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

Coversheet

Briefing: Review of the second intermediate child poverty reduction targets

Date:	13/03/2024	**Report No:**	DPMC-2023/24-920
		Security Level:	IN-CONFIDENCE
		Priority level:	Medium

	Action sought	Deadline
Hon Louise Upston **Minister for Child Poverty Reduction**	**agree** to review the ten-year targets	For discussion at Child Poverty Reduction officials meeting on 18 March

Name	Position	Telephone		1st Contact
Clare Ward	Executive Director, Child Wellbeing and Poverty Reduction	s9(2)(a)	s9(2)(a)	✓
Hugh Webb	Principal Analyst, Child Wellbeing and Poverty Reduction Group	s9(2)(a)	s9(2)(a)	

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☐ Signed ☐ Withdrawn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

Review of the second intermediate child poverty reduction targets

To: Hon Louise Upston, Minister for Child Poverty Reduction			
Date	13/03/2024	**Security Level**	IN-CONFIDENCE

Purpose

1. This paper:
   - reviews the progress towards the second intermediate child poverty reduction targets (covering the period 2021/22 to 2023/24), as required under the Child Poverty Reduction Act (the Act)

Out of scope

[redacted]

Executive Summary

2. The Act requires you to review the second intermediate targets before the end of June 2024. The second intermediate targets were set in June 2021 and aimed to achieve reductions of two to three percentage points (depending on the measure) compared to the expected rates in the second intermediate baseline year of 2020/21. The targets were set based on the reductions needed to achieve the ten-year targets, Treasury forecasts, and the expected impacts of both confirmed and planned policy decisions.
3. The most significant, confirmed policy decisions at the time the targets were set were the first and second increases to main benefit rates delivered through Budget 2021. These were expected to reduce income poverty rates by between 1.7 and 2.2 percentage points (ppt) in 2022/23.
4. The previous Government also planned to lift incomes further, particularly through the review of Working for Families (which was seen as the "primary vehicle" for achieving the second intermediate targets), and measures to increase employment, and reduce housing costs and other pressures on household budgets.
5. The most recent child poverty data for 2022/23 (the second year of the second intermediate target period) shows that progress has been much slower than expected. In 2023 there have been no statistically significant changes on the material hardship and before-housing-costs primary measures compared to the measured rates in the 2020/21 baseline year. Rates on the after-housing-costs primary measure (AHC50) have statistically significantly increased.
6. The slower than expected progress on all three primary measures is largely due to the sharp increases in cost-of-living pressures since mid-2022 and the fact that key policy decisions, particularly those related to the review of Working for Families, were deferred or delayed.

7. Large reductions of between 2 and 3 ppt would be needed in the final year of the second intermediate target period (i.e. 2023/24) to achieve the second intermediate targets. We consider it is unlikely these targets will be met on any of the primary measures, given it is too late to implement any policy changes to achieve them. There are also no policy changes flowing through during 2023/24 that are of sufficient scale to offset the increase in poverty rates seen in 2022/23.
8. Although the Act allows you to change the second intermediate targets by 30 June 2024 we don't recommend this. Making very late changes to the targets to be seen to meet them risks undermining the integrity of the accountability framework established under the Act.

Out of scope

Recommendations

We recommend you:

1. **note** the findings of this review of the second intermediate targets prepared on your behalf by the Child Wellbeing and Poverty Reduction Group showing the current, second intermediate targets on the three primary measures are unlikely to be met

Out of scope

3. **indicate** your preferred option to:

EITHER

3.1. Option A – **not change** the current, second intermediate targets before the end of the target period on 30 June 2024 **(recommended)** — YES / NO

OR

3.2. Option B – **change** the current, second intermediate targets before the end of the target period on 30 June 2024, pending further advice from officials — YES / NO

Out of scope

Clare Ward **Clare Ward** **Executive Director, Child Wellbeing and Poverty Reduction**	**Hon Louise Upston** **Minister for Child Poverty Reduction**
13 March 2024	2024.03.15

Background

12. As you know, the Child Poverty Reduction Act 2018 (the Act) requires governments to set three-year (intermediate) and ten-year targets for each of the current primary child poverty measures.

13. The intermediate targets, while important to achieve in their own right, also serve as milestones that support achievement of the ten-year targets.

14. We are in the final year of the second intermediate target period (2021/22 to 2023/24) with the current targets set by the previous Government. The Act requires you to review the three-year and ten-year targets at least once before the relevant target period ends (i.e. before 30 June 2024 for the second intermediate targets, before 30 June 2027 for the third intermediate targets, and before 30 June 2028 for the ten-year targets). Neither the second intermediate targets nor the ten-year targets have been reviewed previously.

15. The Act doesn't prescribe the scope or focus of statutory reviews of the targets. Following the approach adopted in the statutory review of the first intermediate targets, in this paper we review:
    - the factors the previous Government took into account when setting the second intermediate targets
    - the role of policy changes and economic factors in influencing the trajectory over the period
    - the progress, or otherwise, that has been achieved
    - our best assessment about the likelihood of achieving the second intermediate targets, and implications for progress towards the ten-year targets.

16. Further background on the scale, timing, and modelled impacts of child poverty reduction investments since 2018 are set out in the Aide-Mémoire 'Impacts of previous policy interventions on child poverty', provided to you alongside this briefing [DPMC 2023/24-845 refers].

The review is an opportunity to take stock of progress

17. The review of the second intermediate targets is an important opportunity to:
    - understand the factors that have influenced the trajectory of child poverty rates over the second intermediate target period, and identify any insights to inform your strategy for reducing child poverty
    - gauge the risk of not meeting the second intermediate targets, and consider the option to change the second intermediate targets if you wish
    - provide context, if needed, for informing your statement to Parliament explaining any non-compliance with the second intermediate targets[1] (in the event that Stats NZ determines in February 2025 that one or more of the second intermediate targets have not been met)
    - consider the need to review the ten-year targets, which in turn will largely determine your approach to setting the third intermediate targets by 30 June 2024.

[1] If this statement is needed then the CWPRG will provide you with further advice on the content that is required.

The second intermediate targets were based on the reductions needed to achieve the ten-year targets, Treasury forecasts, and the anticipated impacts of key policies

18. The second intermediate targets were set in June 2021. As set out in Table 1 below, the targets aimed to achieve estimated reductions of between 2 and 3 ppt on the three primary measures compared to Treasury's modelled projections[2] for the 2020/21 baseline year. It should also be noted that this was a time of considerable uncertainty about the impacts of the COVID-19 pandemic on the economy and child poverty rates.

19. The estimated reductions were broadly in line with the average reductions required each year to achieve the ten-year targets of: 0.7ppt (for material hardship) and 1.15-1.3 ppt on the after-housing-costs primary measure (AHC50) and the before-housing-costs primary measure (BHC50).

Table 1: Second intermediate targets, and estimated reductions required

Primary measure	Measured rate in 2019/20	Modelled estimate (2020) for 2020/21 baseline	Second Intermediate Target	Estimated reduction required, relative to 2020/21 projection
BHC50: the proportion of children living in households with less than half the median income in that year	13.8%	12.6%	10%	2.6ppt
AHC50: the proportion of children living in households with less than half the median income in 2018, after deducting housing costs and adjusting for cost of living	18.4%	18.2%	15%	3.2ppt
Material Hardship: the proportion of children living in households unable to afford 6 or more out of 17 basic essentials	11.3%	n/a	9%	2-3ppt

20. The second intermediate targets also took into account the actual and planned investments over this period (discussed in more detail in DPMC 2023/24-845), noting that any investment needed to be fully implemented by June 2022 to be reflected in full in the 2023/24 reporting period (i.e. the final year of the second intermediate targets).

21. The main confirmed investments expected to contribute to progress towards the second intermediate targets were main benefit increases. These were delivered between 1 July 2021 and 1 April 2022, and were estimated to reduce poverty rates by 2022/23 by 1.8 ppt (+/-0.7 ppt) on BHC50 and by 2.2 ppt (+/-0.6 ppt) in 2022/23.

22. In addition, the previous Government anticipated that policy changes in three main areas would support progress towards the second intermediate targets.[3]

- **Increasing incomes for families**. There were two aspects to this.

    i. **Actions with a direct impact on family income.** In particular, the review of Working for Families was seen as the "primary vehicle" for achieving further reductions over the second intermediate period. It was planned that the outcomes of the review would

[2] In June 2021 it was not known what the actual rates in the 2020/21 baseline year were because the Household Economic Survey was still in the field at the time.

[3] This is set out in the Cabinet paper "Continuing to reduce child poverty: setting the second three-year targets for child poverty reduction" available here: https://www.dpmc.govt.nz/sites/default/files/2021-08/proactive-release-child-poverty-targets.pdf.

include a focus on ensuring tax credits supported families on the lowest incomes, particularly working families.

ii. **Lifting wages and supporting sustainable employment.** This included the expansion of Flexi-wage and the roll out of the Training Incentive Allowance to provide additional support to sole parents, carers and disabled.

- **Reducing housing costs and other pressures on household budgets.** This included increasing the supply of public housing, and the Housing Acceleration Fund which aimed to increase the supply of affordable housing in low-income areas. A cross-agency working group focused on minimising debt to Government was also established.
- **Supporting the wider wellbeing of families.** This included several programmes of work that could have direct and indirect positive impacts on material hardship rates over the medium to longer term. This included the National Strategy and Action Plan for eliminating family and sexual violence, supporting families with disability, and changes to Well Child Tamariki Ora.

23. There were no quantitative estimates of the potential impacts of these planned changes on child poverty rates.

Over the first two years of the intermediate target period, progress has been slower than expected

24. We are now close to the end of the final year of the second intermediate target period (ending 30 June 2024) and we have the latest data for the second year of this target period (2022/23).

25. Figure 1 and Table 2 shows the progress that's been achieved over the first two years of the second intermediate target period. Figure 1 also shows the most recent Treasury forecasts from May 2023.

26. There are no statistically significant changes on the BHC50 and material hardship primary measures in the most recently measured rates in 2022/23 compared to the second intermediate baseline year of 2020/21. And poverty rates on the AHC50 primary measure have statistically significantly increased by 2.5 ppt over this period.

27. Strikingly, the data shows that the measured poverty rate on AHC50 in 2020/21 (the baseline of the second intermediate target) was equal to the second intermediate target rate of 15 percent, as was the revised rate in 2021/22 of 14.4 percent. This reflects a key challenge with setting targets and the inherent uncertainties in the data and modelling. Under the Act, targets must be set before it's possible to know for certain what the rates in the baseline year for the target period will be. At the time the targets were set, the best available estimate was provided by Treasury's forecast of 18.2 percent on AHC50 in 2020/21, but the observed rate ended up being 3.2 ppt lower. The estimates on the rates of BHC50 proved to be much closer (just 0.4 ppt higher and well within the margin of error).

28. The main other notable trend over the first two years of the second intermediate target period was a sharp, and statistically significant, year-on-year increase in poverty rates in 2022/23 on the AHC50 and material hardship measures. Taking into account sample error, BHC50 poverty rates have been broadly stable over this period.

Figure1: Child poverty rates on the primary measures over the second intermediate target period (2nd ITP)

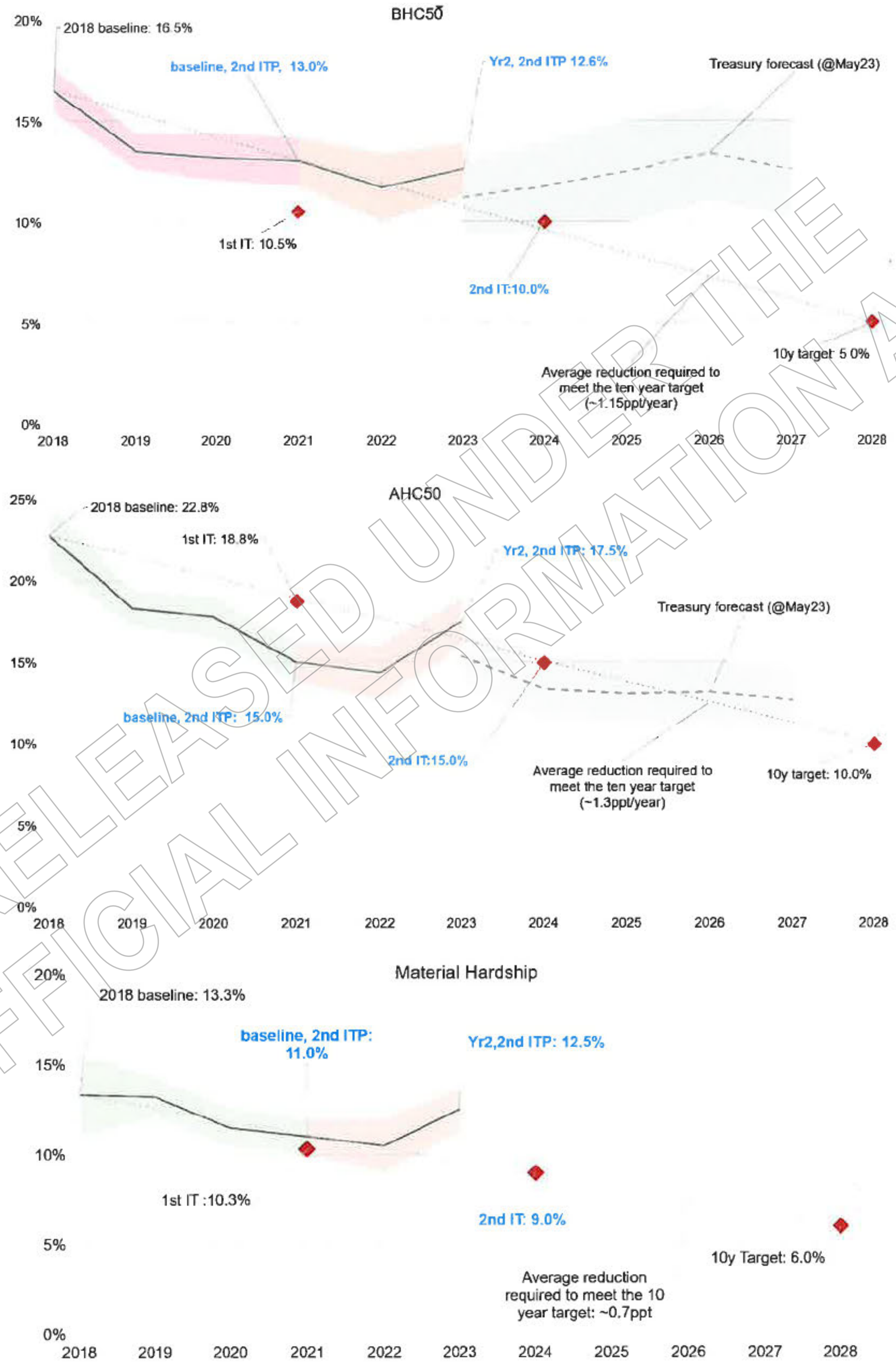

Table 2: Progress over the second intermediate target period

Primary measure	Modelled and measured 2020/21 baseline		Second intermediate target period			Second Intermediate Target
	Modelled estimate (2020) for 2020/21	Measured rate in 2020/21	Measured rate in 2021/22 (year 1)	Measured rate in 2022/23 (subject to revision in Feb 2024) (year 2)	Measured rate in 2023/24 (reported in Feb 2025, subject to revision in Feb 2026)	
BHC50	12.6%	13.0% (+/-1.2ppt)	11.7% (+/-1.7ppt)	12.6% (+/-1.3ppt)	n/a	10%
AHC50:	18.2%	15.0% (+/-1.2ppt)	14.4% (+/-1.7ppt)	17.5% (+/-1.5ppt)	n/a	15%
Material Hardship	n/a	11.0% (+/-1.0)	10.5% (+/-1.5ppt)	12.5% (+/-1.2ppt)	n/a	9%

Two key factors have contributed to the slower than expected progress

29. The slower than expected progress is a result of two main factors: cost of living increases, and deferral of planned investments.

Sharp increases in the cost of living and borrowing costs, particularly for working households

30. As noted in our recent advice to you on Stats NZ's release of child poverty statistics for 2022/23 [DPMC-2023/24-743 refers], the living costs of low-income (quintile 1) households increased by about 14 percent in the two years to 30 June 2023. This put substantial upward pressure on rates on the AHC50 and material hardship measures – both of which are sensitive to inflation.

31. Three quarters of the increase in material hardship rates between 2021/22 and 2022/23 was for children in working, rather than main benefit, households. High mortgage interest costs likely partly contributed to this result: the share of children in mortgage-paying households in material hardship (most of whom will be in working families) increased from 11.6 percent to 19.0 percent in 2022/23. Also, low-income working households received comparatively less generous increases in income support through the tax and transfer system compared to main benefit households.

32. It's notable, however, that as recently as May 2023, Treasury forecasts (which took into account high actual and forecast inflation) indicated AHC50 poverty rates were expected to remain steady in 2021/22, before slightly decreasing in 2022/23 and 2023/24 – to a level that suggested that the 2023/24 targets would be comfortably met.

33. The May 2023, Treasury forecasts of BHC50 poverty rates indicated that poverty rates could be expected to decrease in 2022/23, before increasing again in 2023/24 as median incomes are expected to start to grow faster than the incomes of low-income households with children.

Deferral of planned investments

34. A further contributor to the slower-than-planned progress is that key decisions and investments were deferred or not made in time to be fully reflected in measured poverty rates by 2023/24.

35. In particular, the review of Working for Families – seen as the "primary vehicle" for achieving reductions – did not lead to changes of a scale that had been envisaged when the targets were set. The most significant change, delivered from 1 April 2022, was a Family Tax Credit (FTC) increase alongside an inflation adjustment, and a small abatement rate increase. These changes combined led to a forecast reduction of 6000 children in poverty on the primary income poverty measures. The eldest child FTC rate was increased by $15 per week, and $13 per week for subsequent children, and the abatement rate for the FTC and In Work Tax Credit was increased from 25 percent to 27 percent.

36. Another key change, to enable sole parents on a benefit to receive child support payments, was not implemented until mid-2023 and so is expected to have only a partial (~50 percent) impact on measured poverty rates in 2023/24 (the final year of the second intermediate targets).

Reductions of between 2.5 ppt and 3.5 ppt are needed to achieve the second intermediate targets

37. As we approach the end of the final year of the second intermediate target period, it's now clear that large reductions are still needed to achieve the second intermediate targets as set out below.

    - A 2.6 ppt further reduction is required to achieve the BHC50 second intermediate target rate of 10 percent
    - A 2.5 ppt further reduction is required on the AHC50 measure to meet the second intermediate target rate of 15 percent
    - A 3.5 ppt further reduction is required on the material hardship measure to meet the second intermediate target of 9 percent.

It's unlikely the second intermediate targets will be met

38. Our overall assessment is that it's unlikely the second intermediate targets will be met for any of the three measures. To match the much higher measured rates from the 2023 Household Economic Survey (HES), Treasury's forecasts are likely to be upwardly revised by about 1.5 ppt on BHC50 and 3 ppt on AHC50. Other than the initiatives announced through Budget 2023, there are no further interventions planned that are expected to reduce child poverty in 2023/2024.

39. Also, the 2023 half yearly economic and fiscal update (HYEFU) suggests that forecast Consumer Price Index inflation in June 2024 is likely to be higher (4.1 percent) and more persistent than was forecast in the Budget Economic and Fiscal Update (BEFU) in 2023 (which underpinned the 2023 Child Poverty Budget Report forecasts).

40. Although we can't model material hardship, because it's sensitive to inflation and housing costs, it's likely to follow a similar trajectory to AHC50. We also note that statistically significant year-on-year reductions of the size needed to achieve the material hardship target (3.5 ppt) have not been observed in the available material hardship data going back to 2013/14.

41. It should be noted that the Government Statistician takes into account sample error when assessing whether targets have been met. The sample error on estimated rates of child

poverty from HES 2022/23 were between 1.2 and 1.5 ppts. Factoring this in, there's an outside possibility the AHC50 target might be met – but this is far from assured.

42. It should also be noted that the downward revision process to take into account up-to-date Working for Families data will not affect target compliance. The Act requires the Government Statistician to assess compliance with the targets in the final year of the target period, even if rates are subsequently downwardly revised in the following year.

There is an option for you to change the second intermediate target rates, but we don't recommend it

43. Given that there's no longer any scope to measurably influence rates for 2023/24, the only way to meet the targets would be to revise the second intermediate target rates to match the forecast. Although the Act allows you as the responsible Minister to make changes at any time before the end of the target period, in this instance we don't recommend you exercise this option. A decision to change targets is better reserved for situations where there's both:

- a significant and unexpected change in the context (e.g. the economy or major revisions to the data), and
- there is still time to implement policies that will affect progress towards the targets.

44. Changing targets towards the end of the target period to be seen to meet the targets is likely to be unfavourably perceived by the wider public and risks diminishing the credibility of the accountability framework established under the Act. However, we can provide further advice on the option to change the targets if you wish.

Out of scope

Out of scope

Out of scope