



Proactive Release

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Memorandum: Achieving the Government's Child Poverty Reduction Targets

The following document has been included in this release:

- **Title of paper:** Memorandum: Achieving the Government's Child Poverty Reduction Targets

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Memorandum

Achieving the Government's Child Poverty Reduction Targets

To	Child and Youth Wellbeing Strategy Ministerial Group (CYWS)		
From	The Department of the Prime Minister and Cabinet (DPMC) and the Ministry of Social Development (MSD)	Date	22/05/2023

Purpose

1. This is the first of a series of 'deep dive' presentations on the four priority areas under the CYWS. This priority area – reducing child poverty and mitigating the impacts of socio-economic disadvantage – is jointly led by Rebecca Kitteridge, Chief Executive of the Department of the Prime Minister and Cabinet (DPMC), and Debbie Power, Chief Executive of the Ministry of Social Development (MSD). The key messages in this document have been jointly developed by DPMC and MSD.
2. We have attached A3s which set out the conceptual relationship between the measures; the latest child poverty projections and progress towards the targets; and some high-level information about child poverty policies.

The Government has made significant progress in reducing child poverty since the targets were first set

3. Substantial investment in recent years has helped to make considerable progress towards the child poverty targets. Key initiatives include the Families Package (\$5.5b over four years), Budget 2021 benefit increases (\$3.3b over four years), and the *Ka Ora, Ka Ako* Healthy School Lunches Programme (\$220m over four years). There have also been a wide range of initiatives that will have contributed to progress, including Working for Families increases, lifting benefit abatement thresholds, indexation of main benefits, increasing the minimum wage, expanding public housing, and extending free and low-cost doctors' visits.
4. The latest Stats NZ figures for 2021/22 show that eight out of nine measures are now statistically significantly lower compared to the baseline year of 2018, including the three primary measures:
 - the before-housing-cost, moving line measure (BHC50) has been reduced by 4.5 percentage points, or 46,000 children
 - the after-housing-cost, fixed line measure (AHC50) has been reduced by 7.4 percentage points, or 77,000 children

- material hardship has been reduced by 3 percentage points, or 29,000 children.
5. Child poverty rates in the past two years are now lower than they've been over the past 10 to 15 years for which we have comparable data.

Sizeable reductions are still required to reach the ten-year targets

6. While good progress has been made, sizeable reductions are still needed to reach the ten-year targets. This is particularly the case on the BHC50 measure. This is shown in the tables below, which set out the current shortfall for both the current three-year targets and the ten-year targets.

Measure	Progress so far			Second 3 year targets		Ten year targets	
	Baseline (2017/18)	Reductions so far (ppt)	Latest (2021/22)	2023/24 target rates	Reductions remaining	2027/28 target rates	Reductions remaining
BHC 50% relative	16.5%	4.5%	12.0%	10.0%	2.0%	5.0%	7.0%
	183,400	45,600	137,800	115,000	23,000	57,000	~80,000
AHC 50% fixed	22.8%	7.4%	15.4%	15.0%	0.4%	10.0%	5.4%
	253,800	77,000	176,800	172,000	5,000	115,000	~60,000
Material hardship	13.3%	3.0%	10.3%	9.0%	1.3%	6%	4.3%
	147,600	28,700	118,900	104,000	15,000	69,000	~50,000

Note that the 'reductions remaining' are approximate, and will vary based on future population growth

A reduction of 7 percentage points (or ~80,000 children) is still needed to achieve the ten-year BHC50 target

7. The BHC50 measure tells us how low-income households are doing relative to the average (median) household in New Zealand. The Treasury's projections (which form part of the Child Poverty Budget Day report) show a sustained increase in relative BHC50 child poverty rates between 2023 and 2026 without further policy measures being introduced. These increases are based on economic forecasts that the median income (which sets the BHC50 poverty threshold) will grow faster than the incomes of low-income households.
8. The projections estimate the BHC50 rate will be 1.8ppt higher than the target for 2024, when the second intermediate targets are due to be achieved. The target is within the margin of error for the forecast in that year, but the margin of error for Treasury's forecasts is large (more than twice as large as in Stats NZ's reporting).
9. To make progress on this measure, the incomes of families at the bottom must rise faster than the median. Options for lifting incomes include increasing employment and lifting the wages of workers in low-income households with children. However, it is challenging to achieve significant progress in these areas within the timeframes of the targets, and so ongoing increases in income support are the most direct and immediate way to achieve reductions.

A reduction of 5.4 percentage points (or ~60,000 children) is still needed to achieve the ten-year AHC50 target

10. The AHC50 measure tells us how low-income households with children are doing relative to the median household income in 2017/18, after deducting housing costs and adjusting for inflation¹. The Treasury's projections suggest that wage growth and indexation policies will begin to increase after-housing-cost incomes faster than the cost of living from 2023 onwards, leading to an overall downwards trend in fixed AHC50 poverty rates over the forecast period. The projections estimate that the 2024 target will be achieved.

¹ The inflation adjustment used by Stats NZ is based on the Household Living Price Index for low-income households, but not including the housing cost component.

11. Further progress towards the AHC50 target in 2028 requires incomes, after deducting housing costs, to increase faster than the cost of living. Some progress on this measure can be made when general wage growth exceeds inflation, but income support packages will contribute to faster progress. The other levers likely to have an impact are interventions to reduce housing costs – particularly rents. Increases in public housing supply need to be at a very large scale to result in significant movement of child poverty rates.

A reduction of 4.3 percentage points (or ~50,000 children) is still needed to achieve the ten-year Material Hardship target

12. The material hardship measure assesses how many children are living in households who do not have access to the essential items for everyday life, and is measured by asking households directly about their experiences.
13. The Treasury's model cannot estimate material hardship, which is affected by many factors, including income, household costs, assets, debt, and other non-financial support. Material hardship has been trending downwards, but it is too soon to say if we will meet the second intermediate target in 2024.
14. In addition to policies to increase income and reduce housing costs, progress can be achieved with government policies that reduce cost-of-living pressures for low-to-middle income households. Policies targeted to specific groups over-represented in material hardship, such as Māori and Pacific children, and children impacted by disability, may also make some contribution.

Progress has been made on addressing disparities for Māori and Pacific children, and for children impacted by disability – but more is needed

15. Stats NZ reporting on rates of child poverty began in 2018/19 for Māori and Pacific children, and in 2019/20 for children impacted by disability. This means we can't know precisely how the reductions in child poverty for all children arising from the Families Package flowed through for these groups. Rates for sub-population groups are also subject to larger sample error, which makes it more difficult to assess year-on-year change.
16. The 2021/22 data shows statistically significant decreases on the after-housing-costs primary measure for tamariki Māori, and children impacted by disability. There are 15,700 fewer tamariki Māori living in poverty on the AHC50 measure compared to 2018/19. For children impacted by disability, there are 20,700 fewer children living in poverty on the AHC50 measure compared to 2019/20.
17. For material hardship rates, however, disparities continue to be evident for Māori and Pacific children, and children impacted by disability. On the BHC50 measure, disparities are evident for Pacific children, and children impacted by disability, compared to New Zealand children overall.
18. Two principles of the Treaty of Waitangi are particularly relevant to this work: active protection and partnership. Given that Māori children are over-represented in material hardship in particular, it is important that government actions effectively reduce poverty amongst Māori children, and that special consideration is given to ensuring policies and approaches are effective and culturally appropriate for whānau.

Substantial investment will continue to be needed to reach the ten-year targets

19. s9(2)(g)(i) [redacted] Future expenditure would need to be in addition to maintaining the current investments in income support, employment, and housing, noting that some funding may be time limited and due to end

soon. Achieving the targets is likely to require careful consideration and balancing of a wide range of factors and objectives alongside poverty reduction, including economic and fiscal conditions, financial incentives to work, and opportunities for sustainable employment.

The policies that will help make progress on measured rates are in three key areas: incomes, housing, and wider cost-of-living assistance

20. Child poverty impacts on, and is impacted by, settings in a multitude of policy areas, particularly when one takes a longer-term, intergenerational perspective. However, for policies that will translate to movement on the income poverty measures in the next five years, the available option set is much narrower: increasing incomes through employment, taxes and transfers; reducing housing costs for low-income households; and wider cost-of-living assistance.
21. Transfers, particularly benefits and Working for Families, are likely to play the biggest role, as tax changes are difficult to target to those in poverty and are likely much more costly. The impact of employment, while very important, is less direct and certain than transfers, given it is dependent on the performance of the economy and its impact on households.
22. For material hardship measures, assistance with the costs of essentials/demands on the family budget can also contribute to progress, depending on how well targeted they are. Many of the policies focused on addressing the 'cost of living' for low-income families can also be seen as poverty reduction initiatives. This year's Budget has a focus on investments that will support families and whānau living in poverty by reducing household costs in a range of areas, including further assistance with childcare costs, subsidising transport costs, removing prescription co-payments, and the Warmer Kiwi Homes programme. The attached A3s have examples of other policy areas that could be considered.
23. Material hardship is the measure where disparities for key population groups are most pronounced. Policies targeted to specific groups, including Māori and Pacific children, and families impacted by disability, may make some contribution to progress on this measure. These could include services and service delivery, and whānau-centred approaches that are specifically tailored to improving the material wellbeing of these groups.
24. While income is the most important determinant of material hardship, more than half of children in material hardship live in households above the AHC50 income poverty line. This makes it challenging to target policies to families living in material hardship, and requires a careful mix of more broadly targeted and specific interventions.

The biggest opportunity to make further progress towards the targets in the coming years is the review of Working for Families

25. MSD is exploring options s9(2)(f)(iv)

Even with the impacts of Working for Families at the upper end of the estimated impact scale, significant additional policy interventions will likely be required.

26. In order to make sufficient progress, poverty reduction initiatives will likely need to target both beneficiaries and the 'working poor'. The data continues to show children in poverty are evenly split between beneficiary families and low-income working families, whether using measures of low income (50:50 split) or material hardship (60:40 split).

There are four remaining budgets after 2023 where there is an opportunity to make progress towards the ten-year targets

27. The focus, design, scale, and timing of initiatives over the next four budgets after 2023 will be key to achieving the ten-year targets. Initiatives that provide significant direct boosts to incomes will need to continue to play a central and ongoing role.
28. Other, more 'slow-burn' initiatives, that focus on indirectly lifting incomes (eg, through increased employment), housing initiatives, and initiatives to reduce debt and cost of living pressures, would need to be front-loaded into upcoming budgets to have an impact on measured rates in 2027/28. Because of the time between policy decisions, budget funding, and implementation, work on any further initiatives, other than increases to transfer payments, will generally need to be implemented early in the next term of Government to impact the measured rates for the 10-year targets in 2027/28.

Child poverty reduction contributes to wider social policy objectives, and the potential benefits from addressing disadvantage are substantial

29. Children from disadvantaged households often fall behind in many areas of wellbeing and development, with effects that continue to limit their opportunities. This can result in reduced employment, lower earnings, and poorer health, and also have costs associated with lost government revenue and benefit spending. In a recent paper, the OECD estimated that (based on data from European countries):
 - the costs to societies from childhood socio-economic disadvantage total on average the equivalent of 3.4% of GDP annually
 - these costs include losses to public finances as a result of reduced employment and weaker earnings, with governments losing up to 7% in tax revenues, and paying out up to 6% more in social benefits to support those affected.

CYWS Ministers, and the wider social sector, have a role to play and an opportunity to benefit over the medium to longer term

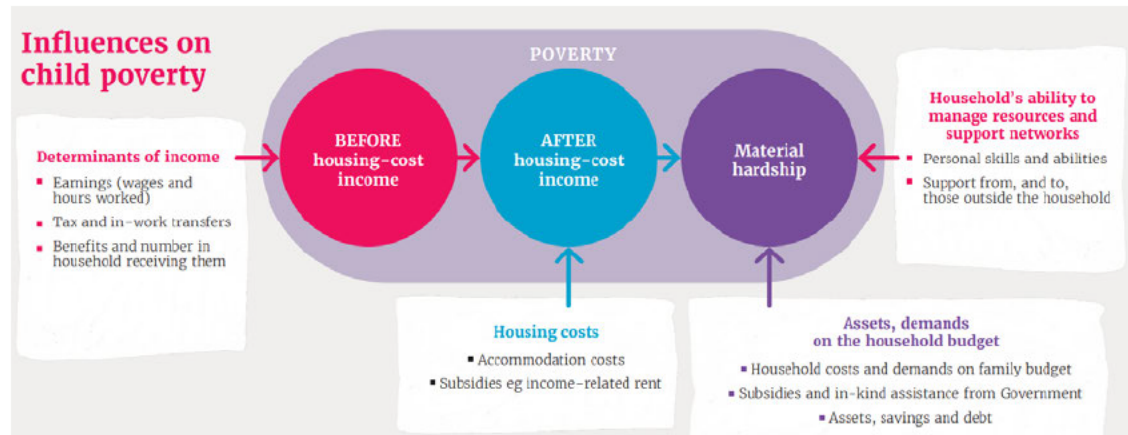
30. The wider social sector and economy both benefit from, and play a key role in, reducing child poverty. This includes through addressing the consequences of poverty and wider disadvantage, and the transmission of poverty across generations. It is particularly important to consider how health and education systems can help to mitigate the impacts of disadvantage (in addition to addressing poverty and disadvantage itself). The performance of the school system is crucial, as is the health system, and the support provided to children in their first 1,000 days of life. While initiatives here are unlikely to contribute to progress on the current targets, they will help towards future targets and child wellbeing generally.

Next steps

31. In the coming months, officials will develop strategic policy advice on options to make further progress on child poverty reduction. The work will synthesise existing evidence and insights from analysis undertaken to date, take stock of current work programmes underway, and identify policy recommendations. It will also aim to generate new insights in specific areas, such as the policies that make the biggest difference for material hardship. The advice will focus on actions that make the greatest progress towards the child poverty reduction targets, while also ensuring progress for priority populations, including Māori and Pacific children, and children impacted by disability.

Progress towards the child poverty reduction targets

The Government has set ambitious targets against three primary measures:

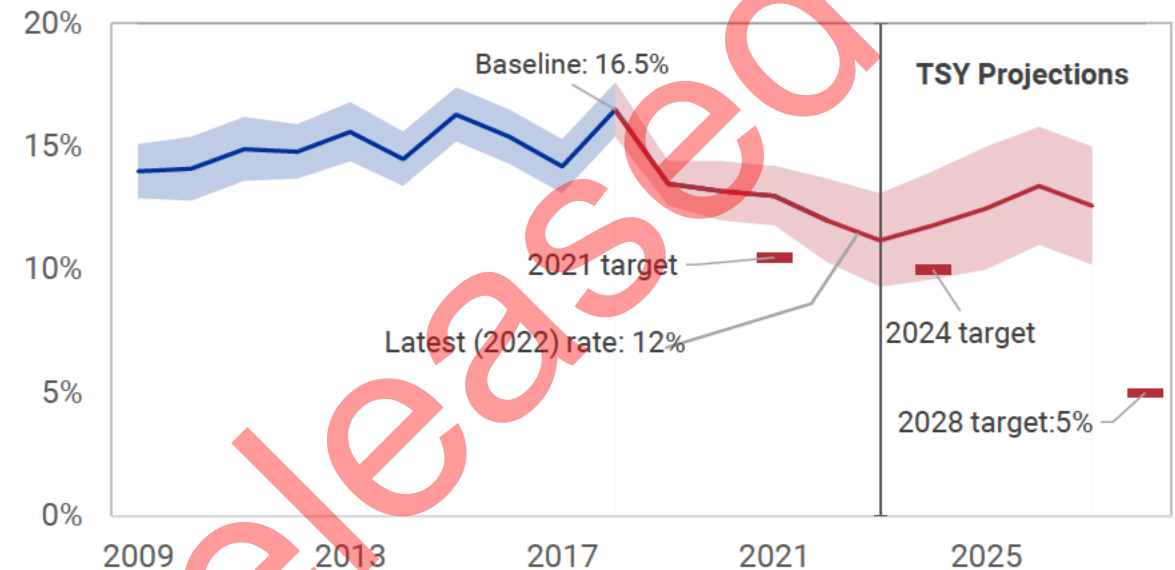


Before Housing Costs primary measure (BHC50): proportion of children in households receiving less than 50% of the median equivalised disposable income in a given year

After Housing Costs primary measure (AHC50): proportion of children living in households with incomes less than 50% of the median household income in 2018, after deducting housing costs and adjusting for inflation

Material Hardship primary measure: proportion of children living in households that lack six or more out of 17 items on the material hardship index (eg, having two pairs of shoes in good condition)

BHC50: ~80,000 children / 7 ppt further reduction needed

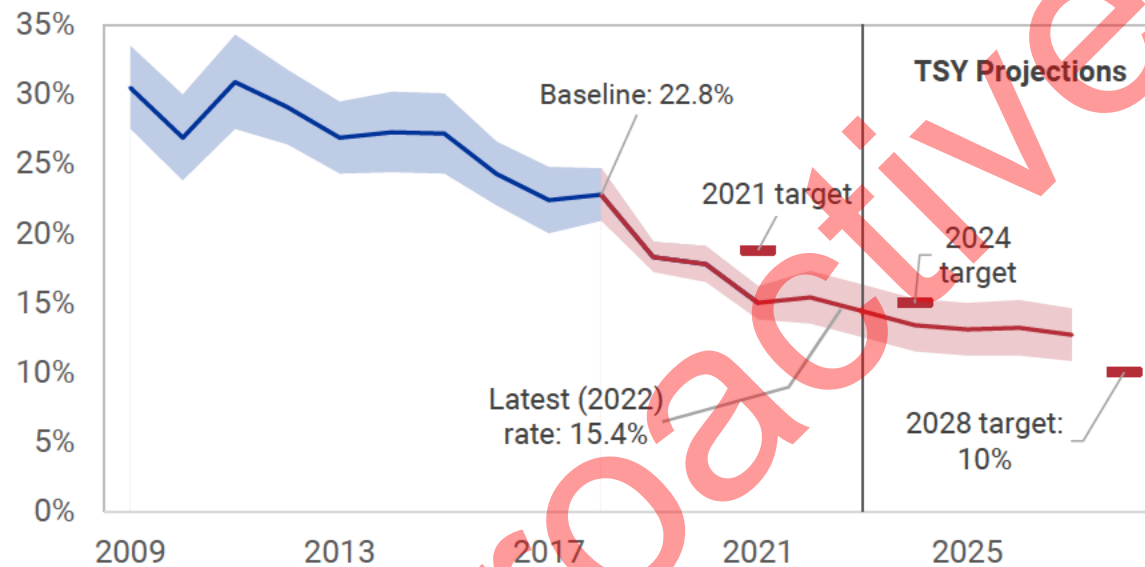


Progress to date: ~46,000 (4.5 ppt) fewer children since 2018 baseline year

Further progress requires: incomes of households with children at the bottom of the distribution to rise faster than the median household income

Outlook: rates forecast to increase from 2023 as middle income growth outpaces income growth at the bottom. Uncertain if 2024 target will be met, substantially more investment needed to achieve the 2028 target

AHC50: ~60,000 children / 5.4 ppt further reduction needed

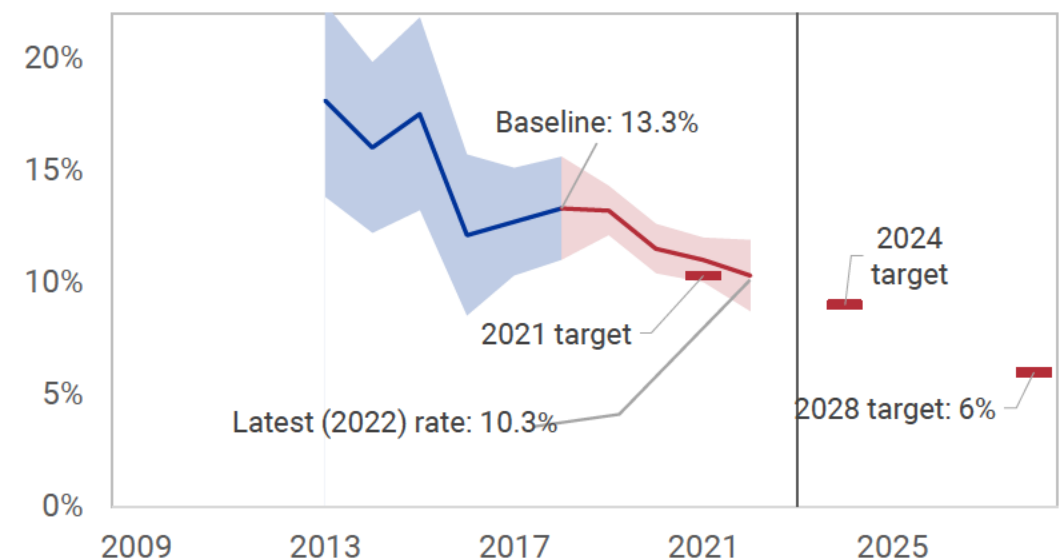


Progress to date: ~77,000 (7.4 ppt) fewer children since 2018 baseline year

Further progress requires: keeping down housing costs and ensuring family incomes grow faster than increases to the cost of living

Outlook: rates forecast to track down steadily, as income growth at the bottom outpaces inflation. The 2024 target will be met, but more needed to achieve the 2028 target

Material hardship: ~50,000 children / 4 ppt further reduction needed



Progress to date: ~29,000 (3 ppt) fewer children since 2018 baseline year

Further Progress requires: increasing incomes, reducing housing costs and wider costs of living, decreasing and preventing debt, improving supports to families experiencing disadvantage

Outlook: can't be modelled by the Treasury, uncertain if 2024 target will be met. Rates very sensitive to downturn in wider economic conditions

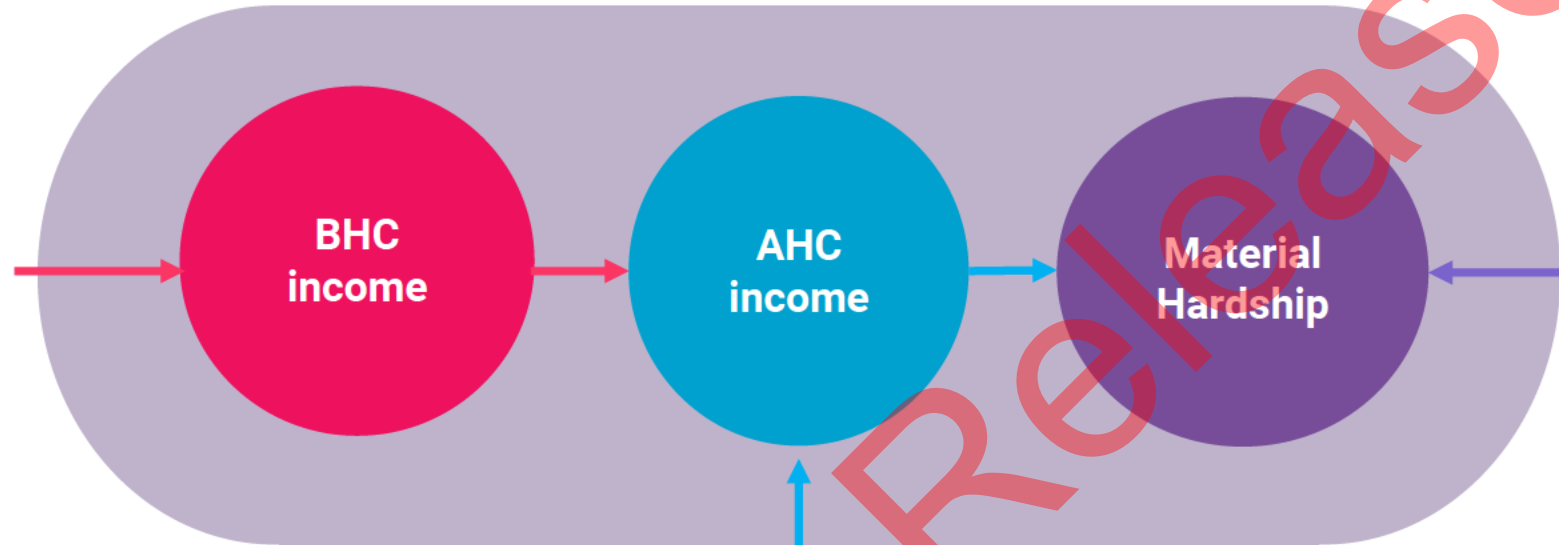
To achieve the 2028 targets, significant further investment is needed...

- Four main Budgets left to invest to make further progress against the 2028 targets
- Slower-impact initiatives (employment, housing, in-kind supports) would need to be implemented sooner
- Investment of a similar scale to what has been made to date, if not more, is likely to be needed
- Policies for making progress are in three broad areas, which impact differently on each measure

1) Lift incomes

Two key policy levers are:

- **Increasing transfers** (eg, benefits / WFF) has the most direct, certain and timely impact on all of the measures. MSD's review of Working for Families provides the biggest opportunity on the current work programme.
- **Lifting employment rates.** This is important, but less direct, certain and timely. Because of lags, large-scale employment investment would need to be implemented soon to impact ten-year targets.



2) Reduce housing costs

- Policy levers include increasing supply of affordable housing and Public Housing.
- As with employment, impacts are less certain, direct, and timely. Implementation timeframes are often considerable.

3) Address demands on household budgets

Policy levers include:

- reducing/preventing debt
- limiting inflation
- providing in-kind supports and subsidised services
- addressing higher costs faced by priority groups (see below).

Impacts can be less timely and certain.

Policies require careful targeting, made more challenging because the population in material hardship extends from low- to middle-income households.

...while addressing disparities for priority groups

- Disparities on the AHC50 measure for Māori, Pacific, and disabled priority groups have narrowed considerably. Rates for these groups are now comparable to rates for New Zealand children overall.
- But, large and statistically significant disparities persist on the material hardship measure, and (to a lesser extent) on BHC50.
- For children impacted by disability, assistance with disability costs should contribute to progress. But more work is needed to understand drivers of disparities in material hardship for Māori and Pacific.

Proportion of children (%) living in poverty in 2022 - by priority population
Primary measures in the Child Poverty Reduction Act 2018

