- 12 **Appendix Three** shows how the implementation of income support initiatives will flow through to reporting by Stats NZ. The upcoming reporting in February will be based on data about households surveyed between July 2018 and June 2019. The first households surveyed will be providing information about their incomes from July 2017 to June 2018, and the last households will be asked about their incomes from July 2018 to June 2019 – an overall 'window' that extends from July 2017 to June 2019. This means around half the incomes data will be from before the Families Package came into effect.
- 13 So while the reporting will be the first to show any impact from the Families Package, we expect this impact will only be *partially* seen in the reporting this year. To estimate what this partial impact might look like in February's reporting, officials have commissioned Treasury modelling using an alternative approach that uses a two year window and aims to resemble the way Stats NZ reporting works. This modelling suggests that the February child poverty figures are likely to show between a third and a half of the full impact that we expect the Families Package is actually having in 2018/19 (the full impact is shown in the table above).²
- 14 While this gives us a 'best estimate' of what the impact will look like in February, even this estimate still has a considerable degree of uncertainty attached to it. There is a possibility that actual economic conditions may have deviated slightly from the forecast assumptions used in the modelling, which may impact incomes, employment, and housing costs. In addition, the reporting is likely to have sample errors of around $\pm 1 - 2$ percentage points, which means rates could be around 10,000 – 20,000 children higher or lower than their 'true' level. There is also a possibility that the shift to a significantly larger sample and/or other methodological changes will have some impact on estimated rates. For a number of reasons,

¹Whereas past reporting was based primarily on self-reported income provided through the response to the HES, recent reporting from Stats NZ featured a shift to using administrative data for the respondent's income. This does not materially affect the reporting timeframes; Stats NZ extract administrative income data for the same period as the survey would have - for example, if a household was interviewed for the HES in May 2018, Stats NZ would retrieve income for May 2017 to April 2018

²The reason that the modelled impact is slightly lower than a simple halving of previously modelled estimates is due to the way the Treasury's TAWA model calculates the threshold for the fixed line poverty measures. This issue is unlikely to apply to Stats NZ's reporting, but given the range of uncertainties involved officials believe a more conservative estimate of expected impact is advisable at this stage.

rates could be slightly higher or lower than expected, which will further complicate any assessment of the impact that the Families Package has had on child poverty.

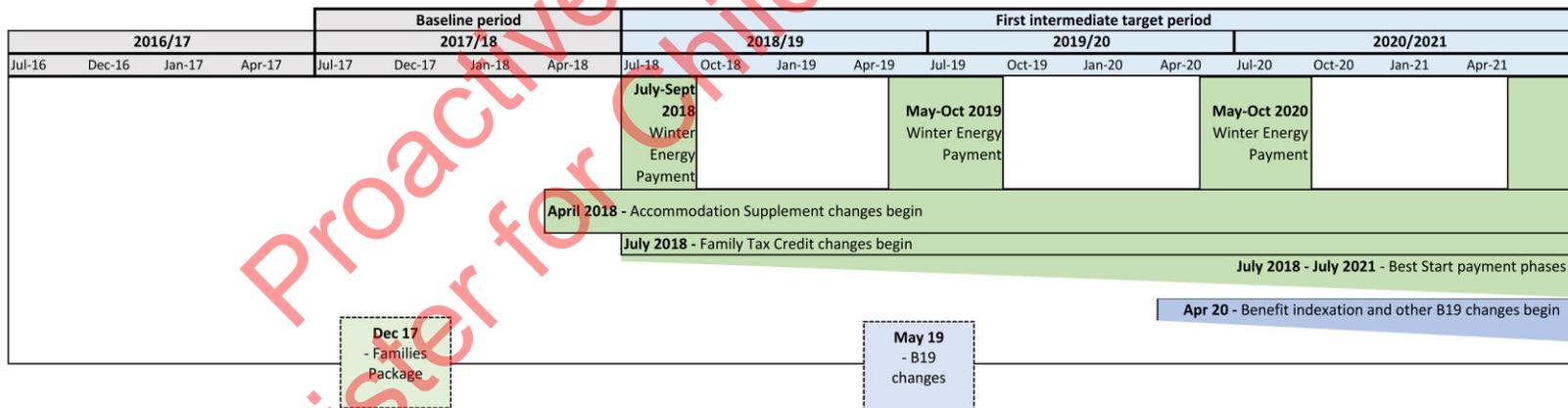
Next steps

- 15 DPMC is scheduled to receive Stats NZ's figures 24 hours before they are publicly released. We will immediately provide these to your office, and prepare briefing material on the release.
- 16 We recognise that the timeframes outlined in this report are complicated and challenging to understand, and there is a risk that there may be some confusion from media and other commentators as to what the February reporting does and does not show. To aid public understanding of what the figures represent, we will publish diagrams and other explanatory material on the DPMC website. We could also proactively release this report at the time of the February release, should you wish.

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Appendix One: implementation of the Families Package and Budget 19

- 17 The vast majority of the **Families Package** has already been implemented, with most of the key components being implemented in the first half of 2018:
- The Accommodation Supplement changes were implemented in April 2018.
 - The Family Tax Credit changes were implemented in July 2018
 - The Winter Energy Payment was paid for three months in 2018 (from July – September), and will be paid for five months for each year from 2019 onwards (from May – October).
- 18 The Best Start payment is being steadily introduced over a three year period. The payment was available for families with a child born or due from 1 July 2018, and so will be phased in as the child ages: it was fully available to all under ones by July 2019, and will be fully extended to eligible under twos by July 2020 and under threes by July 2021.
- 19 **Budget 2019** announced three further income support changes, including changes to the way benefits are adjusted from year-to-year, increases to the abatement thresholds for main benefits, and the removal of the section 192 sanction. All three changes begin to take effect from April 2020, but also can be seen to steadily ‘phase in’ – the abatement thresholds steadily rise over a four year period, and the impact of the indexation changes will slowly grow over time.
- 20 The diagram below summarises the timeframes for the implementation of these changes.



Appendix Two: TAWA modelling of impact of the Families Package and B19

- 21 Officials have used TAWA to estimate the average gains from the Families Package for families with children. Around 385,000 families with children on average are expected to gain by:
- \$66 per week in 2018/19
 - \$68 per week in 2019/20
 - \$75 per week in 2020/2021
- 22 MSD officials have modelled the expected impact of Budget 2019 changes, over and above the above gains from the Families Package. It is estimated that:
- around 340,000 individuals and families (those with and without children) will gain on average \$5 per week in April 2020, increasing to around \$15 per week in April 2023
 - around 146,000 families with children will receive, on average, an additional \$8 per week in April 2020, increasing to around \$20 per week in April 2023.
- 23 Modelling for Budget 2019 indicated that, by the time the Families Package is fully rolled out in 2020/2021, the combined impact of the Families Package and Budget 2019 will reduce the BHC50 measure by between 41,000 and 66,000 children and the AHC50 measure by between 50,000 and 74,000 children.
- 24 The table below provides a summary of various TAWA modelling of the full impact on incomes and poverty for different tax years. As this shows, the vast majority of the impact on incomes and child poverty has already occurred.

	Families Package: weekly gains for families with children		Budget 2019: further weekly gains for families with children		Reduction in child poverty compared to 17/18 tax year	
	Families gaining	Average gains			BHC50	AHC50
2018/2019	385,000	\$66			40,000-62,000	41,000-63,000
2019/2020	385,000	\$68			40,000-62,000	46,000-68,000
2020/2021	384,000	\$75	146,000	\$8	41,000-66,000	50,000-74,000

25 The diagram below summarises the various modelling of the impact on incomes and poverty, and how they relate to the implementation of these various policy changes.



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Appendix Three: the impact of the Families Package and Budget 2019 on poverty rates in Stats NZ reporting

26 Below are the timeframes for the implementation of the Families Package, and how its impact will be shown across the next three years of child poverty reporting. The majority of the impact of the Families Package should be observable in the reporting released in 2021.

