

CHILD POVERTY REPORT



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Child Poverty and Budget 2020

Background

This is the second report on child poverty to be released with the Budget. It provides the first indication of progress on the measured rates of child poverty since the Government's targets were gazetted, based on the 2018/19 Household Economic Survey.

It also comes at a time when we are facing a challenge that will affect every part of our economy and the livelihoods of many New Zealanders. Despite the significant and far-reaching challenges facing the economy as a result of COVID-19, the Government remains committed to reducing child poverty and improving child wellbeing. Our early actions to respond to COVID-19, and investment in Budget 2020, build on our past investments to reduce child poverty through the Families Package and Budgets 2018 and 2019 (further detail on past investment can be found in Appendix B).

It is still too early to know what the precise impact of COVID-19 will be on our economy, and on measured rates of child poverty. The loss of jobs and incomes will have knock-on impacts for households trying to pay their rents and meet every day needs. For some, the pressures are new, and may not have been experienced before. Fundamentally, what we do know is that investing in our children and their wellbeing will have significant long-term benefits for our economy and broader society, long after COVID-19 has passed.

How do we measure child poverty?

The Child Poverty Reduction Act 2018 (the Act) specifies ten distinct measures of child poverty, including measures related to income and material hardship. Given the complexity of the issue it is important that these measures are considered together – no single measure tells us the complete story of child poverty on its own. Positive movement on all these measures means real progress for our children.

Budget child poverty reporting requirements

The Child Poverty Reduction Act 2018 amended the Public Finance Act 1989, introducing section 15EA that requires the supporting information for the main Appropriation Bill (the Budget) to include a report on child poverty. The report must:

- a. discuss any progress made, in the most recent completed financial year, in reducing child poverty consistent with the targets under the Child Poverty Reduction Act 2018; and
- b. indicate whether and, if so, to what extent, measures in or related to that Bill will affect child poverty.

The most recently completed financial year is 2018/19, which is also the first year of reporting on the targets under the Child Poverty Reduction Act 2018. This report addresses paragraph (a) by providing a high-level view of recent trends up to and including 2018/19, before discussing the expected impact of Budget 2020 to address paragraph (b).

There are three primary measures of child poverty for which data is available, and six supplementary measures. Two of these primary measures are income measures (one moving-line measure, with the poverty threshold taken the year the data is gathered; and one fixed-line measure, with the poverty threshold fixed to 2017/18). The third is a non-income measure and relates to material hardship. Persistent poverty is the fourth primary measure, targets for which are required for and after the financial year commencing on 1 July 2025.

Table 1 – The primary measures of child poverty

	Low income, before housing costs – moving-line measure (BHC50)*	Low income, after housing costs – fixed-line measure (AHC50)	Material hardship
What are we measuring?	A measure of the number of children in households with much lower incomes than a typical household.	A measure of the number of children in households with incomes much lower than a typical 2018 household, after they pay for housing costs.	A measure of access to the essential items for living.
How do we measure it?	The threshold line is 50 per cent of the median household income in the year measured.	The threshold line is 50 per cent of the median income in 2017/18, after housing costs are removed.	The threshold line is a lack of six or more out of the 17 items in the material deprivation index. ¹
What does it tell us?	How households with low incomes are doing relative to other households.	How households with low incomes are doing relative to previous years. How much housing costs impact the money available for other budget items.	Directly measures living standards and households going without the basics. Picks up the impact of the level of income and other resources, the costs of housing and other essentials and other social and personal factors.

* BHC50 = before housing costs, 50 per cent of the median

** AHC50 = after housing costs, 50 per cent of the median

Understanding our progress towards reducing child poverty each year relies on good quality data. In Budget 2018 we invested \$25.7 million to improve the measurement of child poverty in New Zealand. This funding has allowed Stats NZ to survey more people through the Household Economic Survey (HES) and make a number of other improvements to its data and methods. The 2018/19 HES was the first year these improvements were implemented, and the impact can be seen in the most recent child poverty release by Stats NZ, including greater precision around the number of children in poverty on the different measures, and the ability to report on rates of child poverty by ethnic groups and regions.

¹ Items include a meal with meat, fish or chicken (or vegetarian equivalent) at least each second day; two pairs of shoes in good condition; suitable clothes for special occasions; home contents insurance; the ability to give presents to family or friends on birthdays, Christmas, etc; going without fresh fruit or vegetables; buying cheaper cuts of meat or less meat than desired; putting off visits to the doctor; putting off visits to the dentist; doing without or cutting back on trips to the shops or other local places; putting up with feeling cold; delaying replacing or repairing broken appliances; feeling limited by available money; being able to pay for an unexpected and unavoidable expense of \$500 within a month without borrowing; inability to pay electricity, gas, rates or water bills on time; inability to pay for car insurance, registration or warrant of fitness on time; and borrowing from friends or family to meet everyday living costs.

As a consequence of COVID-19, Stats NZ ceased face-to-face statistical data collection across a range of surveys, including the Household Economic Survey (HES) for 2019/20. Stats NZ is working through the implications of this for child poverty reporting, and whether there are any implications for the next scheduled reporting on the rates of child poverty in early 2021, as well as for rates in subsequent years.

The Act requires the Government Statistician to report on persistent child poverty, including developing a definition and setting targets, from the 2025/26 financial year. In Budget 2020, we have set aside \$22.1 million over the forecast period for Stats NZ to develop and implement a child poverty persistence measure.

What are the child poverty reduction targets?

The Act requires the Government to set three-year and ten-year reduction targets on the three primary measures. These targets are set out in the table below.

Table 2 – Child poverty reduction targets (% of children)

Primary measure	Baseline rate (2017/18)	3-year target rate (2020/21)	10-year target rate (2027/28)
BHC50 moving line	16.5%	10.5%	5%
AHC50 fixed line	22.8%	18.8%	10%
Material hardship	13.3%	10.3%	6%

The percentage number in each line in the table above shows the percentage of children in New Zealand living in poverty at the baseline year (2017/18) and at the three-year and 10-year target years.

What were the trends in child poverty prior to COVID-19?

On 25 February 2020, the Government Statistician published the first report of progress against the child poverty targets set under the Act. This was also the first release that had the potential to show an initial impact from the Government's Families Package on child poverty rates.

Reporting timeframes meant that the impact of the Families Package was only partially shown. The bulk of the Families Package was implemented in April and July 2018. While the rates covered annual household incomes for households interviewed from mid-2018 to mid-2019, the income period they were asked about was for the 12 months prior to the date each household was interviewed (going back to mid-2017 for some households).

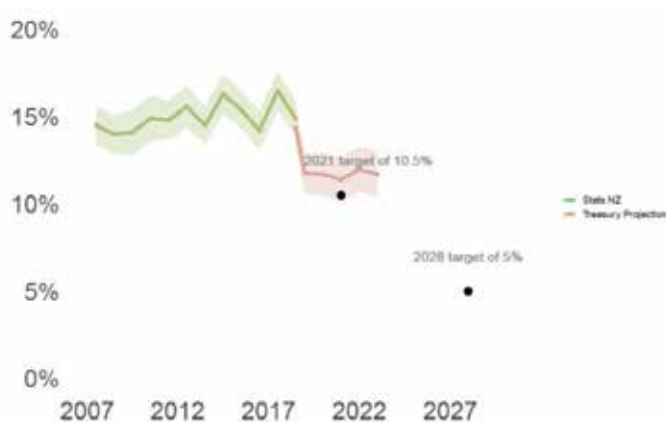
Of the nine different poverty measures reported, seven showed decreases from the previous year's baseline rates. Rates for the three primary measures in Stats NZ's report are presented in Figures 1, 2 and 3 (the green line on page 20 and 21).

Table 3 – 2018/19 rates of child poverty for the three primary measures

Primary measure	2017/18 baseline	2018/19 rate
On the BHC50 measure	16.5% of children (183,400 children)	14.9% of children (168,500 children)
On the AHC50 measure	22.8% of children (253,800 children)	20.8% of children (235,400 children)
On the material hardship measure	13.3% of children (147,600 children)	13.4% of children (151,700 children)

The graphs also show the Treasury’s modelled estimates of changes from the Families Package and Budget 2019 at the time the Stats NZ figures were released (in February 2020).² It is not possible to model the projected impact on the material hardship measure. This modelling was based on the economic forecast at the time, so does not include the social and economic impact of the COVID-19 pandemic, nor the measures we have announced in response. Because the economic and social context has changed significantly in recent months, these projections now no longer apply, however they do indicate that the Government was broadly on track to meet the three-year targets on the two primary measures of low income.

Figure 1 – Children in households below the moving-line BHC poverty threshold

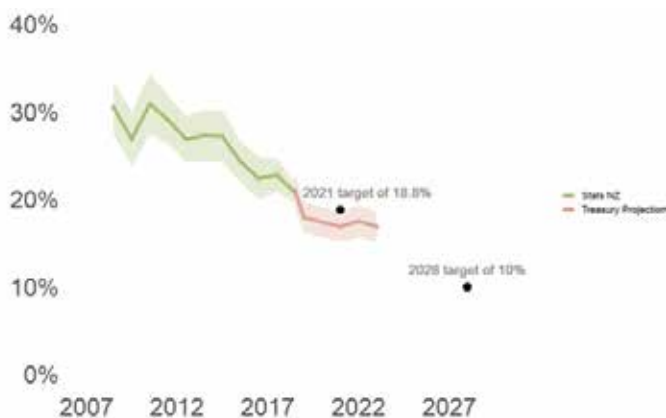


Modelling projected impact

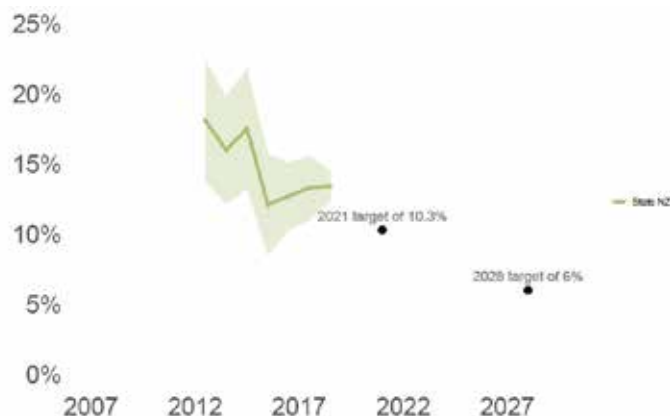
Modelling is only available for the income measures and is not available on the material hardship measure.

This modelling is a projection only and the impacts of these initiatives are best expressed as a range, based on a 95 per cent margin of error. This range accounts for survey variability but not deviation from current economic forecasts.

Figure 2 – Children in households below the fixed-line AHC poverty threshold



² For all charts above, access to the data used in this study was provided by Stats NZ under the conditions of the security and confidentiality provisions of the Statistics Act 1975. The results presented labelled as Treasury Projections are the work of the Treasury, not Stats NZ.

Figure 3 – Children in households experiencing material hardship

What is the impact of COVID-19?

It is too soon to estimate precisely what COVID-19 will mean for all the child poverty measures and targets. An economic downturn can mean different things for different measures, and the results can sometimes be counter-intuitive. The three primary measures specified in the Act cover three different aspects of poverty, and together give a good high-level summary of what is happening in households with children.

Rates on measures of low income with a fixed threshold are expected to increase, as reduced employment and earnings flows through to reduced household incomes for households currently above the poverty lines.

On moving line measures of low income, rates can have more muted increases, show no increase at all, or even sometimes show a small fall, if median incomes fall faster than low incomes. This is because the poverty threshold is set each year in relation to the median, which means that reported rates are influenced by both changes at the middle of the income distribution as well as the bottom.

On measures of material hardship, rates are expected to rise sharply, as previous New Zealand experience suggests that these rates are particularly sensitive to economic changes. For example, rates rose strongly in New Zealand during and after the Global Financial Crisis (GFC), and then over the next few years fell back to their pre-GFC rates.

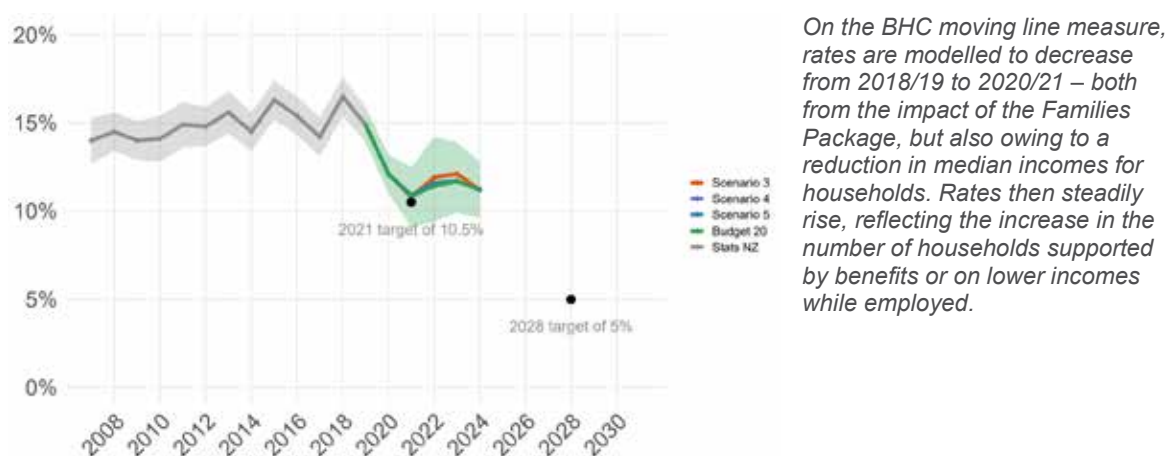
Possible scenarios for child poverty

For this report, the Treasury has undertaken modelling of possible trends in child poverty.³

A strong note of caution is required in relation to the detailed findings of this modelling. It is significantly harder than usual to estimate future child poverty levels due to both the uncertainty of economic forecasts and also the availability of survey data that reflects the current situation. Officials' view is that if anything the modelling results are more likely to underestimate the likely increases in poverty rates over the coming years.

Modelling on each primary measure is set out opposite. Note that the modelled reductions for the changes between the 2019 and 2020 years reflect changes in incomes from the 2018/19 to 2019/20 tax years.⁴

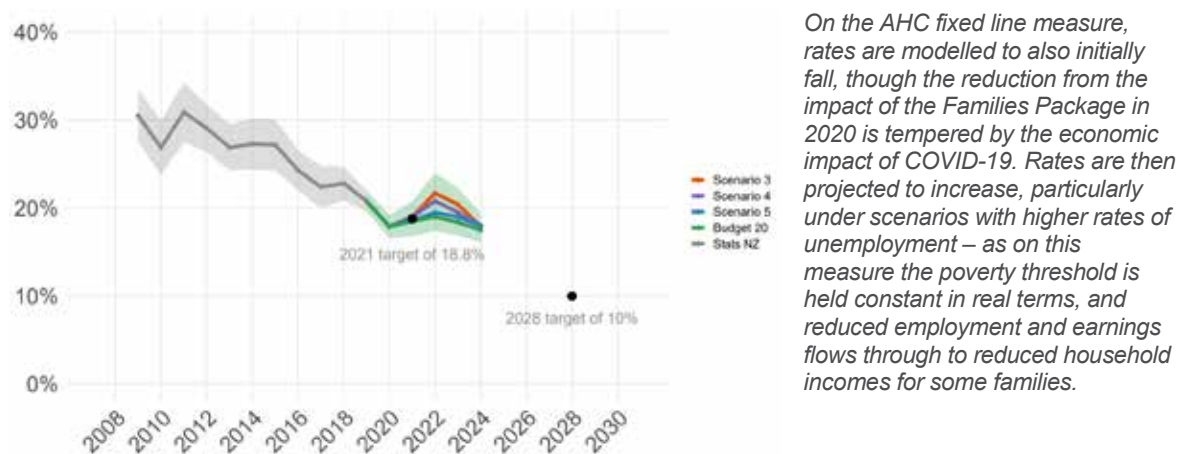
Figure 4 – Children in households below the BHC poverty threshold (proportion of children %)



³ These show modelled estimates based on the BEFU forecast available at the end of March (the green “Budget 2020” line), as well as other projections based on the different economic scenarios published by the Treasury in early April. These scenarios show the impact of different levels of increase in the number of people supported by Jobseeker Support, and are intended for illustrative purposes – to show the sensitivity of the modelling to different economic outcomes. While the scenarios are unlikely to play out precisely as forecast, they are useful to show how the poverty measures could respond to different levels of unemployment. To make the charts readable, only three of the five scenarios were included. The modelled trends are consistent with the patterns outlined above. Relative low-income rates of poverty fall initially, reflecting the impact of the Families Package on incomes prior to COVID-19, and the impact of the falling median once the impact of the COVID-19 crisis takes effect. The fixed line rate of poverty also falls initially, though the impact of the Families Package is more tempered by the impact of COVID-19 on incomes. The rates on both measures then rise, with the rise stronger for the fixed line measure than for the moving line measure.

⁴ There are important differences between TAWA modelling and Stats NZ’s reporting on rates under the Child Poverty Reduction Act 2018. The TAWA modelling estimates rates of poverty on incomes within a given tax year, whereas Stats NZ’s reporting measures annual incomes through a survey carried out over a June financial year. In the graphs above, rates for the target year (2020/21) are based on modelled incomes for the 2020/21 tax year, whereas Stats NZ’s reporting on that year will include household incomes from the previous 12 months for each household interviewed from July 2020 to June 2021. This means that some of the income in the Stats NZ data will go back as far as mid-2019. This difference is likely to impact some of the detail, but does not compromise the account given above.

Figure 5 – Children in households below the fixed line AHC poverty threshold (proportion of children %)



While the expected trajectory for material hardship cannot be modelled, this is the measure that has been most sensitive to changes in economic conditions in the past, and which is most likely to show the largest rise in the coming years.

How is the Government responding?

Since coming into office, the Government has implemented a number of policies to reduce child poverty. Some of these initiatives were designed to directly help children living in poverty by putting more money in the pockets of parents or caregivers. Others had a more indirect impact and were designed to ease the financial pressures faced by families – such as changes to health, housing and education settings.

Were it not for these changes, low-income households would have been under even greater pressure from COVID-19. Its impact has also been significantly reduced by the immediate actions the Government has since taken in response, including the investment in Budget 2020, which will act to keep many families in work, and mitigate the impact on low-income households. At the end of March 2020 the Government announced support for businesses and workers affected by COVID-19 to help keep people in the labour market, so that as many New Zealanders as possible could continue to provide for their families and contribute to their local communities. We established a Wage Subsidy Scheme for affected businesses in all sectors and regions, leave and self-isolation support, and funding to support worker redeployment and training. This will help to keep people attached to their workplaces, or in training to smooth the return to work. We also delivered on our commitment to increase the minimum hourly wage to \$18.90, which took effect on 1 April.

The Government has taken immediate action to support families with children, including:

- Changes to income support settings to help beneficiaries and the most vulnerable, including permanently increasing benefits and, for this year, doubling the Winter Energy Payment.
- Changes to support businesses to retain workers, including a comprehensive wage subsidy and a leave scheme for essential workers.
- Changes to support people to remain safe and well in their homes, including a mortgage holiday, 6-month freeze on rents, protection from evictions, and increased support for social services.
- A range of other changes to support the economy, ease the pressures faced by families, and support child wellbeing.

Further detail is outlined in Appendix A.

We have also:

- provided income support for those families who were out-of-work or in vulnerable circumstances, including an increase to main benefits by \$25 per week from 1 April
- doubled the rate of the Winter Energy Payment for 2020
- removed the need to satisfy the hours test for the In Work Tax Credit from 1 July 2020 (where people needed to work a set number of hours each week to receive the credit)
- introduced an immediate rent freeze and made change to ensure tenancies will not be terminated during the lock-down period
- worked with the major retail banks on mortgage deferrals for homeowners.

The Ministry of Social Development (MSD) has also temporarily removed benefit income stand-downs, and made changes to assist people to remain at home to reduce the risk of community transmission and ease uncertainty for its clients.

Income support policies will be supported by active labour market policies and identifying opportunities for re-training and re-deployment. The Government will be considering options for expanding active labour market policies to transition unemployed people back into the labour market where possible, and ensure that those who continue to be unemployed do not move further away from the labour market.

A list of the COVID-19 response measures and Budget 2020 initiatives that may affect child poverty is attached at Appendix A.

There are also likely to be additional initiatives that may have a positive impact on child poverty that are funded through the COVID-19 Relief and Recovery Fund (CRRF) as the Government continues to support low-income households. These are not included in the main Appropriation Bill for Budget 2020, so have not been included in the body of this report.

These changes build on our investments since we formed our Coalition Government (see Appendix B for details).

What will we be doing next?

Budget 2020 comes at an unprecedented time in New Zealand's economic and social history. Our Government took swift and decisive action early as we saw the COVID-19 pandemic take hold overseas. We moved quickly to cushion the blow and protect New Zealanders' jobs and the domestic economy from the virus, including investment to support our most vulnerable people.

Despite all the challenges we face, we remain committed to our long term objectives of reducing child poverty and improving child wellbeing. Our longer-term work programmes are now even more important – including the overhaul of the welfare system, implementing our Employment Strategy, improving access to affordable housing, and addressing inequities in health and education outcomes.

The immediate actions we have taken in response to COVID-19, and our investment in Budget 2020, will have significantly reduced the impact of the virus on households, including those on the lowest incomes. We will be able to observe the initial impact of the COVID-19 crisis and our response in our future reporting on child poverty.

Appendix A: COVID-19 and Budget 2020 policy responses that may impact child poverty

Changes to income support settings to help beneficiaries and the most vulnerable

- Increasing main benefits by \$25 per week from 1 April 2020. This increase, combined with the planned adjustment from the Budget 2019 indexation change, means that most rates will increase by around \$30 – \$35 per week.
- Doubling the rate of Winter Energy Payment for 2020 only from 1 May. This payment gives beneficiaries and superannuitants \$40.91 per week (for singles) and \$63.64 per week (for couples or people with dependants).
- Removing the need to satisfy the hours test for the In Work Tax Credit from 1 July 2020. Working families with children who are not receiving a main benefit and have some level of employment income each week will still receive the payment even if their hours are highly variable or have significantly reduced.

Total investment of \$2.8 billion for the changes to main benefits and the Winter Energy Payment. The change to the In Work Tax Credit is expected to cost an additional \$128 million over four years.

Changes to support businesses to retain workers

- Implementing the employer Wage Subsidy Scheme to support businesses to retain staff during the COVID-19 crisis and associated public health measures, where some businesses will need to shut down. The scheme supports employers and their staff to maintain an employment connection and ensure an income for affected employees, even if the employee is unable to actually work any hours.
- Introducing the COVID-19 Leave Scheme Payment to support essential workers. The scheme subsidises eligible businesses, and allows them to pay those workers who need to take leave owing to the COVID-19 Public Health guidance. The scheme offers the same rates as the Wage Subsidy Scheme of \$585.80 per week for full-time workers and \$350.00 per week for part-time workers.

Total investment of \$12 billion for the Wage Subsidy Scheme and \$226.9 million for the Essential Worker Leave Scheme.

Changes to support people to remain safe and well in their homes

- Protection for renters and tenants by providing a 6-month freeze on residential rent increases and increased protection from having tenancies terminated.
 - Introducing mortgage repayment referrals to all residential mortgages for up to 6 months for customers financially affected by COVID-19.
 - A \$27 million package is being provided to social sector services and community groups to ensure they can continue to provide essential support to communities as individuals stay at home to stop the spread of COVID-19. The package supports services that ensure people have access to the food and other goods they need to survive; provide a place for people to live; support disabled people to maintain critical wellbeing; and keep families safe from harm and offer crisis support.
 - A further \$30 million support package to bolster the delivery of food and welfare assistance (including emergency accommodation) by local authorities and Civil Defence Emergency Management Groups to those who need it the most as New Zealand fights COVID-19.
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Other changes implemented by this Government in response to COVID-19 to support the economy

- Developing a plan to support Māori communities and businesses in the face of COVID-19. This includes a whole of government approach to providing health, social and economic support tailored to meet the specific needs of Māori. This includes:
 - a Whānau Māori Community and Marae package reprioritising \$10 million from the Māori Development vote to support community outreach
 - a Māori Health and Whānau Ora response with \$30 million targeted directly to Māori Health services and \$15 million to Whānau Ora commissioning agencies
 - supporting Māori businesses and engaging with Māori with \$1 million of funding to enable a needs assessment for Māori businesses, and providing \$470,000 in grants to iwi to support them in their responses to the pandemic.
 - Launching a Business Finance Guarantee Scheme for small and medium sized businesses, to protect jobs and support the economy. Under the scheme, businesses with annual revenue up to \$80 million can apply to their banks for loans up to \$500,000 for up to 3 years. The scheme will offer up to \$6.25 billion in loans to New Zealand businesses.
 - Introducing a range of business cash flow and tax measures, including:
 - increasing the provisional tax threshold from \$2,500 to \$5,000 (which means payment can be deferred until 7 February) from 2020/2021
 - increasing the small asset depreciation threshold from \$500 to \$1,000 – and to \$5,000 for the 2020/21 tax year (which means low-value assets can be written off and offset against income)
 - allowing depreciation on commercial and industrial buildings from 2020/2021.
 - Providing emergency funding to enable distance learning for early childhood education and schooling (\$87.8 million over 2 years).
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Policy changes intended to impact child poverty and child wellbeing

Investment designed to ease the pressures faced by families

In **Budget 2020** we are:

- increasing funding for free maternity services to New Zealand women (\$57 million over 4 years)
- continuing to support the sustainability of WellChild Tamariki Ora service providers to deliver child health services including immunisations, health checks and other essential services (\$71.2 million over 4 years)
- improving and increasing funding for a core service provided by MSD to improve financial capability and resilience of vulnerable people (\$9.7 million total)
- improving and increasing funding for Out of School Care and Recreation Services (OSCAR) to allow parents to gain and maintain meaningful employment or undertake further education and training, while supporting children's wellbeing and educational attainment (\$9.6 million total over 4 years)
- providing additional funding to Community Law Centres to ensure access to legal services (\$7.7 million over 4 years)
- providing additional funding to the Commerce Commission. As the market and competition regulator, it is tasked with ensuring markets are competitive which has a flow on impact to costs of living for families of children living in poverty (\$41.8 million over 4 years).

Investment designed to impact child wellbeing

In **Budget 2020** we are:

- increasing funding for NGO service providers that deliver essential services critical to the running of Oranga Tamariki (\$57.7 million over 4 years)
- providing additional funding to meet the needs of children in care to ensure children in State care can thrive (\$70.7 million over 4 years)
- increasing funding to improve community services in rural and provincial communities provided by MSD to ensure access to a broad range of government and non-government services (\$19.8 million over 4 years)
- providing additional funding to reduce waitlists for family violence perpetrators to access specialist services, including services by Māori with Māori. The services provide advocacy, one-on-one and group support, non-violence programmes and some counselling services for perpetrators of family violence (\$183 million over 4 years)
- increasing funding for the Independent Children's Monitor (ICM) which monitors the system of State care and ensures that the ICM has sufficient resources to perform this vital function and that children in State care are supported to reach their potential and thrive (\$31.5 million over 4 years)

- increasing funding for the Office of the Children’s Commissioner to ensure it has the resources to maintain a child-centred approach and promote decisions that are in the best interests of children (\$4 million over 4 years)
 - providing additional funding to ensure that Kōhanga Reo continues to be a viable ECE option for Māori whānau. Increased funding for Kōhanga Reo staff aligns with evidence advising Government support of Māori education initiatives will help reduce child poverty (\$93.4 million over 4 years)
 - establishing a Pre-Trial Service under the Hōkai Rangi strategy, which will provide early support to reduce the number of people entering or remaining in custody. The service will also target positive flow on effects by supporting enduring and meaningful relationships between parents and their children (by providing tools to maintain in contact while they are in custody, or keeping suitable individuals out of custody) and by maximising positive outcomes for those involved in the service (\$47.5 million over 4 years).
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Appendix B: Past investments designed to reduce child poverty

Directly impacts the incomes of parents of children in poverty

- **The Families Package**, implemented from July 2018:
 - increased the Family Tax Credit
 - increased the Accommodation Supplement
 - introduced the Winter Energy payment for those on a main benefit and people who receive Superannuation or a Veteran's Pension
 - introduced the Best Start payment for all families in the first year, followed by two more years of support for middle- and low-income families.

The package will increase the incomes of around 384,000 low to middle-income families with children, on average, \$75 a week once it is fully rolled out.

Total investment of \$5.5 billion over four years

- **Budget 2019 income support** included further changes to income support settings that will impact child poverty, including:
 - the indexation of all main benefits to average wage growth
 - increasing the amount that beneficiaries can earn before their benefit reduces
 - removing the section 192 sanction of the Social Security Act 2018 (formerly section 70A of the Social Security Act 1964).

MSD modelling indicates that approximately 146,000 families with 269,000 children will benefit from this investment.

Total investment of \$535.1 million over four years

Other changes designed to ease the pressures faced by families

In **Budget 2018** we:

- expanded school-based health services in deciles 1-4 schools, and free and low-cost doctors' visits for children under the age of 14
- expanded Housing First, public housing and transitional housing
- began improving the affordability and availability of housing through KiwiBuild
- continued funding KickStart and KidsCan
- provided a clothing allowance for children whose caregivers receive an Orphan's Benefit or Unsupported Child's Benefit.

In **Budget 2019** we:

- helped parents with education costs by providing increased funding for deciles 1-7 schools that agree not to request donations for parents, and removed National Certificate of Educational Achievement (NCEA) fees
 - further expanded school-based health services in deciles 1-5 schools
 - continued funding for KickStart and KidsCan
 - worked to tackle homelessness, including through further investment in transitional housing and Housing First
 - supported increasing incomes through meeting minimum wage obligations
 - supported people into sustainable employment through increasing the capacity of MSD's frontline workforce.
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Other changes implemented by this Government include:

- improving pay and conditions, including regular increases in the minimum wage
 - improving employment opportunities and outcomes
 - improving the quality of housing and conditions for renters by implementing the Healthy Homes Guarantee Act 2017 and through changes to the Residential Tenancies Act 1986
 - reviewing the price of electricity for households and investigating whether the prices paid are fair, efficient and equitable
 - reducing problem debt, by introducing legislative measures to stop predatory lending.
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