

Department of the Prime Minister and Cabinet

Child Poverty Reduction Proactive Release March 2018

The document below is one of a suite of documents released by the Department of the Prime Minister and Cabinet (DPMC) that formed the basis of decisions on the Child Poverty Reduction Bill introduced on 31 January 2018.

Date: 14 November 2017

Title: Note on the after-deducting-housing-costs (AHC) 60% of median, moving line measure of child poverty.

No information has been withheld in this document.

Note on the after-deducting-housing-costs (AHC) 60% of median, moving line measure of child poverty

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Background and Overview

The context for this note is the recommendation from officials regarding a suite of child poverty measures for the Prime Minister's proposed Child Poverty Bill.

The proposed suite has two tiers:¹

- Primary measures (with targets required):
 - 50% BHC moving line
 - 50% AHC fixed line
 - Material hardship
 - Persistence (of low income and/or material hardship).
- Supplementary measures (with targets optional):
 - 60% BHC moving line
 - 50% AHC moving line
 - 40% AHC moving line
 - 60% AHC moving line and in material hardship (using the primary measure)
 - Material hardship (using a more severe threshold than for the primary measure).

The 60% of median low-income AHC moving line measure has been referred to and used by some as the headline measure for child poverty in New Zealand. In recent years, the low-income rates for children on this measure have typically been in the 27 to 29% range (280,000 to 300,000 children). Some round the number up and talk of "one in three children in poverty". Many of these go further and talk of 280,000 to 300,000 going without the basics such as good shoes, adequate food, a warm home, the ability to participate in sporting and other activities that have financial costs, and so on.

The question is – what is the rationale for not including this measure in the proposed suite?

The high-level summary is:

- International comparisons use 50% and 60% of BHC median measures (not AHC).
- UNICEF's International Office of Research (Florence) do not use this measure in their Report Cards – they use 50% and 60% BHC measures.
- The low-income / poverty thresholds using the AHC 60% relative measure are too high to command widespread respect.

¹ Note that BHC is short for "before deducting housing costs", and AHC is short for "after deducting housing costs".

International comparisons are made using BHC not AHC incomes

The two main sources of international comparisons of child poverty using household incomes are the OECD (using 50% of median BHC) and the EU (using 60% of median BHC).

On each of these measures, New Zealand ranks in the middle of the respective league tables:

- for the OECD (50% of median): NZ rates have typically been 13-14% in recent years, compared with 12-13% for the OECD median
- for the EU (60% of median): NZ rates have been 20-21% in recent years, compared with 20-21% for the EU median.

The UK is one country that publishes AHC low-income rates. The AHC 60% moving line rates for children in the UK are virtually the same as in New Zealand (~28%).

There have been occasions when New Zealand's child poverty performance using AHC measures has been compared with BHC rates for other countries. As the 60% of median AHC rates are much higher than the corresponding 60% BHC rates, this apples-with-carrots comparison can lead people to conclude that New Zealand has very high child poverty rates compared with other countries. It seems that this is part of what led the UN Committee on the Rights of the Child (UNCROC) to conclude that it is "deeply concerned about the enduring high prevalence of poverty among children" in their Concluding Observations after the 2016 review.

UNICEF (International) uses BHC measures in its Reports Cards, not AHC

One of the rationales for some choosing the 60% AHC moving line measure as a headline measure is that some think that this is what UNICEF uses.

UNICEF (New Zealand) currently uses this measure, but UNICEF's International Office of Research in Florence, who publish the UNICEF Report Cards on child wellbeing in richer countries, do not use any AHC measures.

The UNICEF Report Cards use a range of approaches, depending on the purpose of the publication. For example:

- in Report Card 11 (2013) – 50% of median BHC moving plus a material hardship index
- in Report Card 12 (2014) – 60% of median BHC fixed plus a material hardship index
- in Report Card 13 (2016) – 50% of median BHC moving
- in Report Card 14 (2017) – 60% of median BHC moving.

Approved for release by the Minister for Child Poverty Reduction

AHC 60% thresholds are too high to command respect as “poverty” measures

The table below shows the 60% AHC thresholds (\$pw) for two family types for 2016 (latest available survey data). If household incomes after deducting housing costs are lower than these thresholds the households are judged to be “in poverty” using this measure.

60% AHC moving line low-income threshold
(ie this is what is available using this measure, after paying the rent or mortgage), \$ per week, \$2016

Sole parent, one child	\$460
Couple	\$505
Two parent, two children (10, 12)	\$710

It is hard to see that there would be widespread support for using the above after-housing-costs incomes to represent financial hardship. They are much more in the “getting by” zone than a hardship zone.

For example, reported household spending on items other than rent, rates and mortgage for two parent, two children households was \$720 pw on average for the second income quintile (ie the one above the bottom quintile (20%)). This is very close to the \$710 threshold in the table above. Having a poverty threshold set that far up the distribution is a very high threshold. (MSD analysis of StatsNZ Household Economic Survey data.)

The table below uses policy settings as at 1 April 2016 to compare the AHC incomes of selected households with the AHC 60% of median low-income threshold (‘poverty line’).

- o It shows how each household is well below the 60% of median AHC threshold. Even the family with both parents in paid employment is only just over the 50% threshold. (This is one of the reasons for including an AHC 40% moving line measure in the supplementary measures – to capture the improvement in child poverty rates for those at the very low end.)
- o The column second in from the right shows the extra income support required to take the scenario households over the 60% AHC line.
- o None of this ‘proves’ that 60% AHC moving line threshold is “too high”, but it does give a sense of the size of the task involved in lifting families over that line.

Scenario households, AHC income per week, \$2016

	Income source: employment or benefit	Accommodation	AHC income (\$ pw)	Gap to AHC 60% threshold (\$)	% AHC median
Sole parent, one child (9)	SPS	HNZC	315	145	41
Sole parent, one child (9)	SPS	Private rental, Area 2, 2 b/room, \$410 pw	232	228	30
Couple <65	JSS	Private rental, Area 2, 2 b/room, \$410 pw	170	235	20
Two parent, two children (10, 12)	40hrs @ \$18.00/hr, 15 hrs @ 15.75/hr	Private rental, Area 2, 3 b/room, \$460 pw	603	107	51
Two parent, two children (10, 12)	JSS	Private rental, Area 2, 3 b/room, \$460 pw	347	347	29

Source: MSD’s EMTR model, November 2017, based on policy settings as at 1 April 2016.

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