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

Coversheet

Briefing: Issues and options for setting the ten-year and third intermediate child poverty targets ✓

Date:	11/04/2024	**Report No:**	DPMC-2023/24-976
		Security Level:	IN-CONFIDENCE
		Priority level:	High

	Action sought	Deadline
Hon Louise Upston **Minister for Child Poverty Reduction**	**agree** to recs	15/04/2024

Name	Position	Telephone	1st Contact
Clare Ward	Executive Director Child Wellbeing and Poverty Reduction	s 9(2)(a) [redacted]	✓
Hugh Webb	Principal Analyst Child Wellbeing and Poverty Reduction Group		

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☐ Signed ☐ Withdrawn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

Issues and options for setting the ten-year and third intermediate child poverty targets

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

Purpose

1. This paper seeks your direction on changing the ten-year child poverty targets, and your agreement to set the third intermediate targets, for consideration by Cabinet on 27 May.
2. This advice follows the statutory review of the current ten-year targets, sent to you at the same time as this paper [DPMC-2023/24-1058 refers].

Executive Summary

3. The main finding of the accompanying review of the current ten-year targets is that they are not practically achievable in the context of the Government's current policy programme and the operating allowances for the next two Budgets. We therefore recommend you agree to change the current ten-year targets.
4. If you agree to set new ten-year targets for 2027/28, we have developed two main options for you to consider. These take into account three key issues: the economic outlook; the relative priority you place on making progress against the different primary measures; and the nature, scale and timing of the Government's current and planned child poverty reduction policy programme.
5. The outlook for key economic parameters like inflation, economic growth and unemployment is a key determinant of future poverty rates. However, forecasting these parameters is inherently uncertain. Modelling by the Treasury from May 2023, which takes into account these forecast economic parameters, suggests that rates on the After Housing Costs primary poverty measure (AHC50) are expected to track down by about 2.5ppt to 15% by 2026/27 (one year before the final year of the ten-year target period). We estimate that Material Hardship will be about 11% by 2026/27, due to the relationship between this measure and AHC50. On the Before Housing Costs primary measure (BHC50), the modelling indicates poverty rates are expected to increase from the current rate of 12.6% to about 14% by 2026/27. These forecasts provide an important starting point for setting the targets.
6. In developing options for new targets, we've prioritised material hardship given that this is your top priority. We have also calibrated the AHC50 targets at a level that reflects the strong relationship that exists between Material Hardship rates and AHC50 poverty rates. We have proposed setting what is effectively a "no change" target on BHC50 given that this measure is less strongly correlated with material hardship rates.

7. We have also taken into account the nature, scale and timing of the Government's current policy programme. We expect that current policies including supporting parents off main benefit and into work, making working pay (including through changes to the In Work Tax Credit and Family Boost) and the Government's wider work programme to grow the economy and reduce cost-of-living pressures could help make progress towards reducing measured poverty rates by 2027/28. However it's challenging to estimate the size of these potential impacts.
8. Potential new investments that provide additional income support, for example through changes to Working for Families (WFF) implemented by 1 July 2025, would provide greater certainty about the reductions that can be achieved. This is because it's possible to model and quantify the estimated impacts of these policies on measured income poverty rates.
9. The first of the two ten-year target options we've developed aims to achieve a material hardship rate of 10%, AHC50 rate of 14%, and a BHC50 rate of 12% by 2027/28. While it is difficult to say with certainty, we expect this option could be achievable without significant new additional investment.
10. The second option we've developed aims to achieve a material hardship rate of 9%, AHC50 rate of 12% and a BHC50 rate of 12% by 2027/28. This option aims to achieve bigger reductions than Option 1, but new investment will likely be needed to achieve these more ambitious targets.
11. Your preferred option for setting the ten-year targets will largely determine the level of the third intermediate (2026/27) targets, which must be set before 30 June 2024. We recommend you set these at a level aligned with the average reductions required to meet the ten-year targets.
12. We would value the opportunity to discuss these options with you, noting that there are potential variations to the options we have developed on which we can provide further advice.
13. Once you have indicated your preferred option we will draft a Cabinet paper with the aim of seeking Cabinet agreement to setting the ten-year and third intermediate targets on 27 May.

Recommendations

We recommend you:

1. **agree** to discuss this report with officials — YES / NO

2. **agree** to change the current ten-year targets, noting the findings of the review of the current ten-year targets showing they are practically unachievable in the context of current policy settings and the operating allowance — YES / NO

3. **indicate**, subject to your agreement to recommendation 2, your preferred ten-year target option for recommending to Cabinet (as set out in Table 3 in the body of this report):

EITHER

3.1. Option 1 – Material Hardship: 10%; AHC50: 14%; BHC50: 12% — YES / NO

OR

3.2. Option 2 – Material Hardship: 9%; AHC50: 12%; BHC50: 12%. YES / NO

OR

3.3. A variation on these options, subject to further discussion with officials YES / NO

4. **agree** to recommend to Cabinet to set the third intermediate (2026/27) targets at a level that aligns with the average reductions needed to achieve your preferred ten-year (2027/28) targets, as indicated in recommendation 2 YES / NO

5. **forward** this advice to the Minister of Finance. YES / NO

Clare Ward	
Clare Ward **Executive Director, Child Wellbeing and Poverty Reduction**	**Hon Louise Upston** **Minister for Child Poverty Reduction**
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Background

14. The main finding of the statutory review of the ten-year targets that accompanies this paper [DPMC-2023/24-1058 refers] is that the current, ten-year, 2027/28 child poverty reduction targets are not practically achievable in the context of the current policy programme and the operating the allowance.

15. Under the Act, Governments can change targets at any time before the end of the target period. Changing the targets is ultimately a political decision for you as the responsible Minister, with the support of your Cabinet colleagues.

16. The level at which you set the ten-year targets will largely determine the level of the third intermediate targets (covering the period 2024/25 to 2026/27), which must be set before 30 June 2024. This is because the final year of the ten-year targets (2027/28) is just one year after the final year of the third intermediate targets (2026/27).

There are three main issues to consider when setting the ten-year targets

17. To serve as a useful guide for driving and aligning policy, the targets should ideally be set at a level that balances ambition and achievability. There are three main issues we recommend you consider when deciding whether or not to change the current ten-year targets, and if so, where to set them:

    - the economic outlook, noting the inherent uncertainties in key economic parameters that influence poverty rates
    - the relative priority you place on making progress against the different measures of poverty, taking into account interdependencies between the measures, and
    - the nature, scale and timing of any planned or potential new policies, in the context of the Government's wider priorities.

The economic outlook is a very important determinant of poverty rates, but is inherently uncertain

18. The economic outlook plays a very important role in impacting child poverty rates, and these impacts vary depending on the measure. But, as noted in the "lessons learned" from the review of the ten-year targets, there are inherent uncertainties in the outlook for key economic parameters like inflation, unemployment and economic growth, particularly for forecasts that are further out in time.

19. It's therefore hard to quantify with any certainty the impact of the economy on measured poverty rates. The best indication is the Treasury's modelled estimates set out in the Child Poverty Budget Report from May 2023, adjusted to align with the latest measured poverty rates for 2022/23 released by Stats NZ in February 2024.

20. Table 1 shows these forecast income poverty rates in 2026/27[1], and the corresponding material hardship rates in 2026/27. We have estimated the material hardship rate based on the relationship between material hardship and AHC50 which we show in Figure 4 of the accompanying review of the ten- year targets. Alongside the 2026/27 forecast estimates, table 1 also shows the error on the forecast rate. This provides an indication of the statistical uncertainty in the modelled estimates but does not reflect the added and inherent uncertainty in the forecast of future economic parameters. This means that, if the economy changes

[1] These forecasts in table 1 go out to 2026/27. We don't yet have updated estimates for the final year of the target period, which is 2027/28

substantially and unexpectedly, the future measured rates could fall outside the error on the forecast rate.

Table 1: The most recently measured poverty rates and the Treasury's forecast for 2026/27

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)
BHC50	12.6% (+/-1.3ppt)	14% (+/- 2.4ppt)
AHC50	17.5% (+/- 1.5ppt)	15% (+/-1.9ppt)
Material Hardship	12.5% (+/- 1.2ppt)	~11% (error unknown)

Please note: the figures in column 3 are DPMC estimates, not Treasury forecasts.

By 2026/27, AHC50 and Material Hardship could be expected to decrease and BHC50 to increase

21. The modelled estimates in Table 1 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 be expected to be lower by around 1-2ppt, but note it's not possible to estimate the margin of error on this estimate.

22. BHC50 poverty rates, by contrast, are forecast to increase to around 14% (+/-2.4ppt). This likely reflects the expectation of stronger economic growth from 2025/26 onwards that is expected to mean income growth for households at the middle outpaces income growth at the bottom.

Forecast rates in 2026/27 provide a useful, but indicative, starting point for setting the target rates

23. The forecasts above provide a useful starting point for setting the target rates. They 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). One of the lessons highlighted in the review of the ten-year targets is the need to factor in the possibility of adverse economic shocks that can quickly and unexpectedly change the probability of meeting the targets. Setting more modest ten-year targets could help manage this downside risk. However you have the option to change the current ten-year targets again in the event of a very large and unexpected economic shock.

The relative priority you place on each measure, and the interdependencies between the measures, needs to be considered

24. A further issue to consider when setting the targets is the relative priority you place on each measure. You've indicated that your top priority is to reduce material hardship rates. In setting the targets, one option would be to set a comparatively ambitious material hardship target, and more modest (or even no change) targets on the primary income poverty measures.

25. However, as noted in the review of the ten-year targets [DPMC-2023/24-1058, Figure 4] poverty rates on AHC50 are closely related to material hardship rates at the aggregate level. This is because changes in after-housing-cost incomes (in real terms) are the single biggest factor influencing material hardship rates. This means it's likely that reducing material hardship rates will nearly inevitably require AHC50 poverty rates to come down. We therefore recommend you set the AHC50 poverty target at a level that reflects this relationship.

26. The situation is importantly different in the case of BHC50. As a relative, or "moving line", poverty measure, making progress on BHC50 requires the incomes of households with children at the bottom of the income distribution to grow faster than those on middle incomes. Unlike the AHC50 "fixed line" measure, BHC50 poverty rates are not directly affected by

inflation. Partly because of this, BHC50 poverty rates are less strongly correlated with material hardship than the "fixed line" AHC50 primary measure.

The nature, scale and timing of current and planned policies and investments is an important consideration, in the context of the Government's wider priorities

27. The nature, scale and timing of the Government's policies and investments that are likely to impact poverty rates is perhaps the most important factor to consider when determining the level at which to set the targets. These policies and investments also need to be considered in the context of the Government's wider priorities.

28. Policies in three broad areas contribute to reducing child poverty rates, depending on the measure: lifting incomes, reducing housing costs, and addressing wider cost of living pressures for low-income households.

Planned policy changes could help reduce measured poverty rates by 2027/28, but the potential impacts are difficult to quantify

29. As noted in the review of the ten-year targets, a range of planned and potential future policies and investments could help reduce measured poverty rates by 2027/28. These include:
    - supporting parents with dependent children who are receiving a main benefit into work, including as part of the Government's target to reduce the number of Jobseekers Support (JSS) recipients by 50,000 over the next six years
    - initiatives aimed at "making work pay", such as increases to the In-Work Tax credit and Family Boost, and
    - the Government's wider focus on economic growth, low unemployment and reducing inflation.

30. It's very challenging to estimate the size of the total impact of these policies on measured poverty rates. In the case of supporting parents with dependent children into work we note that about 20% of children in main benefit families have parents receiving JSS. And we've previously estimated that reducing the number of children in main benefit households by 1ppt could potentially deliver a reduction in measured poverty rates of up to 0.3ppt.

31. What we can say is that the sooner policies like supporting parents off benefit into work are implemented, the greater the likelihood they will impact measured poverty rates in 2027/28.

Policies tackling the deeper drivers of poverty are critical for reducing poverty over the long term but will make at best a modest contribution to the 2027/28 targets

32. We note that the Government is committed to tackling the deeper drivers of poverty including improving housing affordability, lifting skills and sustainable employment, and using the Child and Youth Wellbeing Strategy as an investment framework.

33. These are critically important components of a comprehensive child poverty reduction strategy that can help drive long-term and sustainable reductions in child poverty, particularly on material hardship rates. These "slow burn" initiatives will likely have limited and in some cases no impacts on measured rates in 2027/28. This is largely because these initiatives tend to take time to implement and take effect at scale in time to influence measured poverty rates.

New investments through, for example, changes to Working for Families would give greater certainty about the reductions that can be achieved

34. Potential new investments, for example through increases to Working for Families (WFF) tax credits, could provide greater certainty about the reductions that can be achieved by 2027/28, and therefore what is a realistic level of ambition in setting the ten-year targets. Depending on the design, this could also help support your priority to make work pay.

35. In our recent advice [DPMC-2023/24-989 refers] we noted Treasury's modelling of hypothetical options for changing WFF settings commissioned by the previous Government. This suggests that investments through WFF of approximately $200-$300 million per year could be expected to reduce AHC50 (fixed) poverty rates by about 1 ppt. Given the relationship between AHC50 and material hardship, we expect that a 1 ppt reduction in AHC50 rates could be expected to result in a 0.5ppt reduction in material hardship rates.

36. The timing of a potential increase to WFF is also critical to consider. As noted in the review of the ten-year targets there is an added lag in WFF payments being fully reflected in measured rates. Any changes would need to be implemented by 1 July 2025 to be fully reflected in 2027/28 measured poverty rates.

37. Other initiatives – not involving transfers – could potentially play a role too. These would need to be the sort of changes that can be funded, implemented and take effect at scale 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.

Lower poverty rates will have flow-on benefits for the Government's wider priorities

38. In setting the targets, the *benefits* of low poverty rates in the here and now for supporting the Government's wider policy objectives also need to be weighed up. This includes the well-established links between poverty and physical and mental health, school attendance, and the risk of family violence [DPMC-2023/24-605 refers]. This is further reflected in the prioritisation of reducing material hardship under the refreshed Child and Youth Wellbeing Strategy. Given these potential wider benefits of poverty reduction there is an argument for considering a somewhat more ambitious target.

Changing the current ten-year targets has implications for aligning with UNSDG1

39. As noted in the review of the ten-year targets, the current ten-year targets significantly exceed the reductions required to be on track to meet New Zealand's commitments under the United Nations Sustainable Development Goal 1 (UNSDG1) to halve poverty rates on national measures by 2030 compared to 2015.

40. There is a range of potential ten-year target setting options that are consistent with UNSDG1. Table 2 below shows the minimum reductions required by 2027/28 to be on track to meet a halving of child poverty rates in 2030 compared to 2015 levels on the three primary measures. This assumes that the reductions required by 2027/28 align with the average annual reductions needed to meet UNSDG1 in 2030.

Table 2: Reductions required to align with UNSDG1: halving the 2015 poverty rate by 2030

Primary poverty measure	Measured rate in 2015 (UNSDG baseline)	50% reduction from 2015, by 2030 (in line with UNSDG)	Average annual reduction required over 15 years	Possible target rate in 2028, aligned with average reduction to meet UNSDG1	Measured rate in 2022/23	Reductions required by 2027/28 to be "on track" to meet UNSDG
BHC50	16.3%	8.2%	0.54ppt	~9%	12.6%	~3.5 ppt
AHC50	27.2%	13.6%	0.91ppt	~15%	17.5%	~2ppt
Material hardship	17.5%	8.8%	0.58ppt	~10%	12.5%	~2.5ppt

Options for changing the 2027/28 ten-year targets

41. If you decide to change the current ten-year targets, we've developed two main options for you to consider. We've discounted the option of continuing with the current ten-year targets due to the review finding that these are not practically achievable in the context of the Government's current policy programme and the operating allowances for the next two Budgets.

42. The two potential options are:

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

43. In developing the options we've prioritised reducing material hardship rates, while aligning the AHC50 targets to reflect the reductions implied by the association between AHC50 and material hardship.

44. For both options we have set what is effectively a "no change" target on BHC50 of 12% (noting the current rate is 12.6%). However we note that just keeping BHC50 at their current levels will be challenging given that rates on this measure are forecast to increase to 14% by 2026/27 (as shown in Table 1).

45. These two potential options are summarised in Figure 1 and Table 3 and which also includes details of the discounted option for reference.

Option 1 aims to achieve a more modest reduction in material hardship and AHC50, but provides greater certainty that this is achievable

46. Option 1 aims to achieve a material hardship rate of 10% and an AHC50 rate of 14% in 2027/28. This compares to the 2026/27 forecast rate on AHC50 of 15% (+/-1.9ppt) and our estimate that material hardship is likely to be at about 11% in 2026/27. This option aims to keep BHC50 rates steady at 12%. Option 1 equates to a reduction in material hardship rates over the next five years of 2.5ppt compared to the measured rates in 2022/23 of 12.5%.

47. The alignment between this option and the most recent forecast AHC50 rate indicates that these targets may be achievable without significant new investment – noting the commentary earlier in this paper and in the statutory review of the current targets about the inherent uncertainty of the modelling and the economic outlook.

48. For reference, the reduction proposed under Option 1 compares with the reduction in material hardship achieved under the previous Government between 2017/18 and 2021/22 (before the sharp increase in 2022/23) of 2.75ppt.

49. This option aligns with the average reductions required to meet UNSDG1 by 2030 on material hardship and AHC50, but not BHC50.

Option 2 aims to deliver a bigger reduction on material hardship and AHC50 than option 1

50. Option 2 aims to reduce material hardship to 9% and AHC50 to 12% by 2027/28. These are bigger reductions than Option 1. Like Option 1, Option 2 aims to keep rates steady on BHC50 at 12%. Option 2 exceeds the average reductions required to meet UNSDG1 on Material Hardship and AHC50 by 2030, but does not align with UNSDG1 with respect to BHC50.

51. It is probable that new investment, providing additional income support to low-income households, would be needed to achieve this target.

52. We note that Option 2 implies a commitment to achieving an annual rate of reduction on material hardship and AHC50 between 2024 and 2028 that is similar to that committed to by the previous Government at the time the ten-year targets were set in 2019.

Figure 1: Proposed targets under Option 1 and Option 2

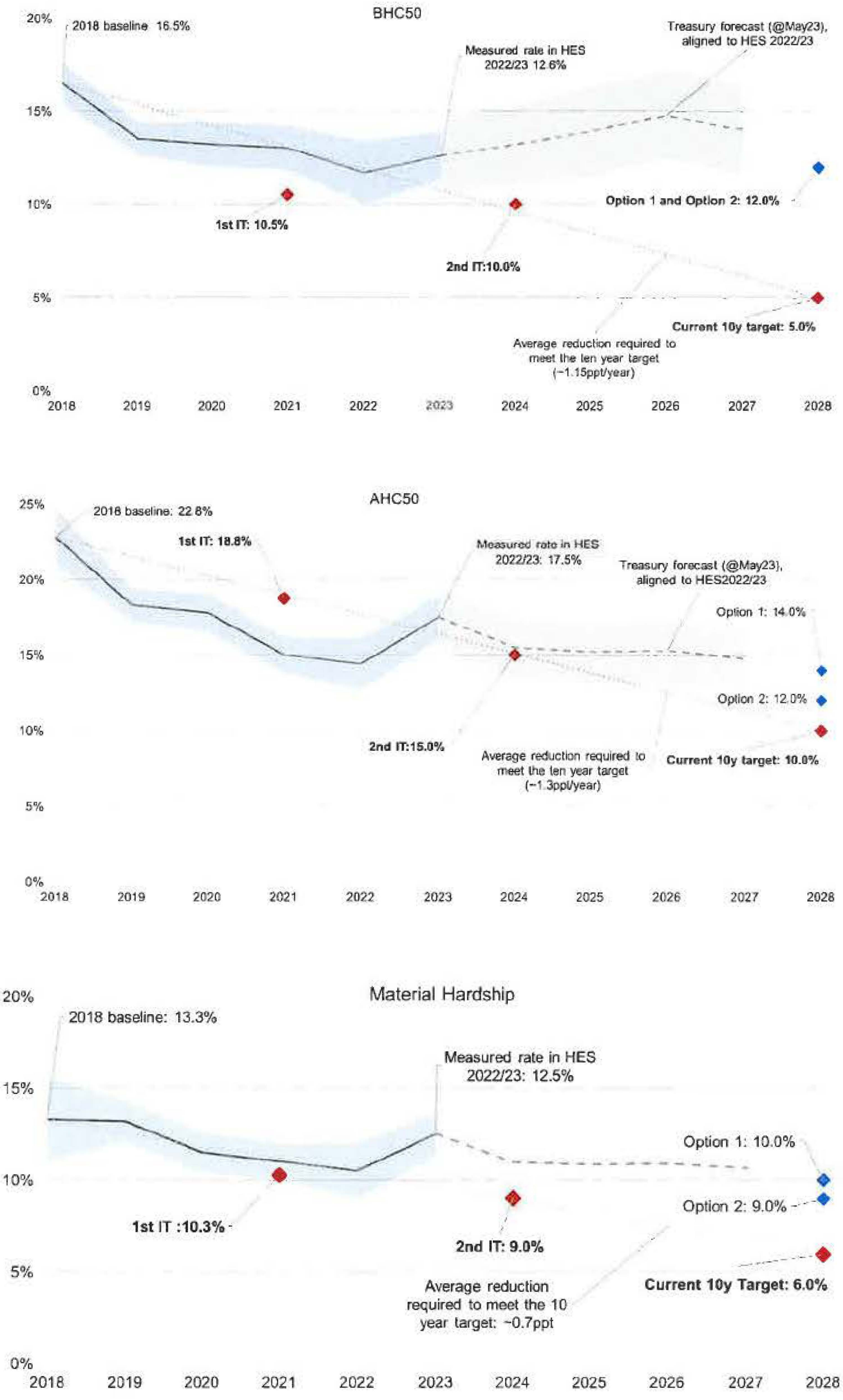

Table 3: Options for setting the ten-year targets

Option	Primary Measure	(Possible) Ten Year Target Rate (2027/28)	2022/23 measured rate	Forecast rate in 2026/27	Reduction required compared to: 2022/23 (2026/27 forecast)	Summary of strengths and limitations
Status quo (discounted)	BHC50	**5%**	12.6%	~14%	7.6ppt (9ppt)	• This option is discounted as practically unachievable – the fiscal cost is likely to match the total operating allowance. • Clearly meets and substantially exceeds UNSDG1 on all measures.
	AHC50	**10%**	17.5%	~15%	7.5ppt (5ppt)	
	Material Hardship	**6%**	12.5%	(~11%)	6.5ppt (5ppt)	
Option 1: lower reductions, higher certainty	BHC50	**12%**	12.6%	~14%	0.6ppt (2 ppt)	• Smaller short-term reductions on material hardship and AHC50 than Option 2– but similar reductions on material hardship to what was achieved between 2018 to 2022. • More certainty that targets can be achieved than Option 2. • Aligns with average annual reductions required to meet UNSDG1 by 2030 on AHC50 and MH, but not BHC50.
	AHC50	**14%**	17.5%	~15%	3.5ppt (1ppt)	
	Material Hardship	**10%**	12.5%	(~11%)	2.5ppt (1ppt)	
Option 2: bigger reductions, higher uncertainty/risk	BHC50	**12%**	12.6%	~14%	0.6ppt (2 ppt)	• Significant short-term reductions on measured poverty rates by 2028. • Higher risk, and high probability that additional income support transfers will be needed to achieve them. • Annual reductions required align with average reductions originally required at the time the ten-year targets were first set. • Exceeds average annual reductions required to meet UNSDG1 by 2030 on AHC50 and MH, but not BHC50.
	AHC50	**12%**	17.5%	~15%	4.5ppt (2.5ppt)	
	Material Hardship	**9%**	12.5%	(~11%)	3.5ppt (2ppt)	

We recommend you set the third intermediate targets to align with your preferred ten-year targets

53. We recommend you set the third intermediate (2026/27) targets at a level that aligns with the average reductions required to achieve your preferred ten-year targets in the following year (2027/28). If you prefer Option 2 or Option 3 above, the third intermediate targets will be about[2] 1ppt higher than the ten-year target rates, as shown in Table 4.

Table 4: 2026/27, third intermediate target rates aligned to the reductions required to meet the three ten-year target options

Primary poverty measure	Status quo (discounted option)		Option 1		Option 2	
	2027/28, ten year target	2026/27 intermediate target (aligned to 10 year)	2027/28, ten-year target	2026/27 intermediate target (aligned to 10 year)	2027/28, ten-year target	2026/27 intermediate target (aligned to 10 year)
BHC50	5%	7%	12%	12%	12%	12%
AHC50	10%	12%	14%	15%	12%	13%
Material hardship	6%	8%	10%	11%	9%	10%

The Cabinet paper seeking agreement to the third intermediate and ten-year targets is an opportunity to signal your vision and priorities for the 2037/38 and the persistent poverty targets

54. As noted in the review of the ten-year targets, there is a fundamental trade-off between achieving large, (potentially) lower-cost and timely reductions in child poverty rates.

55. Regardless of your preferred option for setting the 2027/28 ten-year targets, it's important to consider the opportunities for investing now with the aim of making progress towards the second set of ten-year targets in 2037/38 (even before these targets are set).

56. The second set of ten-year targets provides much more scope for delivering potentially innovative and transformational changes that aim to tackle the deeper drivers of material hardship across diverse domains, including affordable housing supply, child-care reform, lifting skills and employment, family violence prevention, energy efficiency, and support for families impacted by disability.

57. The Cabinet Paper seeking agreement to make any changes to the 2027/28, ten-year targets could therefore provide a good opportunity to set out your preferred options for the 2027/28 targets in the context of your wider vision and priorities for the 2037/38 targets.

58. As you know, you also need to set a persistent poverty target by 31 December 2024. Stats NZ hope to finalise how persistent poverty will be measured in good time before this. However, we do know that the measure will be based around the BHC50 primary measure.

Please note: the final measure is based on BHC60

[2] These are based on the average reductions required, rounded to the nearest whole percent. We don't 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.

Next steps

59. We'd value the opportunity to discuss these options with you, particularly given the tight timeframes for finalising the Cabinet paper seeking to confirm these decisions.

60. We also recommend forwarding this paper to the Minister of Finance.

61. Subject to you confirming your preferred option we will prepare a draft Cabinet paper, for consideration by Social Outcomes Committee on 22 May and Cabinet on 27 May, seeking agreement to your preferred ten year and third intermediate targets.