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Office of the Minister for Child Poverty Reduction

Cabinet Business Committee

Continuing to reduce child poverty: setting the third intermediate targets for child poverty reduction

Proposal

- 1 This paper seeks agreement under the Child Poverty Reduction Act 2018 (the Act) to set the third round of the three-year intermediate child poverty targets.

Relation to government priorities

- 2 A priority of our Government is to rebuild the economy and create and deliver opportunities for all New Zealanders and their families to get ahead. Reducing child poverty and material hardship connects to five of the nine Government Targets. Supporting parents off a benefit and into work, as part of the target for fewer people on the Jobseeker Support benefit, is particularly important if we want to reduce the number of children in poverty.

Executive Summary

- 3 Reducing child poverty supports our wider social policy objectives and delivers beneficial effects across a range of children’s outcomes. The Act requires governments to set ten-year (long-term) targets for reducing child poverty on the primary measures in the Act, and three-year (intermediate) targets for tracking progress. The primary measures consider after-housing-costs income poverty (AHC50), before-housing-costs income poverty (BHC50), and material hardship.
- 4 Under the Act, as the Minister for Child Poverty Reduction, I must set the third intermediate targets (covering the period 2024/25 to 2026/27) by the end of June 2024. The projections in the Child Poverty Budget Report 2024 show that the current outlook for the AHC50 measure is broadly positive. This reflects the impact of our 2024 Budget Package initiatives of tax relief, increases to the In-Work Tax Credit, and the introduction of Family Boost. While material hardship rates cannot be forecast, they correlate with overall AHC50 rates and so are also expected to decrease. Of the three primary measures, material hardship is the one I’m most focused on. It directly reflects whether families have access to the ‘basics’ in life.
- 5 The forecast rates for 2026/27 are projected to decrease to ~14% of children on the fixed AHC50 measure, which is expected to correspond to ~11% of children on the material hardship measure. The relative BHC50 measure is forecast to increase to ~15% of children. I’m less focused on the BHC50 measure because making progress on this measure requires income growth for households at the bottom to outpace growth for median income households.
- 6 In considering the third intermediate targets, I have taken into account a number of factors, including the economic outlook and the Treasury’s child income poverty

IN-CONFIDENCE

forecasts; the nature, scale and timing of current and planned policies; and the United Nations Sustainable Development Goals (UNSDGs)¹. Based on these factors, I propose to set the following third intermediate (2026/27) targets to:

- 11% of children on the material hardship measure
- 14% of children on the AHC50 measure, and
- 15% of children on the BHC50 measure.

7 In reducing child poverty, my focus will be on employment as I believe it's the best route out of poverty. I am prioritising shifting parents off welfare and supporting them into work. Our wider focus on economic growth and reducing inflation will also ease pressure on household incomes and reduce the number of children in hardship.

8 I also intend to make changes to the current Child Poverty Related Indicators (CPRIs) as part of the refresh of the Child and Youth Wellbeing Strategy later this year. Under the Act, the CPRIs are measures that reflect the causes, correlates or consequences of poverty. I intend to align them to the Government Targets, focussing on the indicators that reflect our priorities and help tackle the underlying drivers of poverty.

Background

9 Reducing poverty and hardship supports our wider social policy objectives and delivers beneficial effects across a range of children's outcomes in both the short and longer term. In addition to addressing children's experience of hardship in the 'here and now', there is compelling evidence that poverty reduction improves children's cognitive development, school achievement, social and behavioural development, and health and justice outcomes, and that these benefits accrue well into adulthood.

The Act provides a framework for reducing child poverty

10 The Act aims to achieve a significant and sustained reduction in child poverty in New Zealand. It requires governments to set ten-year (long-term) targets for reducing child poverty on the primary measures in the Act, and three-year (intermediate) targets for tracking progress. We are now in the final year of the second intermediate target period (2021/22-2023/24), which is also the sixth year of the ten-year target period (2018/19-2027/28). As the Minister for Child Poverty Reduction, the Act requires me to set the third intermediate targets (2024/25-2026/27) by the end of June 2024.

11 There are three primary measures in the Act, which consider material hardship, income after housing costs are met (AHC50), and income before housing costs are met (BHC50). I must set a fourth primary target on poverty persistence by December 2024. The Government Statistician is currently developing a poverty persistence measure.

I propose three-year targets that will continue to reduce child poverty and material hardship

12 In considering the third round of the intermediate child poverty targets, I have taken into account a number of factors: the positive impact of reducing child poverty on our priorities as a Government; the economic outlook and the Treasury child poverty

¹ These include a commitment to halve poverty rates on national measures by 2030 compared to 2015.

IN-CONFIDENCE

forecasts; the nature, scale and timing of current and planned policies; and the reductions required under the UNSDG1 goals.

- 13 On the basis of these considerations, I propose to set the third intermediate (2026/27) targets at:
- 11% of children on the material hardship measure
 - 14% of children on the after-housing-costs income poverty measure, and
 - 15% of children on the before-housing-costs income poverty measure.
- 14 Table 1 below shows the child poverty measured rates in the 2018 baseline year, Stats NZ’s most recent measured rates in 2022/23, Treasury’s 2026/27 forecasts on the income measures, and my proposed third intermediate targets.

Table 1: Proposed third intermediate targets

Primary Measure	Baseline 2018 (measured) rate	2022/23 measured rate	2026/27 projected rates	2026/27 proposed third intermediate targets
<p>Material hardship</p> <p>The proportion of children living in households scoring 6 or more out of 17 on the DEP-17 material hardship index</p>	13.30%	12.5%	~11% ²	11%
<p>AHC50</p> <p>The proportion of children living in households with incomes less than 50% of the median income in 2018, after deducting housing costs and adjusting for inflation</p>	22.80%	17.5%	~14%	14%
<p>BHC50</p> <p>The proportion of children in households with disposable incomes less than 50% of the median in a given year</p>	16.50%	12.6%	~15%	15%

- 15 I considered other options for setting the targets but we are constrained by what we can achieve in the time available. There are limited options to achieve reductions on the BHC50 measure in particular. Unlike the material hardship and AHC50 fixed measure, the BHC50 measure is not sensitive to policy changes that reduce inflation and cost-of-living pressures. It’s a relative measure, which means that to achieve a lower target would require significant additional and targeted investment to lift the incomes of low-income families at a rate that outpaces income growth for middle-income families.
- 16 Of the three primary measures, material hardship is the one I’m most focused on. It’s a reliable measure of child poverty that is readily understood and based on families’ actual experiences of whether they have access to the basics.³

² Projected rates for BHC50 and AHC50 are based on Treasury’s modelled estimates for 2026/27, taking into account economic forecasts and confirmed policy decisions. Modelled projections of material hardship are not available, so the estimate for 2026/27 is based on the historical relationship with the AHC50 measure.

³ The material hardship measure 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. It is defined as a household going without six or more of 17 essential consumption items due to cost. Items include fresh fruit and vegetables, doctor’s visits, good pairs of shoes, car upkeep and the ability to deal with unexpected expenses of \$500 or more.

IN-CONFIDENCE

The current trajectory for the economy suggests a broadly positive impact on poverty rates but it's hard to quantify

- 17 The best indication of the impact of the economic outlook on poverty rates is the Treasury's modelled estimates set out in this year's Child Poverty Budget Report 2024. This provides forecasts for the two income poverty measures – AHC50 and BHC50. Material hardship rates can't be modelled but are strongly correlated with overall AHC50 poverty rates. The forecasts give a sense of the direction of travel for income poverty rates, taking into account the Budget 2024 package, and in the absence of further policy intervention.
- 18 The child poverty projections include our 2024 Budget Package initiatives of tax relief, increases to the In-Work Tax Credit, and the introduction of Family Boost to help reduce the cost of childcare. We've taken the AHC50 rates down to a level lower than they would have been otherwise because of these initiatives. The projections suggest that the package will lower the child poverty rates by around 1.6 percentage points on AHC50, meaning around 17,000 fewer children in poverty on that measure.
- 19 The current outlook for the AHC50 rate is broadly positive. The Treasury projected AHC50 rate for 2026/27 is ~14% of children (down from 17.5% in 2022/23) and, based on the historical relationship between AHC50 and material hardship, officials have estimated the projected rate to be ~11% of children on the material hardship measure (compared with the most recent rates of 12.5% in 2022/23).
- 20 Meanwhile, the BHC50 measure is forecast to increase to ~15% of children (up from 12.6% in 2022/23). The projections suggest that the Budget Package hasn't significantly altered the outlook on BHC50. This is because we've invested in increasing the incomes of middle-income households as well as low-income working households.
- 21 While the forecasts are broadly positive, they can also be uncertain, and it can therefore be hard to quantify the impact of the economy on measured poverty rates. There are always uncertainties in the outlook for key economic parameters like inflation, unemployment and economic growth, particularly for forecasts that are further out in time⁴.

My proposed third intermediate targets broadly align with the United Nations Sustainable Development Goals

- 22 In 2015, the then National Government signed up to the United Nations Sustainable Development Goals (UNSDGs), including a commitment to halve poverty rates on national measures by 2030 compared to 2015 (UNSDG1). My proposed third intermediate targets for the AHC50 and material hardship measures (though not the BHC50 measure) align with the average annual reductions required to be on track to meet UNSDG1.
- 23 It should be noted, however, that the UNSDG commitments are for all New Zealanders, not just households with children. While the commitments were to halve

⁴ A further source of uncertainty is that the rates used to assess compliance with the targets are the Stats NZ measured rates before revisions have taken effect. Revisions to Stats NZ's measured rates can be made in the subsequent year to take account of lags in the data. There is a risk, therefore, that the unrevised measured rate in 2026/27 could be higher than the forecast rate.

IN-CONFIDENCE

poverty on ‘national measures’, public reporting on progress by international bodies such as the United Nations and the OECD may instead use measures that have data consistently available across countries, such as BHC50.

A fresh approach is needed to address child poverty

- 24 The rising cost of living and high inflation have been driving child poverty rates up and making it harder for families to afford the basics. I’m committed to turning this around. This Government has inherited major challenges and it’s clear a new approach is needed.

My focus will be on employment as I believe it’s the most sustainable route out of poverty

- 25 Supporting parents into paid work and reducing the number of children in benefit-dependent homes is the cornerstone of our strategy for lifting families out of material hardship. Policies that increase access to employment for parents and help to ‘make work pay’ are a fundamental part of a child poverty strategy, particularly over the longer term.
- 26 A number of investments in Budget 2024 directly lift the incomes of low-to-middle income working households and help to make work pay. We are increasing the In-Work Tax Credit by an additional \$25 per week to support low and middle-income families with the cost of living. We are also introducing a new Family Boost childcare payment to help with the costs of early childhood education, which will help to reduce barriers to employment and support parents to work.
- 27 Our wider focus is on strengthening the economy and lifting New Zealand’s productivity. We will be encouraging independence and rewarding hard work, and our tax relief targeted at middle- and lower-income families to allow parents to keep more of what they earn will support this. Our work to grow the economy, support more parents into work, and our sustained focus on reducing inflation will all help to end the cost-of-living crisis. This will ease the pressure on household incomes and reduce the number of children in material hardship.
- 28 We are also already starting to implement policies that will contribute to more sustained progress on material hardship over the longer term, in the areas of health, education, employment, housing, and the early years. The principles of social investment – intervening earlier and more effectively – will guide our decisions on where to invest and what to do differently to improve outcomes for New Zealand’s children and young people.

I propose to refresh the Child Poverty Related Indicators

- 29 Under the Act, governments are required to establish and report annually on one or more CPRIs – defined as causes, consequences or correlates of poverty. There are currently five CPRIs, established by the previous Government, relating to both the causes and consequences of poverty. These are housing affordability, housing quality, food insecurity, regular school attendance, and potentially avoidable hospitalisations.
- 30 I intend to update the CPRIs as part of the refresh of the Child and Youth Wellbeing Strategy later this year. I intend to align them with the Government Targets, focussing on the indicators that reflect our priority as a Government on tackling the underlying

IN-CONFIDENCE

drivers of poverty over the short and long term. We want to focus on practical and measurable things that will shift the dial and help us meet our targets of increasing student attendance, more students at expected curriculum levels, reducing child and youth offending, fewer people in emergency housing, and fewer people on the Jobseeker Support Benefit, including fewer children in benefit-dependent homes.

Cost-of-living Implications

31 This Government is committed to bringing down the cost of living, which is a central pillar of our strategy to reduce child poverty.

Financial Implications

32 There are no direct financial implications as a result of this Cabinet paper. Financial implications of any decisions related to this work programme will be considered in future Cabinet papers.

Legislative Implications

33 There are no legislative implications from the proposals in this paper. Any legislative implications for decisions related to this work programme will be considered in future Cabinet papers.

Impact Analysis

Regulatory Impact Statement

34 There are no regulatory proposals in this paper, and therefore a Regulatory Impact Statement is not required.

Climate Implications of Policy Assessment

35 The Climate Implications of Policy Assessment requirements do not apply to this proposal as it not expected to result in any direct emissions impacts.

Population Implications

36 Initiatives aimed at reducing material hardship and continuing to make progress towards the child poverty targets will benefit population groups that are over-represented in child poverty statistics. Māori and Pacific children, children in ethnic communities, disabled children, children in sole parent households, and children living in households impacted by disability, are significantly more likely to experience material hardship.

Human Rights

37 Reducing material hardship supports New Zealand's commitments under the United Nations Convention on the Rights of the Child, in particular Article 27 (the right of every child to an adequate standard of living).

IN-CONFIDENCE

Use of External Resources

- 38 No external resources such as contractors or consultants were engaged in the preparation of this policy advice or the development process in the paper.

Consultation

- 39 The following agencies have been consulted on the proposals in this paper: the Ministries of Social Development, Education, Health, Youth Development, Justice, Housing and Urban Development; the Ministries for Women, Pacific Peoples and Ethnic Communities; the Department of Corrections; the Treasury, Inland Revenue, Whaikaha – Ministry of Disabled People, Te Puna Aonui, Te Puni Kōkiri, Oranga Tamariki, Stats NZ, the Social Wellbeing Agency, Accident Compensation Corporation, and New Zealand Police. The Department of the Prime Minister and Cabinet’s Policy Advisory Group has been informed.

Communications

- 40 Subject to Cabinet agreement on the proposed new intermediate targets, I will set the targets by notice in the New Zealand Gazette and present a copy to the House of Representatives, as required by the Act.

Proactive Release

- 41 I intend to release the Cabinet paper proactively within 30 days of decisions being confirmed by Cabinet, in accordance with the Cabinet Office circular Proactive CO (18) 4, with any appropriate redactions.

Recommendations

The Minister for Child Poverty Reduction recommends that the Cabinet Business Committee:

- 1 **note** that the Child Poverty Reduction Act 2018 requires the third intermediate targets to be set by the end of June 2024;
- 2 **note** that the forecast rates for 2026/27 are projected to decrease to ~14% of children on the AHC50 measure, and to increase to ~15% on the BHC50 measure. On the material hardship measure, rates are expected to decrease to ~11% of children;
- 3 **agree** that we set the third intermediate (2026/27) targets at:
 - 3.1 11% of children on the material hardship measure
 - 3.2 14% of children on the after-housing-costs income poverty measure
 - 3.3 15% of children on the before-housing-costs income poverty measure;
- 4 **note** that, subject to Cabinet’s agreement to recommendation 3, I will set the targets by notice in the New Zealand Gazette and present a copy to the House of Representatives, as required by the Child Poverty Reduction Act 2018;

IN-CONFIDENCE

- 5 **note** that employment will be a primary lever for making progress towards the child poverty targets, with a particular focus on reducing the number of children in benefit-dependent households;
- 6 **note** that I will also be updating the Child Poverty Related Indicators as part of the Child and Youth Wellbeing Strategy refresh and will report to Cabinet on this later this year.

Authorised for Lodgement

Hon Louise Upston

Minister for Child Poverty Reduction