

Report



**MINISTRY OF SOCIAL
DEVELOPMENT**
TE MANATŪ WHAKAHIATO ORA

Date: 17 May 2024

Security Level: Budget
Sensitive

To: Hon Louise Upston, Minister for Child Poverty Reduction

File Reference: REP/24/5/457

Cover briefing for revised Cabinet Paper: 'Continuing to reduce child poverty: setting the third, intermediate targets for child poverty reduction'

Purpose of the report

- 1 This report updates you on our work to prepare a revised Cabinet paper (at **Attachment A**) seeking agreement to set the third, three-year, intermediate child poverty reduction targets.

Recommended actions

It is recommended that you:

- 1 **note** the summary of changes to the Cabinet paper outlined in this report
- 2 **agree** to discuss these changes, and the approach to including a possible second target option, at the Child Poverty Reduction officials meeting on the 20 May.

Agree / Disagree



17/05/24

Hannah Kerr
Director
Child Wellbeing and Poverty Reduction
Group

Date



Hon Louise Upston
Minister for Child Poverty Reduction

2240519

Date

Background

- Following your discussions with the Minister of Finance, you have requested that officials prepare a revised Cabinet paper seeking agreement to set new child poverty targets.

The revised Cabinet paper now focuses on setting the third, three-year, intermediate targets

- We've prepared a revised Cabinet paper at **Attachment A**. The paper is now focused on seeking Cabinet agreement to setting the third intermediate targets (i.e. for 2026/27) only.
- The paper now includes the most up-to-date, May 2024, Treasury forecasts for child poverty rates. The revised modelling takes into account updated estimates of future economic parameters like inflation and unemployment, as well as the impacts of key investments being delivered through Budget 2024. This includes the increases to the In-Work Tax Credit, the personal income tax changes, and the introduction of Family Boost.
- The current draft paper includes just one option for setting the third intermediate targets which is broadly aligned to the updated forecasts. We understand you would like to include a second option for setting the third intermediate targets and we would welcome the opportunity to discuss this with you at the officials meeting next week.
- The previous (May 2023)¹ and revised (May 2024) forecasts and proposed targets aligned to the latter are summarised in Table 1 below.

Table 1: Proposed targets aligned to the updated forecasts

Primary Measure	2022/23 measured rate	Previous (May 2023) forecast for 2026/27	Updated (May 2024) forecast for 2026/27	Proposed target
Material hardship	12.5%	~11%	~11%	11%
AHC50	17.5%	~15%	14.3%	14%
BHC50	12.6%	~14%	15.2%	15%

¹ Note that references in this paper to the forecast rates in 2023 are based on the indicative estimates prepared by the Child Wellbeing and Poverty Reduction Group and noted in our earlier advice [DPMC-2023/24-1058]. They are slightly higher than those published in May 2023 by the Treasury because they have been aligned to Stats NZ's measured rates in 2023.

- 7 You will see we have proposed setting the BHC50 target at 15% to align with the revised forecast. We do not recommend the previously proposed approach of setting a 12% target in 2027/28 to match the most recently reported rate. There are three main reasons for this, as set out below.
- 7.1 The latest Treasury forecast for BHC50 in 2026/27 (15.2%) is now even higher than the previous forecast (~14%). This implies that to keep BHC50 rates steady at 12% would effectively require policy measures that deliver the equivalent of a 3ppt reduction on this measure.
- 7.2 In the current fiscal circumstances, and in the context of the other targets being set at a level that is aligned with their respective forecasts, achieving a 12% BHC50 target would require significant additional and targeted investment to lift the incomes of low-income families with children at a rate that exceeds income growth for middle-income households.
- 7.3 There are very limited policy options for achieving such a large reduction in BHC50 rates by 2026/27. As noted in our previous advice, BHC50 poverty rates, unlike material hardship and AHC50, are not sensitive to policy measures that reduce inflation and cost of living pressures. Achieving a 12% BHC50 target in 2026/27 would almost certainly require large cash transfers to low-income households with children in Budget 2025 to be achievable.

The paper does not discuss the alignment between the third intermediate and current 10-year targets

- 8 As currently drafted, the paper does not highlight the size of the gap between the proposed third intermediate (2026/27) and current 10-year (2027/28) targets. We note that at the point when the third intermediate targets are Gazetted (and therefore become public) there is likely to be public commentary about the implications of the level at which they are set for the Government's intentions towards the ten-year targets.
- 9 For reference, table 2 below sets out the third intermediate target level needed to align with the current ten-year targets.

Table 2: Third intermediate target level needed to align with the current ten-year targets

Primary Measure	2022/23 measured rate	Current 10-year (2027/28) targets (set by the previous Government)	Third Intermediate targets (2026/27) required to align with current ten-year target
Material hardship	12.5%	6%	7%
AHC50	17.5%	10%	12%
BHC50	12.6%	5%	7%

Notifying Ministers about the refresh of the Child and Youth Wellbeing Strategy

- 10 As with the earlier version of the Cabinet paper, the current version indicates to Ministers that you intend to refresh the Child and Youth Wellbeing Strategy (the Strategy) and that consultation will be undertaken in June and July.
- 11 If the Cabinet paper is not finalised and agreed by Cabinet in early June then we may need to work with your office to notify Ministers sooner than this (e.g. through an oral item to Cabinet) to ensure the Strategy refresh consultation timeline is not delayed.

The revised Cabinet paper now notes the CPRIs will be refreshed to focus on the deeper drivers of child poverty

- 12 At your request, we have added further material to the revised Cabinet paper to note that, as part of the refresh of the Child and Youth Wellbeing Strategy (the Strategy), you will be seeking to revise the Child Poverty Related Indicators (CPRIs).
- 13 We have signalled that the CPRIs will be revised to focus on indicators of the deeper drivers of poverty and note that a potential new CPRI could look at the proportion of children in main benefit households.

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Next steps

- 15 Child Wellbeing and Poverty Reduction officials would welcome the opportunity to discuss the Cabinet paper and the considerations outlined in this supporting briefing at our meeting scheduled for 20 May.

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Attachment A: Draft Cabinet paper – Continuing to reduce child poverty: setting the third intermediate targets for child poverty reduction