



Coversheet

Briefing: Policies to help achieve the Government's Child Poverty Reduction Targets



Date:	21/12/2023	Report No:	DPMC-2023/24-514
		Security Level:	BUDGET-SENSITIVE
		Priority level:	Routine

	Action sought	Deadline
Hon Louise Upston Minister for Child Poverty Reduction	discuss report at next officials' meeting	15 January 2024

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Departments/agencies consulted on Briefing

Ministry of Social Development, the Treasury

Minister's Office

Status:

Signed

Withdrawn

Comment for agency

Attachments: Yes

Briefing

Policies to help achieve the Government's Child Poverty Reduction Targets

To: Hon Louise Upston
Minister for Child Poverty Reduction

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Purpose

- This briefing outlines:
 - the outlook for child poverty rates and the progress still required to achieve the targets, as currently set, and
 - the levers for making progress towards the targets, including the policy priority of employment as a primary lever.

Executive Summary

- The Child Poverty Reduction Act 2018 aims to achieve significant and sustained reductions in child poverty and specifies three current primary measures for which ten-year targets are set against. While good progress has been made towards the ten-year child poverty targets, sizeable reductions are still needed to reach the current targets.
- Final decisions on changes to personal income tax, Working for Families (WFF), and Family Boost will be made as part of Budget 2024. It is likely that these policies will impact on child poverty. These impacts will be outlined in the Child Poverty Report, which is published alongside the Budget documents, and we will work with the Treasury on developing this.
- Treasury has been able to provide modelling on the impacts on child poverty of the policy to change the way main benefits are indexed to CPI inflation, rather than the status quo of average wages. This shows an increase in the number of children in poverty within the forecast period. It is estimated that by tax year 2028 there will be an increase of 7,000 children in poverty on both income poverty measures. Policy proposals to end half-price transport for under 25s and free prescriptions, other than for Community Service Card holders, cannot be modelled but we expect that these will have a neutral or slightly negative impact on material hardship.
- Policies that will help make progress on the rates in the next five years are in three key areas: increasing incomes through employment, taxes and transfers; reducing housing costs for low-income households; and wider cost-of-living assistance. Increasing transfers, for example through WFF and benefits, is the most direct way to impact all the child poverty measures. Employment and housing policies are also critical components of a poverty reduction strategy,

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particularly over the longer term, but their impacts on measured poverty rates are less certain and direct over the shorter term.

- 6. We understand a key lever you wish to focus on for making progress towards the child poverty targets is employment, by reducing the number of children in benefit dependent households. Employment is often the best and most sustainable route out of poverty, and supporting maternal employment, in particular, is a critical part of a child poverty reduction strategy. Parents on a benefit are overwhelmingly sole mothers, who face more barriers to work than partnered mothers, poorer work outcomes, and more issues with childcare costs and access.
- 7. There are challenges with employment as a primary mechanism to reach the ten-year targets as currently set, in part because of the five-year timeframe remaining to achieve them. Children in poverty and material hardship are also fairly evenly split between beneficiary families and working families, suggesting that a focus will be needed on both groups if the targets are to be achieved.
- 8. A consistent finding in the research on the most effective levers for reducing child poverty shows the importance of a two-pillar approach – both an employment focus, and adequate income protection and family-oriented benefits – as the most effective strategy for reducing child poverty in the short- and longer-term.

Recommendations

We recommend you:

- 1. **Discuss** this report with officials at the next officials' meeting in January 2024.

YES / NO

Clare Ward

Clare Ward
Executive Director, Child Wellbeing
and Poverty Reduction

21 December 2023

[Signature]

Hon Louise Upston
Minister for Child Poverty Reduction

2024 01/10

Background

9. The Child Poverty Reduction Act 2018 (the Act) is intended to encourage a focus by government and society on child poverty reduction. It aims to hold successive governments accountable for achieving significant and sustained reductions in child poverty rates by specifying child poverty measures, and the setting of targets against those measures. There are three current primary measures (two income poverty measures and one material hardship measure) for which three-year and ten-year targets are set, and a wider set of six supplementary measures.
10. This paper sets out the reductions needed to achieve the current ten-year targets by 2027/28, and the levers and policies that will help make progress on the rates, including your policy priority of increasing employment. The impacts of the Government's proposed policies that will have an impact on child poverty will be outlined in next year's Child Poverty Report, published alongside the Budget documents.
11. There is still significant progress to be made to achieve the current targets. This paper aims to provide context for informing your overall plans for reducing child poverty.
12. There is flexibility under the Act for you, as the responsible Minister, to change the targets at any time by giving notice in the Gazette and notifying Parliament. The current (second intermediate) targets and the third intermediate targets need to be reviewed by 30 June 2024. We will provide more specific advice to support your target setting and requirements under the Act.

Sizeable reductions are still required to reach the ten-year targets as currently set

13. While good progress has been made against the current child poverty targets, sizeable reductions are still needed to reach the ten-year targets, as they are currently set. This is particularly the case on the BHC50 measure. This is shown in the tables below, which set out the current shortfall for both the current three-year targets and the ten-year targets. (See graphs at **Attachment A** showing progress towards the current child poverty targets.)

Measure	Progress so far			Second 3 year targets		Ten year targets	
	Baseline (2017/18)	Reductions so far (ppt)	Latest (2021/22)	2023/24 target rates	Reductions remaining	2027/28 target rates	Reductions remaining
BHC 50% relative	16.5%	4.5%	12.0%	10.0%	2.0%	5.0%	7.0%
	183,400	45,600	137,800	115,000	23,000	57,000	~80,000
AHC 50% fixed	22.8%	7.4%	15.4%	15.0%	0.4%	10.0%	5.4%
	253,800	77,000	176,800	172,000	5,000	115,000	~60,000
Material hardship	13.3%	3.0%	10.3%	9.0%	1.3%	6%	4.3%
	147,600	28,700	118,900	104,000	15,000	69,000	~50,000

Note that the 'reductions remaining' are approximate, and will vary based on future population growth.

14. We have included forecasts below, based on the most recent projections we have available. When the latest economic fiscal updates become available, the Treasury can rerun the child poverty estimates using the latest Economic and Fiscal Updates to understand how the poverty measures may have changed. It is likely, however, that these projections would still broadly hold.

A reduction of 7 percentage points (or ~80,000 children) is still needed to achieve the current ten-year BHC50 target

15. The BHC50 measure tells us how low-income households are doing relative to the average (median) household in New Zealand. To make progress on this measure, the incomes of families at the bottom must rise faster than the median.
16. The Treasury's projections show a sustained increase in relative BHC50 child poverty rates between 2023 and 2026 without further policy measures being introduced. These increases are based on economic forecasts that the median income (which sets the BHC50 poverty threshold) will grow faster than the incomes of low-income households. The projections suggest that the 2024 target will not be met.

A reduction of 5.4 percentage points (or ~60,000 children) is still needed to achieve the current ten-year AHC50 target

17. The AHC50 measure tells us how low-income households with children are doing relative to the median household income in 2017/18, after deducting housing costs and adjusting for inflation.¹ Further progress towards the AHC50 target in 2028 requires incomes, after deducting housing costs, to increase faster than the cost of living.
18. The Treasury's projections suggest that wage growth and indexation policies will begin to increase after-housing-cost incomes faster than the cost of living from 2023 onwards, leading to an overall downwards trend in fixed AHC50 poverty rates over the forecast period. The projections estimate that the 2024 target will be achieved.

A reduction of 4.3 percentage points (or ~50,000 children) is still needed to achieve the current ten-year Material Hardship target

19. The material hardship measure assesses how many children are living in households who do not have access to the essential items for everyday life, and is measured by asking households directly about their experiences.
20. The Treasury's model cannot estimate material hardship, which is affected by many factors, including income, household costs, assets, debt, and other non-financial support. It is too soon to say if we will meet the second intermediate target in 2024.
21. There is a risk that material hardship rates for 2022/23 will be markedly higher than the rates for 2021/22 (10.3 percent) and may take some time to reduce, given the cost of living has increased for low-income households by around 14 percent in the two years to June 2023. The New Zealand Health Survey data for 2022/23 also show that rates of household food insecurity (which is closely linked to material hardship) increased by around 50 percent (from 14% to 21%) between 2021/22 and 2022/23.

The Government's policies that will have an impact on child poverty

22. Final decisions on the changes to personal income tax, WFF, and the Family Boost childcare tax rebate will be made as part of Budget 2024, with the design and implementation of the proposed Family Boost still being considered. It is likely that all of these policies will impact on child poverty. The impacts will be outlined in the Child Poverty Report, which is published alongside the Budget documents, and we will work with the Treasury on developing this.

¹ The inflation adjustment used by Stats NZ is based on the Household Living Price Index for low-income households, but not including the housing cost component.

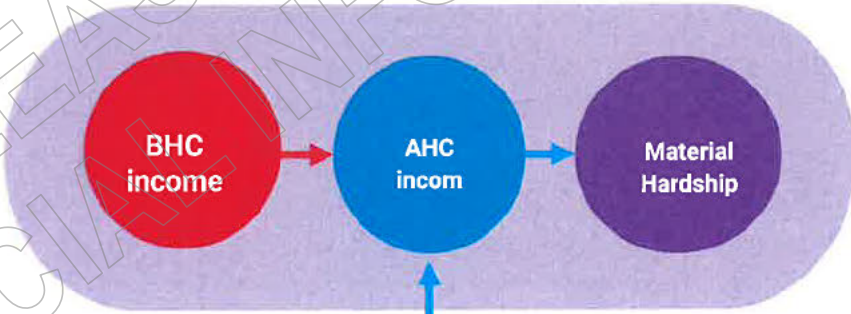
- 23. The Treasury has been able to provide modelling on the child poverty impact of the main benefit indexation change. The indexing of main benefits to CPI inflation from 1 April 2024, as compared with the status quo of indexing benefits to wage growth, shows an increase in the number of children in poverty under the AHC50 and BHC50 poverty measures within the forecast period. In tax year 2028, it is estimated that there would be an increase of 7,000 (+/- 4,000) children under the AHC50 poverty measure, and an increase of 7,000 (+/- 6,000) children under the BHC50 poverty measure.
- 24. Other policy changes may impact measured material hardship rates, such as reversing the previous government’s planned 20-hours early childhood education initiative extension to two-year-olds; and ending the policy of half-price public transport fares for under 25s. The overall impact of these changes is likely to be neutral or slightly negative.
- 25. Reversing free prescriptions and targeting this policy more narrowly to Community Services Card (CSC) holders could potentially impact around one third of children in material hardship who are living in households likely to be ineligible for a CSC. Increasing awareness of eligibility for the CSC to improve take-up and the \$100 prescription cap will be important.

Policies that will help make progress on rates are in three key areas: incomes, housing, and wider cost-of-living assistance

26. Child poverty impacts on, and is impacted by, settings in a multitude of policy areas, particularly when one takes a longer-term, intergenerational perspective. However, for policies that will translate to movement on the income poverty measures in the next five years, the available option set is much narrower. The three key policy levers, based on the causes of low-income and material hardship, are set out in the framework below.

1) Lift incomes

- Two key policy levers are:
 - **Increasing transfers** (eg. benefits / WFF) has the most direct, certain and timely impact on all of the measures.
 - **Lifting employment rates.** This is important, but less direct, certain and timely. Because of lags, large-scale employment investment would need to be implemented soon to impact ten-year targets.



2) Reduce housing costs

- Policy levers include increasing supply of affordable housing and Public Housing.
- As with employment, impacts are less certain, direct, and timely. Implementation timeframes are often considerable.

3) Address demands on household budgets

- Policy levers include:
- reducing/preventing debt
 - limiting inflation
 - providing in-kind supports and subsidised services
 - addressing higher costs faced by priority groups.

Impacts can be less timely and certain.
Policies require careful targeting, made more challenging because the population in material hardship extends from low- to middle-income households.

27. Increasing incomes through taxes and transfers is the most direct and immediate way to achieve reductions in income poverty. Increasing incomes through employment is also critical, as is reducing housing costs for low-income households, and wider cost-of-living assistance, but it will take longer to achieve significant progress using these levers.

Lifting employment rates as a lever for reducing child poverty

28. We understand that you wish to focus on employment as a primary lever in making progress towards the child poverty targets, with a particular focus on reducing the number of children in benefit dependent households. Policies that increase access to employment for parents are a fundamental part of a child poverty strategy, particularly over the longer term. Sustainable employment is a key route out of poverty for many families, and also supports the longer-term stability and wellbeing of families.

s9(2)(f)(iv)

31. OECD analysis and other studies² using employment simulations conclude that labour market-oriented policies can and should play a role in reducing poverty. However, adequate income protection schemes and family-oriented benefits remain important instruments for improving the effectiveness of poverty alleviation, and these two pillars are important to develop simultaneously.

32. Investment in services such as health, education and housing, also provides leverage for governments to reduce poverty, as these policies have a significant impact on the standard of living of low-income households. The wider social sector and economy both benefit from, and play a key role in, reducing child poverty. This includes through addressing the consequences of poverty and wider disadvantage, and the transmission of poverty across generations.

33. It is particularly important to consider how health and education systems can help to mitigate the impacts of disadvantage (in addition to addressing poverty and disadvantage itself). The performance of the education system is crucial, as is the health system, and the support provided to children in the early years. While initiatives here are unlikely to contribute to progress within the timeframes of the current targets, they will help towards future targets and child wellbeing generally.

Encouraging parents off benefits and into work requires a focus on sole mothers

34. Encouraging parents off benefits and into work requires a focus on sole mothers, given children in households reliant on a main benefit are overwhelmingly in sole parent families (at 93 percent), and most sole parents are women. Supporting maternal employment and sustainable, quality jobs is therefore key to reducing child poverty.

² Thévenon, O., et al. (2018), "Child poverty in the OECD: Trends, determinants and policies to tackle it", OECD Social, Employment and Migration Working Papers, No. 218, OECD Publishing, Paris; Doorley, K, Kakoulidou, T, O'Malley, S, Russell, H, Maitre, B (June 2022), 'Headline Poverty Target Reduction in Ireland and the Role of Work and Social Welfare', The Economic and Social Research Institute, Dublin; National Academies of Sciences, Engineering, and Medicine (2019), 'A Roadmap to Reducing Child Poverty', Washington, DC: The National Academies Press.

35. Moving from welfare to work can be reliant on a number of interrelated factors such as the work readiness of sole parents, the performance of the economy and labour market settings, local labour demand, availability and location of work, and for work to pay after in-work costs such as childcare are accounted for. Sole mothers face more barriers to work than partnered mothers, are more likely to be in temporary work and in-work poverty, and face greater childcare cost and access issues. We can provide further information on the characteristics of sole parents in New Zealand and evidence on employment outcomes if you wish.
36. There are a number of levers available to encourage labour market participation of sole mothers on a benefit: active labour market policies, obligations and sanctions, and financial incentives to work in the form of tax credits. Evidence suggests the effectiveness of these tools is relatively modest, but work-focused intensive case management has been shown to reduce time on benefit for sole parents, and some schemes have been found to be effective, particularly if tightly targeted to where they will make the most difference. Tax credits increase the labour supply of sole parents, albeit modestly, but they have a significant impact on reducing child poverty, and are an important lever in helping to make work pay.

Reducing barriers to childcare is also key for facilitating employment

37. A review of studies examining the link between childcare and women's labour supply in the US, Canada and several European countries concludes that universal high-quality childcare (as in Northern Europe) seems to be the best policy to reduce child poverty and increase mothers' labour market participation. It argues that in the Anglo-Saxon countries (New Zealand being one of them), the high costs of private childcare have contributed to low labour market participation of low-income mothers during child rearing years, and to a high child poverty rate.³ The study also finds that, while the effect of childcare costs on the labour supply of women is rather limited on average, it is much larger and more significant for sole mothers, mothers at the bottom of the income distribution, and for mothers with lower education levels.
38. New Zealand ranks among the least affordable countries in the OECD for childcare, and the targeted component of the overall spend is relatively small. New Zealand's childcare system is also relatively complex and fragmented, with the Ministry of Education providing two types of subsidies directly to Early Childhood Education providers, and the Ministry of Social Development providing a targeted Childcare Subsidy. Take up of the Childcare Subsidy is fairly low, at around 35,000 children for the 2022/23 year.
39. The OECD recommends that countries should provide targeted public support that reaches the parents who need it most, to preserve equity and boost work incentives – rather than the status quo of effectively redistributing support toward higher-income families more likely to use childcare.⁴

Next steps

40. We would welcome the opportunity to discuss this briefing with you at the next officials' meeting in January 2024.

³ Del Boca, Daniela (2015), 'The impact of child care costs and availability on mothers' labor supply', ImpRovE Working Paper No. 15/04, Antwerp: Herman Deleeck Centre for Social Policy – University of Antwerp.

⁴ OECD (2020) 'Is Childcare Affordable?' Policy Brief on Employment, Labour and Social Affairs.

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Attachments:	Title	Security classification
Attachment A:	Progress towards the Child Poverty Targets	In-Confidence
Attachment B:	Reducing the number of children in main benefits as a poverty reduction tool	In-Confidence

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Attachment A: Progress towards the Child Poverty Targets

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