DEPARTMENT OF THE PRIME MINISTER AND CABINET
TE TARI O TE PIRIMIA ME TE KOMITI MATUA

Coversheet

Briefing: Statutory review of the current ten-year child poverty reduction targets

Date:	11/04/2024	**Report No:**	DPMC-2023/24-1058
		Security Level:	IN-CONFIDENCE
		Priority level:	Routine

	Action sought	Deadline
Hon Louise Upston **Minister for Child Poverty Reduction**	**note** findings **forward** report to the Minister of Finance	

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Departments/agencies consulted on Briefing
Ministry of Social Development, The Treasury, Stats NZ

Minister's Office

Status:

☐ Signed ☐ Withdrawn

Comment for agency

Attachments: No

Briefing

Statutory review of the current ten-year child poverty reduction targets

To: Hon Louise Upston Minister for Child Poverty Reduction			
Date	11/04/2024	**Security Level**	[IN-CONFIDENCE]

Purpose

1. This paper provides a review, on your behalf, of the progress made towards achieving the current ten-year child poverty reduction targets, in accordance with the Child Poverty Reduction Act 2018 (the Act).
2. This review provides important context for the accompanying paper seeking your direction on making possible changes to the current ten-year targets and setting the third intermediate targets [DPMC-2023/24-976 refers].

Executive Summary

3. The Act requires the ten-year targets to be reviewed at least once before the end of the target period of 2027/28, and requires the third intermediate targets to be set by the end of June 2024.
4. In our recent advice to you [DPMC-2023/24-920 refers], we noted that the average rate of progress required to meet the current ten-year targets suggests we are off-track and you agreed to review them.
5. Our review notes that steady progress was achieved across the three primary child poverty measures over the period 2018 to 2022 and exceeded the average reductions required to meet the ten-year targets. The COVID-19 pandemic had a significant impact on ongoing progress towards the targets. While some temporary measures likely shielded many low-income families from poverty, benefit rates for families with children increased rapidly. Subsequent increases in cost-of-living pressures and borrowing costs also combined to drive large year-on-year increases in child poverty between 2022 and 2023 on the after housing costs (AHC50) and material hardship primary measures.
6. The paper identifies the key lessons we have learned (or reconfirmed) about measuring, monitoring, reporting, and target-setting under the Act. Some of these include:
   - the need to plan for policy changes over both the short and longer term
   - the risk of economic shocks needs to be factored in when setting targets
   - getting a shared view and buy-in from other Ministers to make progress in key areas is important
   - modelling and attributing policy impact is inherently uncertain; and

- various data considerations need to be factored in when setting targets and monitoring progress.

7. Based on the analysis set out in this paper as part of the statutory review of the ten-year targets, we do not think the current ten-year targets are achievable in the context of both the current policy settings, and the scale of the reduction that's required to meet them. The ten-year targets would require poverty rates to be reduced by about 5-9 percentage points (ppt) compared to the forecast rates in 2027. To achieve these reductions, annual investments would be required 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.

Recommendations

We recommend you:

1. **note** the main finding of the review is that the current ten-year child poverty targets are not practically achievable

2. **forward** this advice to the Minister of Finance for her information. YES / NO

Clare Ward	
Clare Ward **Executive Director** **Child Wellbeing and Poverty Reduction**	**Hon Louise Upston** **Minister for Child Poverty Reduction**
11 April 2024	2024/04/14

Background

8. The Act requires Governments to set three-year intermediate and ten-year child poverty reduction targets.

9. We're now in the final year of the second intermediate target period (2023/24), which is also the 6th year of the ten-year target period (2027/28), as shown in Figure 1 below.

Figure 1: the third intermediate targets, ten-year targets and the target setting and review requirements under the Act

10. The Act requires the ten-year targets to be reviewed at least once before the end of the target period (i.e. before June 2028). In our recent advice to you [DPMC-2023/24-920 refers] we noted that the average rate of progress required to meet the current ten-year targets suggests we are off-track, and you agreed to review them.

11. As part of the review, you have requested that we provide a summary of "lessons learned" over the first five years of the ten-year targets and to discuss some of the international trends in child poverty reduction in recent years. We note that the Ministry of Social Development (MSD) has recently briefed you on New Zealand's performance compared with other international jurisdictions. We have therefore not included further information on this issue as part of the current review, but we can provide further information on this if required.

12. You have also previously requested that we provide advice on the issue of "very low incomes" in the Household Economic Survey (HES). We have included information on this issue in **Appendix A**, noting that it has implications for reducing income poverty rates and your deliberations about changing the current ten-year targets.

Ambitious ten-year targets were set in 2019 based on a number of factors

13. In 2015, the National Government signed up to the United Nations Sustainable Development Goals (UNSDGs), including a commitment to halve poverty rates on national measures by 2030 (UNSDG1).

14. In 2018, the Act was established with cross-party support and 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. The targets were also set to align with the then Government's public commitments in relation to child poverty, including to reduce the number of children in poverty on the before housing costs primary measure (BHC50) by 100,000 children (which is approximately equivalent to 10ppts).

15. Table 1 shows the measured rates in the 2018 baseline year under the Act and the ten-year targets agreed by the previous Government.

Table 1: The ten-year targets agreed to by the previous Government

Measure of child poverty	2018 baseline rates	Ten-year targets to be achieved by 2028	Reductions required to achieve the ten-year targets
BHC50: The proportion of children in households with disposable incomes less than 50% of the median in a given year.	16.5%	5%	11.5ppt
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	22.8%	10%	12.8ppt
Material Hardship: The proportion of children living in households scoring 6 or more out of 17 on the DEP-17 material hardship index.	13.3%	6%	7.3ppt

16. The reductions required by the ten-year targets under the Act were larger, and needed to be achieved sooner, than the reductions required to meet a halving of poverty rates by 2030 (required under UNSDG1), as shown in Table 2.

Table 2: 2015 (UNSDG) baseline rates, 2018 (Act) baseline rates, and targets

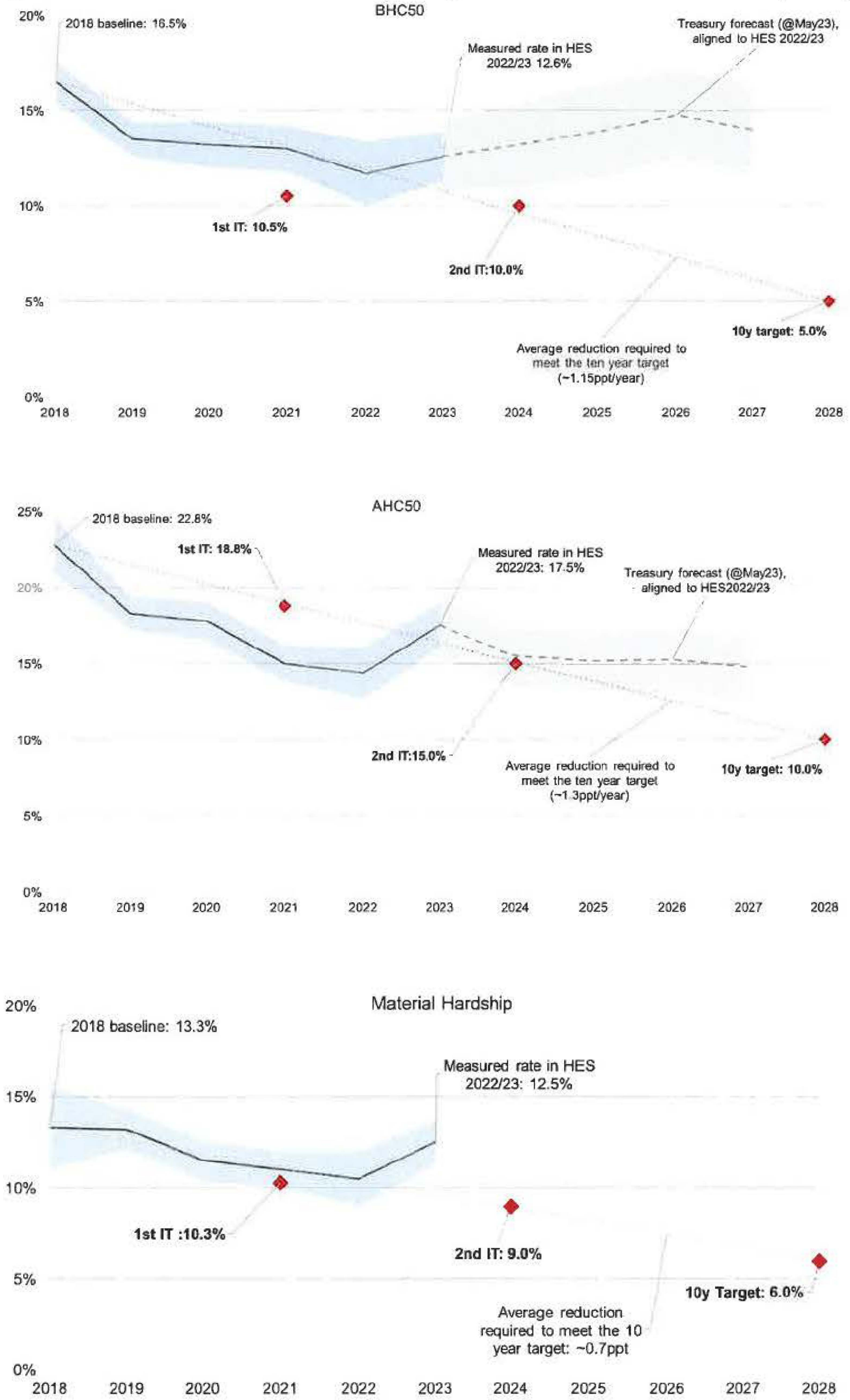
Measure of child poverty	2015 (UNSDG1) baseline rates	2018 (Act) baseline rates	50% of 2015 baseline rate	50% of 2018 baseline rate	Ten-year targets to be achieved by 2028
BHC50	16.3%	16.5%	8.15%	8.25%	5%
AHC50	27.2%	22.8%	13.6%	11.4%	10%
Material Hardship	17.5%	13.3%	8.75%	6.7%	6%

Steady progress was achieved across the three primary measures between 2018 to 2022, before a sharp increase in rates in 2023

17. Over the period 2018 to 2022, statistically significant reductions were achieved on eight out of the nine measures under the Act, including the three primary measures.

18. As shown in Figure 2 below, the reductions achieved over this period exceeded the average reductions required to meet the ten-year targets.

Figure 2: outlook for child poverty rates on the three primary measures



19. As outlined in our earlier briefings to you [DPMC-2023/24-845 and DPMC-2023/24-920 refer], the previous Government delivered significant investments over this period aimed at lifting the incomes of low-income households as well as wider initiatives aimed at addressing the deeper causes of poverty. The first AHC50 and Material Hardship intermediate targets were met by 2021/21, but the BHC50 target was not met. This was partly because this relative measure depends on changes in median incomes as well as low incomes, and median incomes in 2020/21 grew faster than low incomes.

20. The COVID-19 pandemic had an important impact on progress towards the targets. After the first COVID-19 lockdown, there was a large and rapid increase in the number of children in families receiving main benefit in the June 2020 quarter (from about 16% of all children in March 2020 to 18% in June 2020). We estimate this may have contributed to measured poverty rates on all three measures being up to about 1ppt higher than they would otherwise have been.

21. Despite this, poverty rates did not increase in 2022 (at least initially). In addition to the ongoing investments noted above, various temporary measures likely played a role in shielding low-income households from poverty, such as the Wage Subsidy, the COVID-19 Income Relief Payment, and the temporary doubling of the Winter Energy Payment.

22. Subsequently, as noted in our review of the second intermediate targets [DPMC-2023/24-920 refers], the increase in cost-of living pressures and borrowing costs from mid-2022 resulted in large and statistically significant year-on-year increases in child poverty between 2022 and 2023 on the AHC50 and Material Hardship primary measures (both of which are sensitive to inflation).

Overview of lessons learned over the first five years of the ten-year target period

23. We have identified the key lessons we've learned (or reconfirmed) about measuring, monitoring, reporting and target-setting under the Act.

The need to plan for policy changes over the short and longer term

24. Planning ahead and starting early is critical. It's possible to achieve large (>3ppt) reductions in child poverty rates within a short (<2 year) time frame. However, it is invariably costly. By contrast, some of the most potentially cost-effective policy changes for reducing child poverty, including lifting skills and sustainable employment, and increasing the supply of affordable housing, usually take more time to implement and take effect before being reflected in measured poverty rates.

25. Given these trade-offs, a balanced portfolio of child poverty reduction investments is important for making sustained progress. This includes a mix of short and longer-term investments; tax and transfers and employment-focused policies; and wider initiatives to reduce housing costs, boost human capital and address cost of living pressures, especially for groups with special needs.

Economic shocks can rapidly erode hard won progress, and the risk of them needs to be factored in when setting targets

26. The economic impacts of COVID-19 (much like the impacts of the Global Financial Crisis) show just how quickly economic factors can impact measured poverty rates. The nature of these impacts varies markedly depending on the measure and the characteristics of the shock. In general terms, shocks that reduce average disposable household incomes in real terms tend to put upward pressure on material hardship and AHC50 (fixed) poverty rates.

27. Periods of strong economic growth put downward pressure on material hardship and AHC50 (fixed) poverty rates, but (counterintuitively) tend to put upward pressure on "moving line" poverty measures like BHC50. This is why making progress on BHC50, and other "moving line" income poverty measures, is particularly challenging. Progress on these measures requires incomes for those at the bottom to rise faster than middle income households.

Getting buy-in from other Ministers to make progress in key areas is important

28. A wider group of Ministers have a role to play, and benefit from, reducing child poverty. It's important to get a shared view on what's required in areas that are broader than taxes and transfer, such as the early years, and health, education and training systems. Getting buy-in to a shared view from the relevant Ministers responsible for these portfolio areas can help to ensure progress towards reducing child poverty over the medium to longer term, and ensure there are broader benefits in a range of key areas.

Various data considerations need to be factored in when setting targets and monitoring progress

29. We now have a much better understanding of the impacts of various data and measurement considerations than when the targets were first set. There are four main issues to be aware of, as described below.

- **Sample error.** Since 2019 the Household Economic Survey (HES) provides much more precise estimates of child poverty rates. Despite this, the margin of error in the data (of around +/- 1-2ppt, depending on the measure) is typically larger than the average, year-on-year reductions required to achieve the targets. This is why looking at year-on-year change is usually not a reliable indication of progress. The margin of error is even larger when monitoring progress for smaller populations (e.g., Māori).
- **2-year rolling reference period.** Households participating in HES are asked about their circumstances in the past 12 months. This means that reported poverty rates for a given year (e.g., 2022/23) reflect the circumstances of households over a period spanning two financial years (e.g., July 2021 to June 2023). This adds a lag to the time it takes for policy impacts to be reflected in the data. This is critical for planning the timing of interventions needed to impact measured poverty rates.
- **Very low incomes (VLIs).** The HES data used to produce child poverty estimates under the Act appears to have a relatively high proportion of households with "very low incomes". For various reasons, these households have incomes that are well-below the level of income support provided through the main benefit system. The most important implication of this is that, as income poverty rates reduce, it will be harder to reduce income poverty rates because the proportion of children in households with VLIs will become a bigger share of children in income poverty. This issue is more fully discussed in **Appendix A**.
- **Data updates and lags in available data.** Poverty estimates are subject to revisions of up to one percentage point or more the year after poverty estimates are reported by Stats NZ. On income poverty measures, one of the main reasons for this is that there is a lag in the availability of Working for Families (WFF) incomes data. This tends to mean the most recently reported income poverty rates are higher than the revised rates. It also means there's a risk that the data used to inform the Government Statistician's assessment about whether targets have been met (at the end of a target period) may be later revised to a level that would have changed that assessment. The WFF data-lag issue is also discussed further in **Appendix A**.

Modelling and attributing policy impact is inherently uncertain, particularly over the longer term

30. It's challenging to assess what child poverty rates would have been in the absence of policy intervention or to anticipate the future impacts of policy changes on measured poverty rates. Treasury's TAWA modelling provides the best estimate of the direct impacts of changes to transfer policy settings on income poverty measures (i.e., AHC50 and BHC50). But estimating future child poverty rates is inherently uncertain, particularly over the long term. This is because estimates are highly sensitive to changes in forecasts of key economic parameters (like unemployment rates, inflation and economic growth). This underscores how the impact of economic factors can often swamp the impacts of policy interventions, at least in the short term.

Reducing material hardship is likely to get progressively harder, the lower rates get

31. Material hardship is a challenging measure to make progress against. Material hardship can't be modelled, and the policy levers for addressing it are less direct. It's also harder to target families in material hardship than those in income poverty (for example, about 10% of children in material hardship live in households with incomes above the median). A potentially wide range of factors influence material hardship rates, but over the short term the (mostly international) evidence is strongest that lifting incomes makes the biggest difference[1].

32. This is also consistent with evidence that material hardship rates are closely correlated with AHC50(fixed) poverty rates. As material hardship rates get lower, however, we can expect that this relationship with income may become weaker. This is because those facing more complex challenges will make up a larger share of those in hardship, making it harder (and more costly) to drive down rates on this measure.

The multi-measure framework provides a robust framework for monitoring progress, but also presents a challenge for clear communication to the public

33. The multi-measurement framework established under the Act provides a comprehensive framework for monitoring child poverty rates. But the complexity of the measures and the data does present a significant challenge in communicating what progress has been achieved in a way the general public can easily understand.

34. Material hardship is perhaps the easiest measure to understand. But there is still an important role for tracking income poverty rates, particularly the AHC50 primary measure, given the crucial role of incomes and housing costs in driving material hardship rates.

We have assessed the feasibility of achieving the current ten-year targets

35. As we noted in our review of the second intermediate child poverty reduction targets [DPMC-2023/24-920 refers], the most recent child poverty rates, on all three measures, are higher than the average reductions required over this period to be on-track to meet the current ten-year targets. This is shown in Figure 2 and Table 3 below.

[1] Prickett & Grant (2023).

Table 3: Reductions required to meet the ten-year targets

Primary poverty measure	Baseline (measured) rate	2022/23 (measured) rates	Reductions achieved so far	Rate required in 2022/23 to be "on-track"	Ten-year target rate	Further reductions required
BHC50	16.50%	12.60%	3.90 ppt	~11%	5%	7.60 ppt
AHC50	22.80%	17.50%	5.30 ppt	~16%	10%	7.50 ppt
Material hardship	13.30%	12.50%	0.9 ppt	~10%	6%	6.50 ppt

36. To assess the likelihood of achieving the ten-year targets, we consider current and planned investments and the economic outlook.

Currently planned and in-progress investments and policy changes are not sufficient to meet the current targets

37. There are a number of significant tax and transfer policy changes that are either yet to be implemented or that are still flowing through to measured income poverty rates. These are Child Support Pass On, the increase to the In-Work Tax Credit, and the Personal Income Tax changes and Family Boost through Budget 2024.

38. In addition to these current and planned investments, a key part of your strategy to reduce child poverty is employment, and supporting parents with dependent children to move off benefit and into work. These policies combined can potentially play an important role in driving large reductions in child poverty rates over the longer term, and provide a basis for setting the 2037/38 targets. Over the next two years, however, the combined impacts of these potential changes are likely to fall well short of the reductions required to meet the current ten-year targets.

39. Some other policy changes, the details of which are still being finalised, could potentially have a negative impact on progress towards reducing material hardship, including changes to the delivery of the Ka Ora Ka Ako school lunches programme and changes to public transport subsidies.

The economic outlook is unlikely to substantively alter our overall assessment

40. We'll get a more up-to-date picture on the economic outlook when the Treasury publishes the Budget Economic and Fiscal Update (BEFU) at the end of May 2024.

41. In the meantime, our best estimates of future rates are from the Treasury's Child Poverty Budget Report from May 2023, adjusted to align with the measured poverty rates for 2022/23 released by Stats NZ in February 2024, as shown in Table 4, and Figure 1.

Table 4: May 2023 Treasury forecasts of AHC50 and BHC50 poverty rates, revised to align with the measured rates in 2022/23

Primary poverty measure	Measured rate in 2022/23	2026/27 forecast rate (based on May 2023 modelling, revised to match measured rates in 2022/23)	10-year target rate (2027/28)
BHC50	12.6% (+/-1.3ppt)	~14%	5%
AHC50	17.5% (+/- 1.5ppt)	~15%	10%

42. These data suggest that by 2026/27, without the changes signalled through Budget 2024, income poverty rates are expected to:

- track downwards slightly on the AHC50 primary measure, as Consumer Price Index (CPI) inflation is expected to drop back down from 6% in 2023 to ~2-3% over the period 2024 to 2027[2]
- increase slightly on BHC50 as wages growth for middle income households is expected to outpace growth at the bottom.

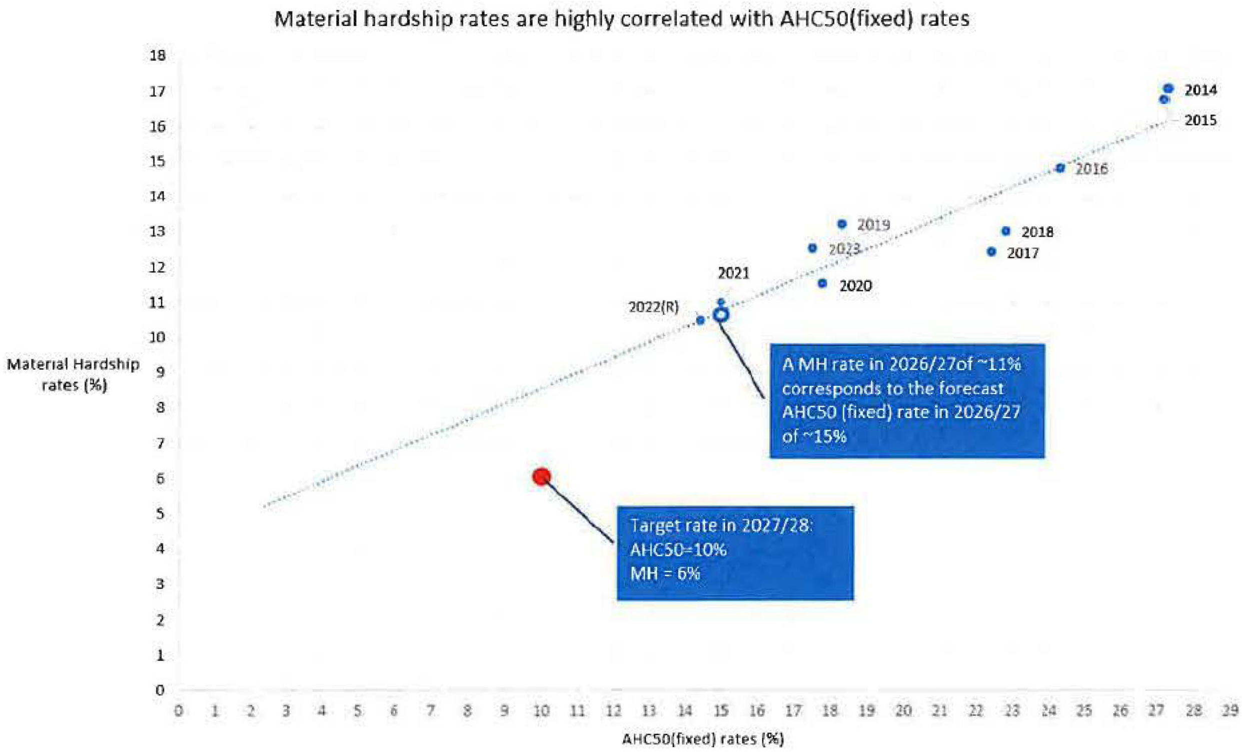
43. Since these forecasts were produced, New Zealand has entered a recession and unemployment is expected to increase, reaching a peak in early 2025. This is likely to put upward pressure on AHC50 poverty rates and material hardship rates in the short term, offset to some extent by a potential easing in borrowing costs and cost-of-living pressures.

44. On BHC50 it's possible that slower economic growth may put downward pressure on BHC50 rates in the short term if middle incomes grow more slowly than low-income households with children.

The strong association between measured material hardship and AHC50 (fixed) poverty rates provides an indication of the likely trajectory for material hardship

45. While we can't model material hardship, we do know that overall material hardship rates are highly correlated with aggregate poverty rates on the AHC50 (fixed) primary measure, as shown in Figure 3. Assuming this relationship holds in the future[3], then a forecast AHC50 (fixed) poverty rate of 15% in 2026/27 is likely to correspond to a material hardship rate of about 11%. This is about 5ppt higher than the rates required to reach the ten-year target for material hardship in 2027/28 of 6%.

Figure 3: The association between aggregate material hardship rates and AHC50 (fixed) poverty rates over time



2 More recent forecasts from the Half Yearly Economic and Fiscal Update 2023 suggested that CPI inflation would be more persistent at around 4% in 2024, before dropping to 2-3% after that.

3 As noted in the section of this paper on "lessons learned".

We do not think the current ten-year targets are practically achievable

46. Based on the analysis set out here, and the current investment plan, we do not think the current ten-year targets are achievable. As they stand, the ten-year targets would commit you to reducing poverty rates by about 5-9ppt compared to the forecast rates in 2027. As noted in our recent advice [DPMC-2023/24-989 refers], earlier hypothetical Treasury modelling as part of the Working for Families review indicated that investments of approximately $200-$300 million per year could be expected to reduce AHC50 (fixed) poverty rates by about 1ppt; and, given the relationship between AHC50 and material hardship, this could be expected to correlate with a 0.5ppt reduction in material hardship rates.

47. To achieve the large reductions needed in the relatively short time frame remaining for the ten-year 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 Update4.

48. The BHC50 target of 5% in 2027/28 would be especially challenging given the forecast rate on this measure in 2026/27 is 14%. Achieving this target would require the incomes of low-income households with children to grow at a much faster rate than middle New Zealand. This would likely require large-scale transfer payments that are challenging to design in a way that balances your other priorities like maintaining strong work incentives. The challenges of achieving the current BHC50 target would be further compounded by the VLI issue noted in **Appendix A**.

Next steps: possible changes to the current ten-year targets

49. The main finding of this statutory review of the current ten-year 2027/28 targets is to confirm that these targets are not practically achievable.

50. This is important context for considering possible changes to the current ten-year targets, as set out in the report that accompanies this review [DPMC-2023/24-976 refers].

[4] See Half Year Economic and Fiscal Update 2023 - 20 December 2023 (treasury.govt.nz)

Appendix A: Further information about Very Low Incomes and the lag in the availability of Working for Families data

Purpose

1. The purpose of this appendix is to provide further information about two data matters that have potential implications for your responsibilities as the Minister for Child Poverty Reduction:
   - children in households with "very low incomes" (VLIs) in the Household Income and Living Survey (HILS) data, and
   - lags in the availability of up-to-date Working for Families (WFF) data.
2. The aim is to briefly explain what each matter is, what actions are being taken by Stats NZ to better understand and address these (as appropriate), and the main implications that are relevant to your responsibilities as the Minister for Child Poverty Reduction.
3. This information also responds to your request for the Child Wellbeing and Poverty Reduction Group to provide more information about the implications of the VLI matter.

Children in households with VLIs in the data

4. VLI households are households reporting incomes that are well below all base income support levels. For the purposes of this paper, we have defined VLI households as those with a before housing cost income that is less than 20% of the median (i.e., BHC20)[5].
5. It's important to emphasise that the VLI issue does not affect Stats NZ's estimates of the number of children living in material hardship or severe material hardship.
6. There are many reasons why VLIs can occur. Some households may legitimately report or be reported as having very low, or even negative, disposable incomes: for example, household break-ups and formations during the year, immigrants here for a part-year only, and self-employed with low taxable incomes. In addition, there can be reporting errors. All these can lead the creation of a group of VLI households.
7. New Zealand and international research shows that VLI households tend to have much lower material hardship rates and generally higher material living standards than other low income households. This can be because, for example, they have access to significant liquid assets (e.g., cash savings) or financial supports from friends or family which allows them to maintain an adequate standard of living.
8. The presence of VLI households highlights a key limitation of using disposable income as a proxy for the financial resources available to a household and is one of the reasons why it's helpful to have multiple ways of measuring poverty (e.g., the DEP-17 material hardship index).

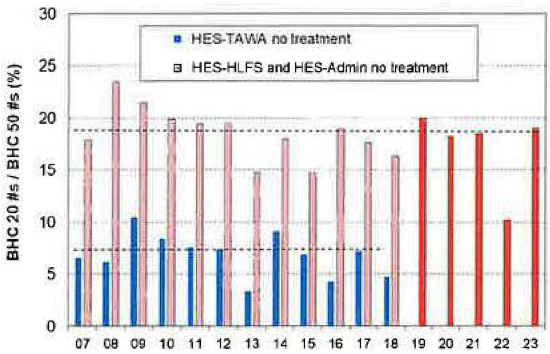
[5] We note that main benefit households with children typically have incomes in the BHC50 to BHC70 range

The presence of the VLIs in the data is not new, but the increased scale is potentially problematic

9. The presence of VLIs in household surveys is not new or unique to New Zealand. What has changed in New Zealand is that in 2019 Stats NZ re-designed the survey to meet the precision requirements for child poverty reporting (part of this including for estimating poverty rates going back to 2007) and the numbers of VLI households in this newly created dataset increased markedly. The new "HES-Admin" approach, which is used for reporting child poverty rates under the Act, incorporated a number of changes, including a large increase in the survey sample size, and a shift to using administrative data sources (from Inland Revenue and MSD) to calculate some components of income. Prior to this, the "HES-TAWA" approach had used a mix of survey data and modelled income information from the Treasury.

10. Figure 1 below shows the proportion of children under the BHC50 poverty line who are in VLI households in the Stats NZ "HES-Admin" data, used for reporting under the Act (red and pink columns), and the previous HES-TAWA approach (blue columns). In "HES-Admin" an average of 19% of all children in BHC50 poverty are living in BHC20 households compared to about 7% of children in BHC50 poverty in the HES-TAWA dataset.

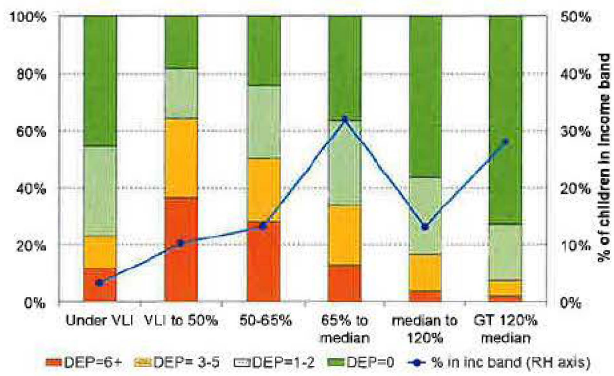
Figure 1: the proportion of children in BHC50 poverty in households with Very Low Incomes (<BHC20)



Source: MSD 2024

11. Figure 2 shows that the majority of these VLI households report good to very good living standards, more like those in middle-income households, and very few are in material hardship. This contrasts with the situation for many with 'ordinary' low incomes.

Figure 2: Material hardship rates for children in VLI households compared to households in other income bands.



Source: MSD 2022

What's being done to address this?

12. Stats NZ is planning to investigate what is causing the issue. Stats NZ advises that if these investigations confirm that there is a VLI issue that needs to be addressed, then the challenge would be to find a remedy that does not remove households that have genuinely low income / poor living standards in the process.
13. Currently Stats NZ's child poverty data work programme is prioritising:
    - delivering HILS ready for data collection starting in July 2024
    - the definition and measurement of persistent child poverty, including analysis of the Living in Aotearoa data collected in 2022 and 2023; and
    - supporting data collection and preparing for statistical production activities for the release of child poverty statistics, household incomes and housing costs statistics, and net worth data from the HES 23/24.
14. Stats NZ officials advise they are applying resource to the very low incomes issue as these other priorities allow. Applying resource to this work will be prioritised in 2025.

Key implications of the VLI issue for you as the responsible Minister

15. The main implication of the VLI issue you need to be aware of is that VLI households are unlikely to be affected by child poverty reduction policy measures, or by wider economic factors in the same way as other low-income families. This means it's likely to become increasingly hard to reduce income poverty rates to very low levels as VLIs become a bigger share of children in income poverty as the poverty rate declines.
16. For example, using MSD's current definition of VLI (below BHC20) there are around 28,000 children in VLI households, which is about 2.4% of all children, and 19% of all children currently below BHC50. If the official BHC50 rate were to drop from the current 12.6% to the level of the current ten-year target of 5%, then about 40% of all these children would be in VLI households, assuming the number of VLI households stays consistent over time.
17. Importantly, this issue was not known about at the time the current ten-year targets were set. It is one further reason why the Government should carefully consider whether the current ten-year BHC50 target of 5% by 2027/28, in particular, is set at an appropriate level. The prevalence of VLIs in the dataset will also need to be factored in when setting persistent poverty targets at the end of this year.
18. No matter what data improvement or other treatment is applied it's likely there will always be some VLI households reporting material hardship. This means that in an improved scenario the reported BHC50 rate would be lower by less than 2.9ppt. MSD's current interim VLI treatment approach typically produces a 2ppt reduction in the BHC50 rate for children. The reduction for the AHC50 fixed line measure is about the same (2ppt) once the MSD treatment is applied. (Note too that there are households in low-income (BHC50) that do not report material hardship.)
19. If Stats NZ do decide treatment is needed to address the VLI matter before the end of the ten-year target period, then it could mean that the BHC and AHC time series will need to be downwardly adjusted and the targets may need to be recalibrated accordingly. Given the complexity of the issue and the other competing priorities in Stats NZ's work programme we consider that it is unlikely the matter will be resolved before the end of the current ten-year target period.

The WFF data lag issue

20. A second data matter relates to WFF data not being up-to-date at the time of the Stats NZ child poverty data release. This was briefly noted in our advice to you about the release of Stats NZ's 2022/23 child poverty data [DPMC-2023/24-743 refers].

21. Currently, Stats NZ calculates WFF income by apportioning the payments over two tax years to align with the survey reference period, including any "washup" at the end of the tax year to reconcile what families have been paid and their entitlement. If the most recent tax return data is not available in time for the public release of the data, then the previous year's WFF income is attributed to the household.

22. Stats NZ estimates that only 75% of the WFF data is substantively up-to-date in the most recently released child poverty data in a given year. But by the following year, the data is estimated to be about 95% complete for that previous year.

23. This is the main reason why Stats NZ revises the previously reported year's income poverty rates in each year's release[6]. This matter has a number of implications for your responsibilities as Minister.
    - The lag leads to an overestimate of the income poverty rates in the most recently reported year (i.e., before the revision). Once revised it can lead to a bigger year-on-year decrease (or even a reversal, from a rise to a fall) compared to what was reported in the previous year. In the most recently reported income poverty rates, for example, the difference between the revised rates and the previously reported rate in 2021/22 is up to 1ppt. AHC50 (fixed) poverty rates were initially reported in March 2023 to have increased by 0.4ppt between 2020/21 and 2021/22. But the revised data, released in February 2024, indicated that AHC50 (fixed) poverty rates had *decreased* by 0.5ppt between 2020/21 and 2021/22. While neither the reported rise nor the reported fall are statistically significant, it changes the perception and narrative around poverty rates.
    - The lag needs to be factored into your target-setting decisions because it means it takes even more time for the impacts of changes to WFF policy being reflected in the data.
    - It is likely to be a major cause of the need to "re-baseline" Treasury forecasts each year and that are published in the Minister of Finance's Child Poverty Budget report.
    - It creates a risk that the data used by the Government Statistician to assess compliance with the income poverty targets will get revised in a way that would have altered that assessment, as illustrated above. It should be noted that, technically, under the Act, any subsequent revisions are not taken into account when the Government Statistician assesses compliance with the targets – it is the data published in the target year that counts, even if it is later revised. This increases the communication challenges already inherent in the child poverty reduction regime, and may create a risk regarding the perceived robustness of the regime and its measures.

24. Stats NZ plans to progress work to investigate this matter in 2025.

[6] The revision also includes any updates to admin data on wages and salaries and government transfers, as well as updated population estimates. However, to date these revisions have had a lesser impact on estimated poverty rates than the WFF data lag issue.