

Budget Sensitive

Office of the Minister of Child Poverty Reduction

Cabinet Social Outcomes Committee

Changing the ten-year child poverty targets and setting the third intermediate targets

Proposal

- 1 This paper provides an update on progress towards the ten-year child poverty targets and seeks agreement under the Child Poverty Reduction Act 2018 (the Act) to:
 - change the ten-year child poverty reduction targets scheduled to be achieved in 2027/28, and
 - set the third round of the three-year intermediate child poverty targets.
- 2 The paper also informs Cabinet of my intention to refresh the Child and Youth Wellbeing Strategy, and to undertake targeted consultation in mid-2024.

Relation to government priorities

- 3 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 four of the nine Government Targets. Supporting parents off a benefit and into work is particularly important if we want to reduce the number of children in poverty.

Executive Summary

- 4 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 current primary measures consider after housing costs income poverty (AHC50), before housing costs income poverty (BHC50), and material hardship.
- 5 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. In doing so, I need to consider the achievability of the ten-year targets. My officials have reviewed the ten-year targets on my behalf and concluded that, given the most recent child poverty rates in 2022/23 are well off-track, the ten-year targets are no longer practically achievable and should be changed. (See Table 1, paragraph 14 for the reductions still required to meet the ten-year targets.)
- 6 I have considered two main options for changing the ten-year targets: one which aims for very modest reductions and could potentially be achieved without significant new investment (noting the uncertainty of the modelling and economic outlook); and the other, which aims to achieve bigger reductions in material hardship and income-based child poverty, and would likely require new investment to achieve them.

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- 7 I have chosen the more ambitious of the two options, in line with our commitment to strengthen the economy and reduce the cost of living. Of the three primary measures, material hardship is the one I am most focused on. I am proposing to reduce material hardship rates to 9% of children, AHC50 rates to 12% of children, and to keep the BHC50 measure steady at the current level of 12% of children by 2027/28. Keeping the BHC50 measure steady will require effort, as it is forecast to increase to about 14% by 2026/27.
- 8 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 best route out of poverty, and I am prioritising shifting people off welfare and supporting them into work. We are increasing the In-Work Tax Credit, making childcare cheaper through Family Boost, and providing tax relief, all of which will help to make work pay and support low and middle-income families with the cost of living. Our wider focus on economic growth and reducing inflation will ease pressure on household incomes and reduce the number of children in hardship.
- 9 The current economic outlook for the material hardship and AHC50 measures is broadly positive. It is likely, however, that we will still need further investment in the form of taxes or transfers to achieve the proposed new targets.
- 10 I propose that we set the third intermediate (2026/27) targets at a level that aligns with the average reductions required to achieve my proposed ten-year targets in the following year (2027/28). This would reduce rates to 10% of children on the material hardship measure, 13% of children on the AHC50 measure, and 12% of children on the BHC50 measure.
- 11 I also propose to seek Cabinet agreement in August 2024 to a refreshed Child and Youth Wellbeing Strategy (the Strategy). The Strategy sets out how we intend to achieve our intended outcomes for children, including reducing child poverty. I intend to position the Strategy as an investment framework, and will undertake targeted consultation as part of the process to refresh the Strategy.

Background

There is a strong case for reducing child poverty

- 12 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

- 13 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

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(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.

- 14 There are three primary measures in the Act, which consider income before housing costs are met (BHC50), income after housing costs are met (AHC50), and material hardship. I must set a fourth primary measure on poverty persistence by December 2024. Table 1 shows the measured rates in the 2018 baseline year and the current ten-year targets¹. It also shows the progress made to date, and the further reductions required to meet the targets.

Table 1: The current ten-year targets and progress to date

Primary poverty measure	Baseline 2018 (measured) rate	2022/23 (measured) rates	Reductions achieved so far	10-year target rate	Further reductions required
BHC50 The proportion of children in households with disposable incomes less than 50% of the median in a given year	16.50%	12.60%	3.90 percentage points (ppt)	5%	7.60 ppt
AHC50 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	22.80%	17.50%	5.30 ppt	10%	7.50 ppt
Material hardship The proportion of children living in households scoring 6 or more out of 17 on the DEP-17 material hardship index	13.30%	12.50%	0.9 ppt	6%	6.50 ppt

I have reviewed the ten-year targets and consider that they need to be changed

The review of the ten-year targets has found that they are not practically achievable within the time available

- 15 In order to set the third set of intermediate targets, I have first considered the achievability of the current ten-year targets. This has been informed by a statutory review undertaken by my officials². The most recent child poverty rates in 2022/23 show that we are well off-track to meet the ten-year targets.
- 16 The review concluded that achieving the current targets would require annual investments over the next two to three years that are of a similar scale to the total annual Budget allowances provided for in 2025 (\$3.25 billion) and 2026 (\$3 billion), as set out in the 2023 Half Yearly Economic and Fiscal Update.
- 17 Meeting the targets is not practically achievable in the context of our policy settings and annual Budget allowances. Economic growth, bringing inflation back down to

¹ 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). In 2018, the then Labour-led Government committed to setting the ten-year targets under the Act at a level that exceeded the reductions required under the UNSDGs, and to achieve them sooner.

² The ten-year targets must be reviewed at least once within the ten-year period. This is the first time they've been reviewed.

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between 1% and 3% over the medium term, and restoring discipline to government spending will all help, but these initiatives are unlikely to have the required impact in the timeframe needed to reach the targets. My officials have, therefore, advised that the ten-year targets be changed³. (See Appendix A for progress on the targets and the proposed new targets.)

I propose to change the ten-year targets to reflect both the current realities and our ambition

18 I have considered two main options for changing the ten-year targets:

- Option 1: Material Hardship (10%), AHC50 (14%), BHC50 (12%), and
- Option 2: Material Hardship (9%), AHC50 (12%), BHC50 (12%).

19 Option 1 requires smaller short-term reductions on material hardship and AHC50 than Option 2, but similar reductions on material hardship to what was achieved between 2018 and 2022. The alignment between Option 1 and the most recent forecast AHC50 rate indicates that these targets may be achievable without significant new investment, noting the inherent uncertainty of the modelling and the economic outlook.

20 Option 2 aims to achieve bigger reductions in material hardship and income-based child poverty rates than option 1, and would likely require new investment to achieve them. The two options are summarised in Table 2 below, including the reductions required compared to the most recently measured rates in 2022/23, and compared to the forecast rates⁴ in 2026/27.

Table 2: Options for setting the ten-year targets

Options	Primary Measure	Ten Year Target Rate (2027/28)	2022/23 measured rate	Reductions required compared to 2022/23	Forecast rate in 2026/27	Reductions required compared to 2026/27 forecast
Option 1: lower reductions, higher certainty	BHC50	12%	12.6%	~0.6ppt	~14%	~2ppt
	AHC50	14%	17.5%	~3.5ppt	~15%	~1ppt
	Material hardship	10%	12.5%	~2.5ppt	(~11%)	~1ppt
Option 2: bigger reductions, higher uncertainty/risk	BHC50	12%	12.6%	~0.6ppt	~14%	~2ppt
	AHC50	12%	17.5%	~5.5ppt	~15%	~3ppt
	Material hardship	9%	12.5%	~3.5ppt	(~11%)	~2ppt

21 Option 1 aligns with the average annual reductions required to meet the United Nations Sustainable Development Goal to halve poverty rates on national measures by

³ Under the Act, Governments can change the targets at any time before the end of the target period.

⁴ Note it is not possible to model material hardship rates – the “forecast” material hardship rates in 2026/27 are an indicative estimate based on Treasury modelling of the forecast AHC50 income poverty rate.

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2030 (UNSDG1) on the AHC50 and material hardship measures; Option 2 exceeds them. Neither of the options align with the UNSDG1 on the BHC50 measure.

- 22 My preferred option for re-setting the targets is the more ambitious Option 2. In considering a target re-set, I have taken into account the positive impact of reducing child poverty on our priorities as a Government; the economic outlook and the nature, scale and timing of current and planned policies; the reductions required under the UNSDG1 goals; and my own priorities for the different measures.
- 23 Of the three primary measures, material hardship is the one I am most focused on. It's a reliable measure of child poverty that is readily understood and based on children's actual experiences of whether they have access to the basics. I am less focused on the BHC50 measure because it's a relative measure and requires income growth for households at the bottom to outpace growth for median income households. My priority is ensuring that the lives of all children improve.
- 24 I am therefore proposing to reduce material hardship rates to 9% by 2027/28, and AHC50 rates to 12%. This reflects the high correlation between material hardship rates overall and aggregate poverty rates on the AHC50 primary measure. My proposed target for the BHC50 measure is to keep it steady at the current level of 12%. This in itself will require effort, as the BHC50 measure is forecast to increase to about 14% by 2026/27.
- 25 Subject to Cabinet agreement on the proposed new ten-year 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.

A fresh approach is needed to address child poverty

- 26 Child poverty rates have been increasing with the rising cost of living, 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.
- 27 Child poverty impacts on, and is impacted by, settings in a multitude of areas, particularly if you take a longer-term, intergenerational perspective. However, for policies that will translate to movement on the measures in the next four years, the available option set is much narrower and covers three main areas: increasing household incomes (through employment and taxes and transfers); reducing housing costs; and reducing other significant demands on the household budget (such as transport, energy, food, and medical costs).

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

- 28 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 hardship and reducing child poverty rates. Policies that increase access to employment for parents are a fundamental part of a child poverty strategy, particularly over the longer term.
- 29 A key part of this is our planned increase to the In-Work Tax Credit (IWTC) by an additional \$25 per week. This will help make work pay and support low and middle-income families with the cost of living. We are also making childcare cheaper through

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our Family Boost childcare tax rebate, which will also help to make work pay, and support parents to work.

- 30 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 will support this. In working to grow the economy we will reduce inflation and end the cost-of-living crisis. This will all help to ease the pressure on household incomes and reduce the number of children in poverty and material hardship.

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

- 31 The best indication of the impact of the economic outlook is the Treasury's modelled estimates set out in the Child Poverty Budget Report from May 2023.⁵ This provides forecasts for the two income poverty measures – BHC50 and AHC50. Material hardship can't be modelled but, as noted above, is strongly correlated with AHC50. The forecasts give a sense of the direction of travel for income poverty rates in the absence of further policy intervention (relative to policy settings from Budget 2023).
- 32 The modelled estimates suggest that the combination of economic growth and lower inflation is likely to mean that by 2026/27 AHC50 could be expected to decrease by around 2.5ppt (+/-1.9ppt). The corresponding material hardship rate could also be expected to decrease by around 1-2ppt.
- 33 While the economic outlook plays a key role in impacting child poverty rates, it is also inherently uncertain. 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 time. It is therefore hard to quantify the impact of the economy on measured poverty rates.

We will likely need to do more to reach my proposed new targets

- 34 Based on these recent projections, officials estimate that policies that achieve further reductions are likely to be required to achieve my proposed targets. This is likely to require further investment in the form of changes to tax or transfer settings, which provide the most direct lever for reducing child poverty.
- 35 Other initiatives could potentially play a role too. These would need to be the sort of changes that can be funded and implemented by 30 June 2026, in order to be fully reflected in measured rates by 2027/28. Initiatives delivered as late as 30 June 2027 could have a partial (up to 50%) impact on measured rates in 2027/28.
- 36 While we are more constrained in terms of the levers we can use to make progress on these ten-year targets, the second set of ten-year targets (2028/29 -2037/38) provides more scope for delivering innovative and transformational changes through policies in the areas of health, education, housing, the early years, and employment. The Child and Youth Wellbeing Strategy is also important here (see paragraphs 38-41).

⁵ These are adjusted to align with the latest measured poverty rates for 2022/23 released by Stats NZ in February 2024. Updated forecasts will be set out in Treasury's Budget 2024 Child Poverty Report.

I propose three-year targets that maintain progress towards the ten-year targets

- 37 I propose that we set the third intermediate (2026/27) targets at a level that aligns with the average reductions required to achieve our new ten-year targets in the following year (2027/28). This means the third intermediate targets will be about 1ppt higher than the ten-year target rates, as shown in Table 3⁶.

Table 3: 2026/27, third intermediate target rates aligned to the reductions required to meet the three ten-year target options

Primary poverty measure	New proposed targets	
	2027/28 ten-year target	2026/27 intermediate target (aligned to ten-year targets)
BHC50	12%	12%
AHC50	12%	13%
Material hardship	9%	10%

I also propose to refresh the Child and Youth Wellbeing Strategy and position it as an investment framework

- 38 There is a legislative requirement (under the Children’s Act 2014) for successive governments to adopt a Strategy to improve the wellbeing of children, including reducing child poverty. As Minister for Child Poverty Reduction, I am also designated as the Minister responsible for the Strategy.
- 39 The current Child and Youth Wellbeing Strategy (the Strategy) was adopted in 2019 and reviewed in 2022. I consider that the Strategy needs to be more focused on the things that will make the biggest difference to the life trajectories of children and young people. This is an opportunity for the Strategy to support a collective Ministerial and agency focus on common risk and protective factors to improve later outcomes, including those reflected in our Government Targets. I want to use the Strategy as an investment framework to guide coordinated, evidence-based investments.
- 40 Based on the evidence of their importance for later life outcomes, I propose three priority areas of focus for the Strategy: reducing child material hardship (in line with the targets), reducing harm against children, and supporting children and their families in the first 2000 days of life.
- 41 I am informing Cabinet of my intention to refresh the current Strategy in this direction, and to undertake targeted consultation⁷ in June and July 2024. I will seek Cabinet agreement to the updated Strategy in August 2024.

⁶ These are based on the average reductions required, rounded to the nearest whole percent. Officials do not recommend setting targets at a level that is more precise than this. There is not enough precision in the data to meaningfully measure and set targets at fractions of a percent.

⁷The Children’s Act 2014 requires consultation when updating the Strategy.

Cost-of-living Implications

- 42 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

- 43 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

- 44 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

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

Climate Implications of Policy Assessment

- 46 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

- 47 Initiatives aimed at reducing material hardship and achieving the targets will benefit population groups that are over-represented in child poverty statistics. Māori and Pacific children, 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

- 48 There are no Human Rights implications arising from the proposals in this paper.

Use of External Resources

- 49 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

- 50 [The Ministry of Social Development and Treasury were consulted on the previous draft. Wider agencies will be consulted on this draft.]

- 51 Following Cabinet approval, I also intend to undertake cross-party consultation on the revised targets prior to them being gazetted.]

Communications

- 52 [TBC with office.]

Proactive Release

- 53 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 [TBC]

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

- 1 **note** that the Child Poverty Reduction Act 2018 requires the ten-year child poverty targets to be reviewed at least once before the end of the final year of the target period of 2027/28, and the third intermediate targets to be set by the end of June 2024;
- 2 **note** that the current ten-year child poverty targets for 2027/28 are:
 - 2.1 6% of children on the material hardship measure;
 - 2.2 10% of children on the after housing costs income poverty measure
 - 2.3 5% of children on the before housing costs income poverty measure;
- 3 **note** that the statutory review of the ten-year child poverty targets concluded that the current ten-year targets are not practically achievable and should be changed;
- 4 **note** that I have considered two options for re-setting the ten-year targets and have chosen the more ambitious option, which would likely require new investment to achieve the targets;
- 5 **agree** that the Government's new ten-year child poverty targets for 2027/28 be to reduce the rates to:
 - 5.1 9% of children on the material hardship measure
 - 5.2 12% of children on the after housing costs income poverty measure
 - 5.3 12% of children on the before housing costs income poverty measure;
- 6 **note** that in proposing these targets I have taken into account the reductions required under the United Nations Sustainable Development Goal 1 to halve poverty rates on national measures by 2030 compared to 2015;
- 7 **note** that, subject to Cabinet's agreement to recommendation 5, 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;

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- 8 **note** that employment will be the primary lever for making progress towards the child poverty targets, with a particular focus on reducing the number of children in benefit dependent households;
- 9 **note** that the modelled estimates suggest that the combination of economic growth and lower inflation is likely to mean that the after housing costs primary income poverty measure could be expected to decrease by 2026/27, and the material hardship measure could be expected to decrease;
- 10 **note** that further investment is still likely to be required to achieve the ten-year targets set out in recommendation 5;
- 11 **note** that, for additional investment to be fully reflected in the measured rates by the final year of the target period, changes would need to be funded and implemented by 30 June 2026;
- 12 **note** that we can also begin to lay the foundations over this term of government for the 2037/38 targets, which provide an opportunity to tackle the deeper drivers of material hardship across a wide range of portfolio areas, including health, housing, education, skills and employment;
- 13 **agree** that we set the third intermediate (2026/27) targets at one percentage point higher than the proposed ten-year targets, which aligns with the average reductions required to achieve the proposed ten-year targets in the following year (2027/28), and which will reduce the rates to:
- 13.1 10% of children on the material hardship measure
- 13.2 13% of children on the after housing costs income poverty measure
- 13.3 12% of children on the before housing costs income poverty measure;
- 14 **note** that I intend to refresh the current Child and Youth Wellbeing Strategy, and to undertake targeted consultation in June and July 2024 as part of that process.

Hon Louise Upston

Minister for Child Poverty Reduction

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Appendix One: Progress on the targets and proposed new ten-year and third intermediate targets

