

Department of the Prime Minister and Cabinet

Child Poverty Reduction Proactive Release June 2018

The document below is a Cabinet paper setting out the levels, and process for intermediate (three-year) child poverty reduction targets. The Child Poverty Reduction Bill sets a framework requiring government to set both long term (ten-year) and intermediate (three-year child poverty reduction targets).

Some parts of this document would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply have been identified. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Date: 21 March 2018

Title: Three-year intermediate targets for child poverty reduction (to Cabinet Business Committee (CBC)).

Information withheld with relevant section(s) of the Act:

Paragraph 22
s 9(2)(h) - legal privilege.

Chair
Cabinet Business Committee

THREE-YEAR INTERMEDIATE TARGETS FOR CHILD POVERTY REDUCTION

Proposal

- 1 The Child Poverty Reduction Bill introduces a framework that requires Governments to set out how they will address child poverty, including the setting of long-term (ten-year) and intermediate (three-year) child poverty reduction targets.
- 2 This paper proposes an approach to those targets, including my recommendations for:
 - the time period covered by both the ten-year and three-year targets
 - the way we set and publicly communicate the ten-year and three-year targets
 - the level of our first set of three-year targets.

Executive summary

- 3 As a Government, we are committed to taking substantial action to reduce child poverty and hardship in New Zealand. In February 2018, the Government introduced legislation to help ensure governments are transparent and held to account in their efforts to reduce child poverty. As it is currently drafted, the Child Poverty Reduction Bill will require successive governments to:
 - produce and publish reports on specified measures of child poverty, including four 'primary' measures and six 'supplementary' measures.
 - set both long term targets (10-years) and intermediate targets (3 years) for each of the primary measures.
 - develop and update a strategy to promote the wellbeing of children in New Zealand, which will include a particular focus on reducing child poverty.
- 4 As the first step under the framework proposed by the Bill, I have announced a set of ambitious targets for reducing poverty over the next ten years. I have also been considering advice from officials in relation to our approach to setting the three-year targets.

Confirming the target period

- 5 I want to set targets as soon as practically possible, and believe that the timeframes currently in the Bill would mean we take too long to get going. As it is currently drafted, the Bill sets the start year for the ten-year targets and the first of the three-year targets at 2019/20. I have invited select committee to consider what appropriate target periods might be, and am likely to signal my preference that these target periods be brought forward.
- 6 Child poverty rates are currently calculated using data collected from Stats NZ's annual Household Economic Survey (HES). Officials have advised me that the 2015/16 and 2016/17

surveys are not suitable for setting the baseline rate for the purposes of establishing child poverty targets. The sample size for those surveys is small (3,500 households and only a third of those have children), which means it lacks the precision required for the purposes of setting and monitoring progress against child poverty targets. These two surveys also appear to have achieved responses from an unusually low number of sole-parent families. As sole-parent families tend more often to have low income, this has disproportionately reduced the reported poverty rates for children.

- 7 My recommended option is to set the first year of both the short-term and long-term targets as 2018/19, which points to 2017/18 child poverty rates as the baseline to use. The 2017/18 survey is based on a larger sample size (5,500 households), which should reduce uncertainties (though it is still not the full 15-20,000 households that Stats NZ have submitted in their budget bid to support the framework in the Bill). The survey is in the field now, so will capture the rates of child poverty before the Families Package takes effect.
- 8 The target period is also better suited to the Bill's objectives of political accountability through the electoral cycle, as it better aligns with parliamentary terms and government Budget decisions, including the implementation of our Families Package.
- 9 The main issue with this approach is that it means we will not have a confirmed baseline for our three-year targets until February 2019. I propose, therefore, that we set indicative targets, to ensure that they can be in the public domain during the Bill's public consultation period - with the knowledge that the baseline they are set against is likely to change.

Setting our targets

- 10 I want our three-year targets to be ambitious in their own right. I have considered what appropriate levels might be, taking into account our long-term targets, my public commitment on one particular low-income measure (BHC 50%), and the Government's work programme.
- 11 Of the Government's current commitments, the Families Package is the key initiative that will have an impact on reported child poverty in the proposed three-year target period (2018/19 to 2020/21). It should have a significant impact on all three primary measures, with the impact largest on the before-housing-cost measure (BHC), followed by the after-housing-cost (AHC) measure, then the material hardship measure.
- 12 The Treasury has updated its modelling of the estimated reduction on the BHC measure due to the Families Package, but precise estimates of its impact are challenging given the issues with the data and small sample size described above - along with the added challenge of even smaller numbers of households in the samples with incomes at or around the poverty threshold.
- 13 Officials have considered the other key factors that may impact on rates in the next three years, and their assessment is as follows:
 - On the **before-housing-costs (BHC) 50% moving line measure**, there are other policies in addition to the Families Package that could make a contribution to reductions on this measure, including welfare changes, regional economic development, and minimum wage increases. The impact of these changes will depend on the specifics of how they are implemented. Some of this reduction may also be balanced out by economic growth, which tends to raise median earnings, and increase rates on moving line measures.
 - On the **after-housing-costs (AHC) 50% fixed line measure**, the Families Package and other policies that increase incomes at the bottom end should have an impact, but any

improvements may be tempered by rising housing costs for low-middle income families, if they increase more quickly than wages. The Government has an ambitious work programme to improve housing supply and affordability, but this may take several years to flow through to a general reduction in housing costs across the board.

- For the **material hardship measure**, the impact of the Families Package will be meaningful, but more modest than for the low-income measures. Achieving significant reductions on this measure is likely to be significantly more challenging to achieve than for 2011-2015, when rates steadily reduced after their peak following the Global Financial Crisis.

14 On the basis of the assessment above, I propose that the targets for the first three-year period be as follows:

- to reduce rates on the before-housing-costs 50% moving line measure by six percentage points;
- to reduce rates on the after-housing costs 50% fixed line measure by four percentage points;
- to reduce rates on the standard material hardship measure by three percentage points.

15 These targets are ambitious yet achievable, consistent with our previous commitments, and are faster than the average rate of progress required to meet our long-term targets on the basis of a simple linear trajectory. These targets should also be viewed as milestones for monitoring our progress to our final ten-year targets.

Background

- 16 I believe that every Government, present and future, should be absolutely dedicated to the notion that children should get the very best start in life, free of poverty and hardship. To encourage this, my Child Poverty Reduction Bill requires governments to:
- set and publish longer-term targets (ten years), as well as intermediate targets (three years), for a defined set of 'primary' measures of child poverty
 - report each year on progress towards the targets, as well as on trends using several 'supplementary' measures to give a more comprehensive assessment of overall progress
 - publish strategies to improve children's wellbeing, reduce child poverty, and work towards the targets.
- 17 There are four primary measures of child poverty in the Bill, but only three of them will have targets in the short-medium term. For the measure of persistence, the target can only be set once the necessary dataset becomes available and agreed measures have been developed. This must be in place by 2024.
- 18 The Bill requires the targets to be gazetted and presented to the House of Representatives. It also specifies that ten-year and three-year targets must be set before, or as soon as reasonably practicable after, the start of the period to which they apply. The first suite of long-term and three-year targets are required within six months of the date of commencement of the Act.
- 19 I have already announced my ten-year targets under the Bill. These are as follows:
- reduce the proportion of children in low-income households (using the before-housing-costs measure) from roughly 15 percent of all children to 5 percent.
 - reduce the proportion of children in low income households (using the after housing costs measure) from roughly 20 percent to 10 percent.
 - reduce the proportion of children in material hardship from between 13 and 15 percent now to 7 percent.
- 20 When publicly announcing our ten-year targets in late January, I indicated that I intended to make our three-year targets ambitious in their own right, and release those targets in time for the public to have them in mind as the Bill goes through the select committee process.

Confirming the target period

- 21 As it is currently drafted, the Bill sets the start year for the ten-year targets and the first of the three-year targets at 2019/20, which makes the 2018/19 rates the baseline for any reduction. With the current start year in the Bill, the ten-year target period would be from 2019/20 to 2028/29 (inclusive) and the three-year period from 2019/20 to 2021/22 (inclusive).

22 s9(2)(h)



- 23 I believe a 2019/20 start year is too long to wait, and that an earlier start date would better align with the electoral cycle and the Bill's objectives of political accountability. For these reasons, in my speech at the first reading of the Bill I invited the Committee to consider the appropriate periods to be covered by the three-year targets.
- 24 Officials have advised me that the 2015/16 and 2016/17 Household Economic Surveys (HES) are not suitable for setting the baseline rate for the purposes of the Bill. This is because:
- The small sample sizes achieved in these two surveys (approximately 3,500 households, of which only 1/3 contain dependent children) means the margins of error on these estimates are too wide for use as a baseline rate for robustly assessing changes – especially for the three-year targets. While these samples are suitable for identifying general trends over time, showing relativities between different groups, and other purposes, a greater level of precision is required for the purposes of setting and monitoring progress against child poverty targets in the context of an Act of Parliament.
 - The 2015/16 and 2016/17 surveys also appear to have achieved an unusually low number of sole-parent families. As sole-parent families tend more often to have low income, this has disproportionately reduced the reported poverty rates for children. Stats NZ are currently investigating this issue.
- 25 Stats NZ has work underway to ensure data is suitable to the uses proposed in the Child Poverty Reduction Bill:
- Stats NZ have submitted a budget bid to significantly increase the HES sample size to between 15-20,000 households, starting with the 2018/19 survey.
 - Stats NZ will investigate improvements to current data (including the 17/18 survey) to provide a baseline measure and time series. These improvements will include investigation of the use of administrative data, such as Inland Revenue and Ministry of Social Development data.
- 26 My approach is to use rates for the 2017/18 as the baseline, and to set the start year for the target period at 2018/19. The target period better aligns with the electoral cycle and Government Budget decisions, and means that baseline data is collected prior to the implementation of our Families Package.
- 27 Officials advise that ultimately an even larger sample size is needed to provide the level of precision needed for the purposes of the Bill on an ongoing basis (hence Stats NZ's budget bid). In the interim, however, I wish to proceed with using 2017/18 as the baseline as a pragmatic step towards meeting the Bill's intentions, understanding that some caveats will still be in place on the quality of the data used to measure this.
- 28 While this is the earliest feasible target period, it will still mean that there will have been a time lag before we will know how we are tracking against the three-year targets. With a 2017/18 baseline and a 2018/19 start year in the Bill, the ten-year target period would end in 2027/28 and the first three-year period end in 2020/21. On current reporting timeframes, the government will first know how it has tracked against the three-year targets in February 2022, though officials are investigating the potential for this timeframe to be brought forward.

Table 1: Timeframes for a 2018/19 start year

Start Year	Baseline data source	Baseline rates available	Ten year target period	Three-year target periods	Date for reporting on first three-year target
2018/19	2017/18	February 2019	2018/19 – 2027/28	2018/19 – 2020/21 2021/22 – 2023/24 2024/25 – 2026/27	February 2022

Using 2017/18 rates as the 'baseline'

29 While the start year of 2018/19 is my preferred approach (using 2017/18 figures for the baseline), it also comes with some uncertainties that precludes the setting of precise targets at this time. On current timeframes, confirmed 2017/18 rates will not be available until February 2019, meaning that the targets we set now would have to be in part dependent on 'best estimates' by officials of the 2017/18 baseline rates.

30 I believe that we can still signal our targets for indicative purposes now, with the knowledge that the baseline they are set against is likely to change. This would involve taking a staged process to announcing our targets, as follows:

- announcing our indicative targets now, by expressing them as percentage point reductions
- making clear the current limitations with the data, and the fact that the Government has a clear plan to address those limitations
- confirming the target levels once the Bill has passed in to law and when baseline data is available
- emphasising the greater relative importance of the long-term targets, and the role of three-year targets as waypoints or markers of progress.

31 In the meantime, the three-year targets we set now would broadly rely on the same 'best estimates' of baseline rates used for the long-term targets approved by Cabinet.¹

Table 2: interim 'best estimates' of 2017/18 baseline rates for the primary measures

Primary	Rates (Children)
BHC 50% moving line	14-15% (160,000)
AHC 50% fixed line (using 2015 as ref year)	19-20% (210,000)
Material hardship	13-15% (150,000)

¹These estimates are based on 2014/15 HES data (a larger survey), the trends in the few years before that, the rebasing of the fixed line AHC rate, and the assumption of the economy continuing in a steady state. MSD's advice is that the AHC 50% best estimate is more likely to be at the upper end of the 19-20% range, given a 2017/18 anchor year for the fixed line, rather than 2014/15 as in the 2017 cabinet paper for the long-term targets (and in this paper for the three-year target). For the material hardship rate, MSD's advice is that it is more likely to be at the lower end of the 13-15% range by 17/18 given the ongoing strong economy. Neither of these considerations are large enough to warrant changing the best estimate advice provided on the long-term targets.

Persistence measure	Not available
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32 The more precise figures would be those that we formally gazette and present to the House of Representatives as our first set of targets under the Act. If you agree to this approach, I will report back to Cabinet by April 2019 on the updated rates for 2017/18, and to the more precise target levels that will be gazetted as the Government's first formal three- and ten-year targets under the Act.

Setting our three-year targets

33 I want our three-year targets to be consistent with our ten-year targets, but also to be ambitious in their own right. There are three measures for which targets are required to be set:

- the BHC 50% moving line measure:
- the AHC 50% fixed line measure:
- the standard material hardship measure:

34 The Families Package is the key initiative that will have an impact on reported child poverty in the period covered by our three-year targets, and should have a significant impact on all three primary measures. It is likely that the impact will be largest on the BHC measure, followed by the AHC measure, then the material hardship measure.

35 Treasury has updated its modelling of the estimated reduction on the BHC measure due to the Families Package, but precise estimates of its impact are challenging given the issues described above with the data and small sample size - along with the added challenge of even smaller numbers of households with incomes at or around the poverty threshold.

The before-housing-costs 50% moving line measure

36 For the **BHC 50% moving line measure**, the key considerations when setting a target include:

- Our long-term target is a reduction of 10 percentage points, but I have committed to achieving this in our first two terms of Government (50,000 children in our first term, and a net 100,000 in our first two terms).
- In addition to the Families Package, a number of other policies such as welfare changes, regional economic development, and minimum wage increases could mean increased incomes for those at the lower end of the distribution, and contribute to some reduction on the BHC measure. The extent of this impact will depend on timeframes that are yet to be determined, and the specifics of how this work is implemented.
- Trends on moving line measures are also to some extent at the mercy of general economic conditions; in the past, growth has tended to lift the earnings of those in the middle of the income distribution, which raises the median, and increases rates on moving line measures.

37 I propose that our previous 100,000 commitment be reiterated as our overall net target for our first and second three-year periods, and that we announce our aim to reduce numbers on this measure in the first three-year period by **6 percentage points**.

The after-housing-costs 50% fixed line measure

38 For the **AHC 50% fixed line measure**, the key considerations when setting a target include:

- Our long-term target is a reduction of 10 percentage points, which in simple linear terms works out to an average of around 3 percentage points every three-year period.
- The impact of the Families Package should flow through to the AHC measures, as will any other policies that increase incomes at the bottom end.
- Any improvements on the AHC rates may, however, be tempered by rising housing costs for low-middle income families, if these outpace wage increases.
- The Government has an ambitious work programme to address the current issues with housing, but this may take several years to flow through to a general reduction in housing costs across the board.

39 I propose that we aim to reduce rates on this measure by **4 percentage points**, with a view to an even greater level of reduction in the second round of three-year targets.

The standard material hardship measure

40 For the **standard material hardship measure**, the key considerations include:

- Our long-term target is a reduction of 7 percentage points, which in simple linear terms works out to an average of around 2 percentage points every three-year period.
- The impact of the Families Package on material hardship will be meaningful, but more modest than on the low-income measures. Material hardship is driven by other factors in addition to current income, including past income, high debt servicing, high health and disability costs, family dysfunction, extra demands on the household budget from commitments to other households, and an absence of wider support networks.
- Rates on the 'standard' material hardship measures are sensitive to economic changes. For example, rates rose strongly during and after the GFC, then over the next few years fell back to their pre-GFC rates. As our three-year targets are likely to start from a 'normal' time in the economic cycle, achieving a further significant reduction on this measure is likely to be much more challenging to achieve than for 2011 to 2015.
- There are other initiatives that have the potential to impact on the material hardship measures, including improvements to the quality of rental housing through the Healthy Homes Guarantee Bill, and any improvements to access to hardship assistance through the overhaul of the welfare system. Given the timing of these initiatives, however, any effect is more likely to be seen from the next term of Government onwards, and therefore outside the period covered by our first three-year targets.

41 I propose we aim to reduce rates on this measure by **3 percentage points**.

Summary of my proposed targets

42 In summary, I propose that our suggested target levels be:

- to reduce rates on the before-housing-costs 50% moving line measure by 6 percentage points.
- to reduce rates on the after-housing costs 50% fixed line measure by 4 percentage points
- to reduce rates on the standard material hardship measure by 3 percentage points.

Table 3: summary of proposed three-year targets for 2018/19 – 2020/21

Measure	Best estimate of 2017/18 rate (baseline)	Indicative three year target (percentage Point reduction)	Ten-year target rate
BHC 50% moving	14-15%	6 p.p.	5% of children in poverty on this measure 2/3rds reduction from the current level
AHC 50% fixed	19-20%	4 p.p.	10% of children in poverty on this measure 10 p.p. (50%) reduction from current estimated level
Material hardship	13-15%	3 p.p.	7% of children in material hardship 7 p.p. (50%) reduction from current estimated level

Consultation

- 43 This paper was prepared by the Child Poverty Unit in the Department of Prime Minister and Cabinet. The Ministry of Social Development; The Treasury; Stats NZ; the Ministry for Children Oranga Tamariki; Te Puni Kōkiri, the State Services Commission; Ministry for Pacific Peoples, Ministry for Women; Ministry of Health; Ministry of Education; New Zealand Police; Ministry of Justice; Office for Disability Issues; and the Office of the Children’s Commissioner have been consulted.

Financial implications

- 44 There are no direct financial implications of the proposal in this paper. However achieving the targets may require future policy measures beyond the Families Package that themselves have significant fiscal impacts.

Human rights implications

- 45 The policy proposals in this paper appear consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993. Any inconsistency would be justified under section 5 of the New Zealand Bill of Rights Act 1990 as reducing child poverty would result in a considerable decrease of social and economic costs.

- 46 The proposals further increase New Zealand’s alignment with the United Nations Convention on the Rights of the Child, particularly Article 27 – Right of every child to a standard of living adequate for the child’s physical, mental, spiritual, moral and social development.

Legislative implications

- 47 I have invited the Select Committee to consider the appropriate periods to be covered by the three-year targets, on the basis of officials' advice on the reference year and my preference for changing the start year to 2018/19. I will consider the Committee's views in relation to the target period in the Bill. If necessary, changes could be made via a supplementary order paper at the Committee of the Whole House stage.

Regulatory impact and compliance cost statement

- 48 A Regulatory Impact Statement is not required for the proposed targets. Regulatory Impact Assessment may, however, be required in due course for some measures taken in pursuit of the targets.

Gender implications

- 49 Sole parent families have higher rates of child poverty and persistent material hardship, and women are much more likely than men to be the primary caregivers for children and young people. Many of the measures to address child poverty involve increased support to such caregivers.

Disability perspective

- 50 Measures to reduce child poverty are likely to benefit people with disabilities, given that rates of child poverty are likely to be higher for this children with disabilities, and children of parents with disabilities. In order to address this disadvantage amongst people with disabilities, strategies to reduce child poverty would need specific consideration of the needs of people with disabilities.
- 51 Officials are exploring the potential for data improvements to help better understand the relationship between poverty, material hardship, and disability. This includes investigating the addition of indicators of disability status for both adults and children in future surveys used for child poverty measurement as soon as possible after 2018/19.

Implications for Māori and Pasifika children

- 52 Māori and Pasifika children are over-represented in poverty statistics – just under half of children in poverty are Māori or Pasifika, and rates of poverty (and persistent poverty) for Māori and Pasifika children are around double the rates for Pākehā. The Government is committed to improving its response to Māori and Pasifika children living in poverty:
- the increased sample size of the Household Economic Survey will not only increase the accuracy of national headline indicators, it will also significantly increase the accuracy of poverty rates for Māori and Pasifika children;
 - I expect that the Child Wellbeing Strategy, including the child poverty reduction components of it, will take into account the over-representation of Māori and Pasifika children in child poverty statistics.

Publicity

- 53 If Cabinet agrees to this paper, I am likely to announce my three-year targets to the media at my post-Cabinet press conference.

Recommendations

54 I recommend that Cabinet:

- 1 **note** that the Child Poverty Reduction Bill introduces a framework that requires Governments to set out how they will address child poverty, including the setting of ten-year and three-year child poverty reduction targets.
- 2 **note** that in my speech at the first reading of the Child Poverty Reduction Bill I invited the Select Committee to consider the appropriate periods to be covered by the intermediate targets.
- 3 **note** that the 2015/16 and 2016/17 Household Economic surveys appear to have achieved an unusually low number of sole-parent families and that this will disproportionately reduce the reported poverty rates for children.
- 4 **note** that officials from Stats NZ and the Ministry of Social Development have advised me that both the 2015/16 and 2016/17 Household Economic Surveys are not suitable for the purposes of providing baseline rates for robustly assessing progress to targets, because of the relatively small sample size in those years and the sampling issue identified in recommendation 3 above.
- 5 **note** that my preferred approach is for both three-year and ten-year targets to have a start year of 2018/19, with estimated 2017/18 rates used as the baseline figures for the targets.
- 6 **agree** that indicative three-year targets be announced as percentage point reductions in the first instance, and that precise target levels are confirmed once actual 2017/18 rates are available.
- 7 **note** that I have announced my intended ten-year targets under the Bill, which are as follows:
 - 7.1 reduce the proportion of children in low-income households (using the before-housing-costs measure) from roughly 15 percent of all children to 5 percent.
 - 7.2 reduce the proportion of children in low income households (using the after housing costs measure) from roughly 20 percent to 10 percent.
 - 7.3 reduce the proportion of children in material hardship from between 13 and 15 percent now to 7 percent.
- 8 **agree** to the following indicative three-year targets for the three primary measures for which data is available:
 - 8.1 reduce rates on the before-housing-costs 50% moving line measure by 6 percentage points;
 - 8.2 reduce rates on the after-housing costs 50% fixed line measure by 4 percentage points;
 - 8.3 reduce rates on the standard material hardship measure by 3 percentage points.
- 9 **note** that rates and numbers used in recommendation 7 and 8 rely on 'best estimates' of current rates, and if the actual rates for 2017/18 differ significantly from current estimates, there could be an impact on the target rates we ultimately set.

- 10 **invite** the Minister for Child Poverty Reduction to report back to Cabinet by April 2019 on the updated rates for 2017/18, and any proposed changes to the Government's three- and ten-year targets.

Rt Hon Jacinda Ardern
Minister for Child Poverty Reduction

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Released by the Minister for Child Poverty Reduction