

Child Poverty Report



20 May 2021



Wellbeing
Budget 2021
**SECURING OUR
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New Zealand Government



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CHILD POVERTY REPORT 2021

This is the third report on child poverty to be released with the Budget. It shows the progress we have made in reducing child poverty since we set child poverty reduction targets in 2018.

This Government has made child poverty reduction a priority, to help make Aotearoa New Zealand the best place in the world to be a child. Reducing child poverty helps children now and lays the foundation for healthy development and positive wellbeing in the future. Good material standards of living enable parents and caregivers to provide children with a good start in life, which has been shown to contribute to lasting wellbeing outcomes in areas like health, housing and education.

In Budget 2021, to tackle inequality and child poverty, we are lifting weekly main benefit rates by between \$32 and \$55 per adult, to bring these rates in line with a key recommendation of the Welfare Expert Advisory Group (WEAG) and provide an additional boost to families with children. This is expected to lift between 19,000 and 33,000 more children out of poverty on the after-housing-costs measure.

This builds on our previous work that has included a range of policies to support low-income families and children. Some actions, like the Families Package, put more money in the pockets of parents, while others, like healthy free lunches in schools and free doctors' visits for under 14s, take pressure off household budgets and improve childrens' quality of life.

The Families Package was introduced in late 2017 and increased financial support for low-income families, including increases to the Family Tax Credit, Accommodation Supplement changes and the introduction of the Winter Energy Payment and the Best Start Payment.

In total, 109,000 sole parents and couples with children will be, on average, \$175 per week better off as a result of changes made by the Government since late 2017.

Budget child poverty reporting requirements

The Child Poverty Reduction Act 2018 amended the Public Finance Act 1989, introducing section 15EA that requires the supporting information for the main Appropriation Bill (the Budget) to include a report on child poverty. The report must:

- a discuss any progress made, in the most recent completed financial year, in reducing child poverty consistent with the targets under the Child Poverty Reduction Act 2018, and
- b indicate whether and, if so, to what extent, measures in or related to that Bill will affect child poverty.

The most recently completed financial year is 2019/20, which is the second year of reporting on the targets under the Child Poverty Reduction Act 2018.

This report addresses paragraph (a) by providing a high-level view of recent trends up to, and including, 2019/20. It addresses paragraph (b) by discussing the expected impact of Budget 2021 on child poverty.

These actions to date have reduced child poverty rates. As of 2019/20, there are 43,300 fewer children in low-income households on the after-housing-costs measure than in 2017/18 and 18,000 fewer children experiencing material hardship. This is one of the largest policy-driven falls in measured child poverty in decades. While the latest rates do not take into account the impact of COVID-19, Treasury modelling suggests that the Government's income support measures have greatly reduced the negative economic impact of the pandemic (see pages 7 to 8).

We know there is more to be done. We are also investing in a broader range of initiatives to address material hardship and directly help children and their families in areas such as housing, employment and direct services, for example through food in schools.

Looking forward, the Government will continue to work on overhauling the Welfare system and addressing other recommendations from the WEAG. We have committed to bringing forward the review of the Working for Families tax credits, currently on the medium-term Welfare Overhaul work programme.

In June, we will announce our next round of child poverty reduction targets. This will set out our ambitions for the next three years, as we continue on our path towards meeting our ten-year targets and making Aotearoa New Zealand the best place in the world to be a child.

No single measure tells a complete story of child poverty

The Child Poverty Reduction Act 2018 (the Act) specifies three primary measures¹ of child poverty, described in the table below. The Act also has six supplementary measures.² Given the complexity of the issue, it is important that these measures are considered together.

Table 1 – Primary measures of child poverty

<p>Income measure:</p> <p>After-housing-costs, fixed-line measure</p> <p>AHC50</p>	<p>What does this measure?</p> <p>The number of children in households with incomes much lower than a typical 2018 household, after they pay for housing costs.</p> <p>How do we measure it?</p> <p>The threshold line is 50 percent of the median household income in 2017/18, after housing costs are removed.</p> <p>What does this tell us?</p> <p>How many households have very low incomes relative to previous years, after considering housing costs and increases to the cost of living.</p>	<p>What are our goals?</p> <p>In 2017/18, 22.8 percent of children were living in poverty on this measure.</p> <p>Our goal is to reduce this to 10 percent of children by 2027/28.</p> <p>Our intermediate target is to reduce this to 18.8 percent of children by 2020/21.</p>
<p>Income measure:</p> <p>Before-housing-costs, moving-line measure</p> <p>BHC50</p>	<p>What does this measure?</p> <p>The number of children in households with much lower incomes than a typical household.</p> <p>How do we measure it?</p> <p>The threshold line is 50 percent of the median household income in the year measured.</p> <p>What does this tell us?</p> <p>How many households have much lower incomes than other households. An increase in median incomes leads to an increase in the threshold, which can make it harder to lift households out of poverty.</p>	<p>What are our goals?</p> <p>In 2017/18, 16.5 percent of children were living in poverty on this measure.</p> <p>Our goal is to reduce this to 5 percent of children by 2027/28.</p> <p>Our intermediate target is to reduce this to 10.5 percent of children by 2020/21.</p>
<p>Non-income measure:</p> <p>Material hardship</p>	<p>What does this measure?</p> <p>A measure of access to the essential items for living.</p> <p>How do we measure it?</p> <p>The threshold line is a lack of six or more out of the 17 items in the material deprivation index, which include things like having two pairs of shoes in good condition and not putting off visits to the doctor.</p> <p>What does this tell us?</p> <p>Directly measures living standards and the number of households going without the basics. This measure picks up the impact of the level of income and other resources, the costs of housing and other essentials and other social and personal factors.</p>	<p>What are our goals?</p> <p>In 2017/18, 13.3 percent of children were living in poverty on this measure.</p> <p>Our goal is to reduce this to 6 percent of children by 2027/28.</p> <p>Our intermediate target is to reduce this to 10.3 percent of children by 2020/21.</p>

¹ Persistent poverty is the fourth primary measure. Targets are required for this measure from 2025/26.

² BHC60, AHC40, AHC50, AHC60, severe material hardship, and BHC60 and material hardship combined.

What progress has been made in reducing child poverty?

Since 2017/18, all nine child poverty measures have been trending downwards

The 2019/20 child poverty rates reflect most of the impact of the Government's **Families Package**. We have made a range of changes to support children living in poverty over the past year which aren't yet reflected in these rates. These include the **\$25 per family main benefit increase** as part of the initial COVID-19 response and changes to **index main benefits to average wage growth** in Budget 2019, both which were introduced on 1 April 2020.

The 2019/20 figures do not reflect any impact from COVID-19. The first COVID-19 lockdown put a stop to surveying in late March 2020, which means the reporting uses nine months of data.

This year we are able to provide breakdowns for Māori and Pacific children and children with disabilities.³ We also have the reduction in rates from 2018/19 for Māori and Pacific children.⁴

Table 2 – Progress to date on child poverty measures

<p>Income measure:</p> <p>After-housing-costs, fixed-line measure</p> <p>AHC50</p>	<p>How are we doing?</p> <p>In 2019/20, 18.4 percent of all children were living in poverty on the after-housing-costs measure.</p> <p>What does this show?</p> <p>This is a reduction of 4.4 percentage points (ppt), or 43,300 children, since the 2017/18 baseline year.</p>	<p>What about different groups?</p> <ul style="list-style-type: none"> • 21.1 percent of Māori children • 21.0 percent of Pacific children • 22.5 percent of disabled children <p>Since 2018/19, there has been a reduction of 1.3 ppt for Māori children and a reduction of 0.5 ppt for Pacific children.</p>
<p>Income measure:</p> <p>Before-housing-costs, moving-line measure</p> <p>BHC50</p>	<p>How are we doing?</p> <p>In 2019/20, 13.8 percent of all children were living in poverty on the before-housing-costs measure.</p> <p>What does this show?</p> <p>This is a reduction for all children of 2.7 ppt, or 25,600 children, since the 2017/18 baseline year.</p>	<p>What about different groups?</p> <ul style="list-style-type: none"> • 17.1 percent of Māori children • 19.1 percent of Pacific children • 15.6 percent of disabled children <p>Since 2018/19, there has been a reduction of 0.7 ppt for Māori children and an increase of 0.6 ppt for Pacific children.</p>
<p>Non-income measure:</p> <p>Material hardship</p>	<p>How are we doing?</p> <p>In 2019/20, 11.3 percent of all children were living in poverty on the material hardship measure.</p> <p>What does this show?</p> <p>This is a reduction of 2.0 ppt, or 18,000 children, since the 2017/18 baseline year.</p>	<p>What about different groups?</p> <ul style="list-style-type: none"> • 19.5 percent of Māori children • 26.1 percent of Pacific children • 20.4 percent of disabled children <p>Since 2018/19, there has been a reduction of 3.1 ppt for Māori children and an increase of 2.1 ppt for Pacific children.</p>

³ Note that there is greater uncertainty in the Māori, Pacific, and disability figures due to smaller sample sizes: <https://www.stats.govt.nz/information-releases/child-poverty-statistics-year-ended-june-2020>

⁴ Child poverty rates by disability status were collected for the first time in 2019/20. This means that the data needed to estimate the reduction in poverty for this group is not available yet.

There remains considerable uncertainty around the impact of COVID-19

It is still too soon to estimate precisely what COVID-19 will mean for the child poverty measures. However, the most recent forecasts indicate that the economic outlook has improved considerably from what it was at the time of last year's Budget. At the time, we noted that the economic impact of COVID-19 was expected to increase rates of child poverty on some of the measures. We still expect that COVID-19 will put financial pressure on many families but less than previously estimated.

What are we doing to directly reduce child poverty in Budget 2021?

To have a significant effect on measured child poverty rates, we need to improve the resources available to families living in poverty – either by increasing incomes, reducing housing costs or reducing other demands on household budgets.

In **Budget 2021**, to tackle inequality and child poverty, we are lifting weekly main benefit rates by between \$32 and \$55 per adult, to bring these rates in line with a key recommendation of the WEAG and provide an additional boost to families with children.

This will be achieved through the following:

- The increases will be implemented in two stages, with an immediate \$20 per adult per week increase on 1 July 2021.
- The second increase will be on 1 April 2022 to lift rates to align with a key recommendation from WEAG. In addition, for families with children, we are increasing main benefit rates by a further \$15 per adult per week in order to continue to make progress towards our child poverty targets.



109,000 sole parents and couples with children will be, on average, **\$175 per week** better off as a result of changes made by the Government since late 2017, rising to **\$207 per week** from 1 May to 1 October with the Winter Energy Payment.

These families are estimated to be better off by an average of **\$40 per week** from the Budget 2021 benefit increases.

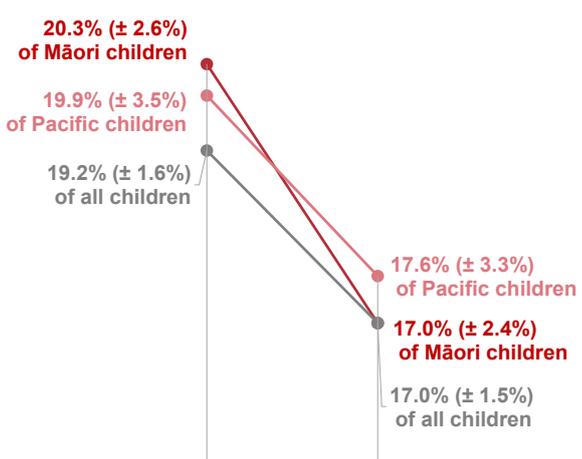
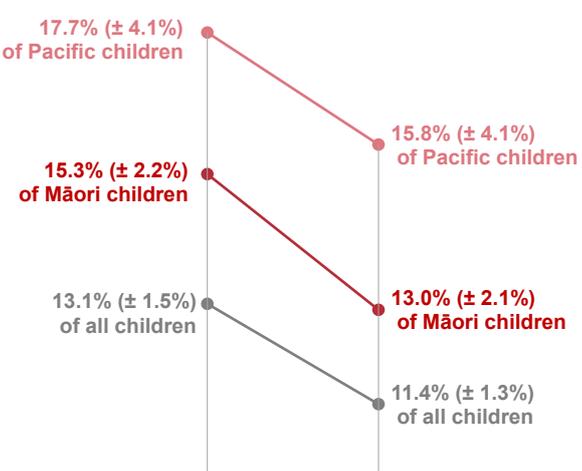
These changes will directly impact children living in poverty by putting more money in the pockets of parents. Other initiatives have a more indirect impact and are designed to ease the pressures faced by families – such as changes to health, housing and education settings. These are outlined later in this report.

What impact will these changes have on child poverty?

Increasing main benefits will have a material impact on the number of children in poverty and reduce some inequity experienced by Māori children

The increases to main benefits are projected to reduce the number of children in poverty for the year 2022/23. We expect these changes will have a larger impact on Māori children than for the population as a whole, although these estimates are subject to larger uncertainties than those for all children. In particular, we estimate that the proportion of Māori children in after-housing-costs poverty will fall and will be more comparable to the proportion for all children. The estimated changes for Pacific children are similar to the population as a whole, with much larger uncertainty due to the smaller sample size.

Table 3 – Projected impact of benefit increases on child poverty in 2022/23

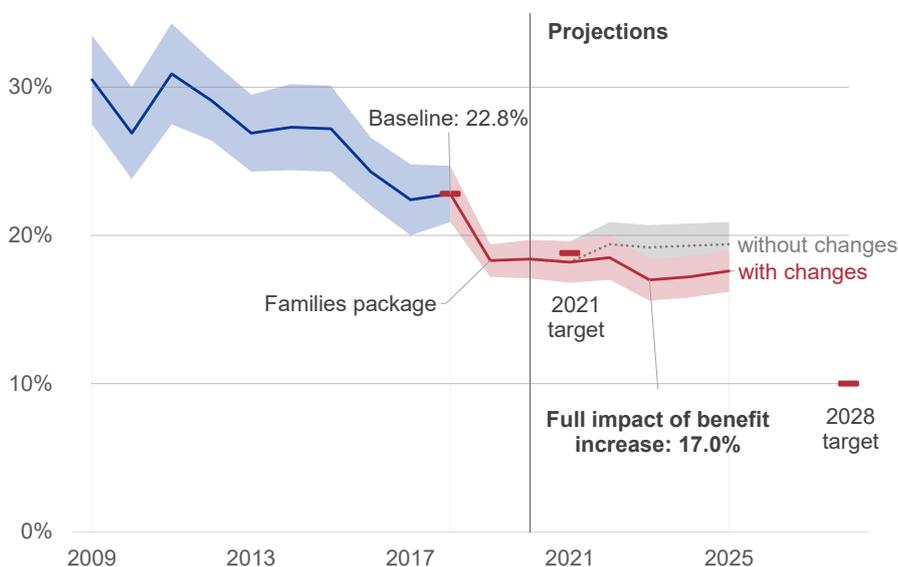
<p>Income measure: After-housing-costs, fixed-line measure</p> <p><i>Without the benefit increases, the AHC50 rate for 2022/23 was projected to be...</i></p> <p><i>With the benefit increases, this is projected to reduce to...</i></p>  <table border="1"> <thead> <tr> <th>Group</th> <th>Without benefit increases</th> <th>With benefit increases</th> </tr> </thead> <tbody> <tr> <td>Māori children</td> <td>20.3% (± 2.6%)</td> <td>17.0% (± 2.4%)</td> </tr> <tr> <td>Pacific children</td> <td>19.9% (± 3.5%)</td> <td>17.6% (± 3.3%)</td> </tr> <tr> <td>all children</td> <td>19.2% (± 1.6%)</td> <td>17.0% (± 1.5%)</td> </tr> </tbody> </table> <p>Source: Treasury</p>	Group	Without benefit increases	With benefit increases	Māori children	20.3% (± 2.6%)	17.0% (± 2.4%)	Pacific children	19.9% (± 3.5%)	17.6% (± 3.3%)	all children	19.2% (± 1.6%)	17.0% (± 1.5%)	<p>Increasing main benefits will lift between 19,000 and 33,000 more children out of poverty on the after-housing-costs measure in 2022/23.</p> <p>This includes:</p> <ul style="list-style-type: none"> between 7,000 and 13,000 Māori children between 1,000 and 5,000 Pacific children. 
Group	Without benefit increases	With benefit increases											
Māori children	20.3% (± 2.6%)	17.0% (± 2.4%)											
Pacific children	19.9% (± 3.5%)	17.6% (± 3.3%)											
all children	19.2% (± 1.6%)	17.0% (± 1.5%)											
<p>Income measure: Before-housing-costs, moving-line measure</p> <p><i>Without the benefit increases, the BHC50 rate for 2022/23 was projected to be...</i></p> <p><i>With the benefit increases, this is projected to reduce to...</i></p>  <table border="1"> <thead> <tr> <th>Group</th> <th>Without benefit increases</th> <th>With benefit increases</th> </tr> </thead> <tbody> <tr> <td>Pacific children</td> <td>17.7% (± 4.1%)</td> <td>15.8% (± 4.1%)</td> </tr> <tr> <td>Māori children</td> <td>15.3% (± 2.2%)</td> <td>13.0% (± 2.1%)</td> </tr> <tr> <td>all children</td> <td>13.1% (± 1.5%)</td> <td>11.4% (± 1.3%)</td> </tr> </tbody> </table> <p>Source: Treasury</p>	Group	Without benefit increases	With benefit increases	Pacific children	17.7% (± 4.1%)	15.8% (± 4.1%)	Māori children	15.3% (± 2.2%)	13.0% (± 2.1%)	all children	13.1% (± 1.5%)	11.4% (± 1.3%)	<p>Increasing main benefits will lift between 12,000 and 28,000 more children out of poverty on the before-housing-costs measure in 2022/23.</p> <p>This includes:</p> <ul style="list-style-type: none"> between 4,000 and 10,000 Māori children between 0 and 8,000 Pacific children. 
Group	Without benefit increases	With benefit increases											
Pacific children	17.7% (± 4.1%)	15.8% (± 4.1%)											
Māori children	15.3% (± 2.2%)	13.0% (± 2.1%)											
all children	13.1% (± 1.5%)	11.4% (± 1.3%)											

What does this mean for our goals of reducing child poverty?

The benefit increases are expected to reduce child poverty rates over the projection period, as shown below. The modelling on pages 6 to 8 are a projection only and the impacts of these initiatives are expressed as a range, based on a 95 percent confidence interval.⁵ This range accounts for uncertainty due to the survey sample error but not the uncertainty related to the economic forecasts. Modelling is not available for the material hardship measure.

Income measure: After-housing-costs, fixed-line measure, AHC50

Figure 1 – Proportion of children in households below the AHC50 poverty threshold (Stats NZ, Treasury projections)



What do we expect to happen?

We estimate that with these changes, by 2022/23 the number of children in poverty will have reduced by **between 31,000 and 85,000 children** (a 3.4 to 8.2 ppt reduction) compared to the 2017/18 baseline year.

We estimate that due to the reductions since the 2017/18 baseline year, the 2021 AHC50 target of 18.8 percent will be met. The projections suggest a fixed-line AHC50 child poverty rate of 18.2 percent ± 1.4 percent in 2021.

These projections assume no other policy changes.

What does this show?

Stats NZ figures show a significant drop in AHC50 poverty for 2018/19 because of the Families Package, which is in broad alignment with previous forecasts. This shows that we have already exceeded the 2021 AHC50 target in 2019/20.

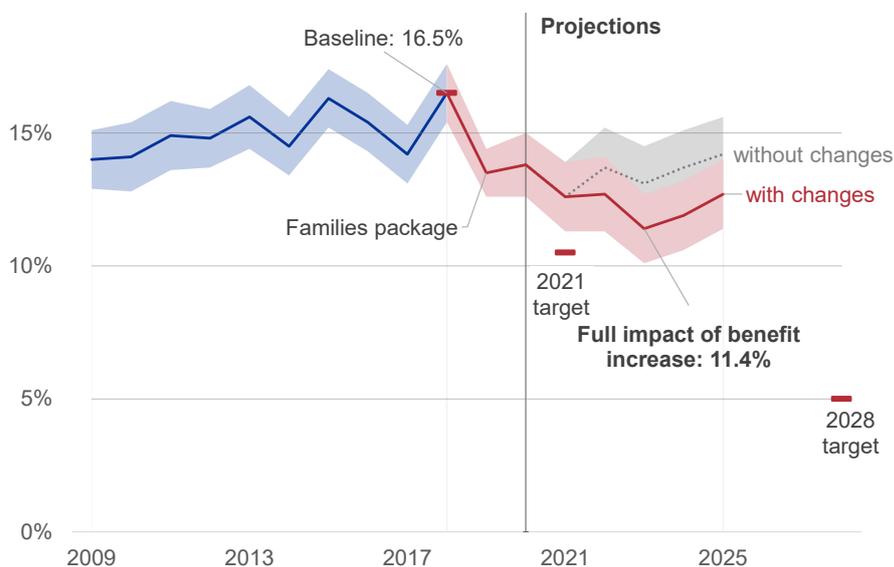
Without the benefit increases in Budget 2021, Treasury projections estimate that AHC50 poverty would have increased in 2022 due to economic conditions (particularly inflation, rent and unemployment). The benefit increases announced in Budget 2021 offset this and will further lower poverty in 2022/23.

The projections then return to a trend that is mainly driven by current economic forecasts, which suggests COVID-19 will have less of a short term impact than previously expected but a longer recovery period. This leads to relatively flat AHC50 poverty rates towards the end of the forecast period, without further investment.

⁵ Access to the data used in this study was provided by Stats NZ under the conditions of the security and confidentiality provisions of the Statistics Act 1975. The results presented labelled as Projections are the work of the Treasury, not Stats NZ.

Income measure: **Before-housing-costs, moving-line measure, BHC50**

Figure 2 – Proportion of children in households below the BHC50 poverty threshold (Stats NZ, Treasury projections)



What does this show?

Stats NZ figures show a significant drop from 2017/18 to 2019/20 because of the Families Package. This is a smaller drop than forecast in last year’s Child Poverty Report, in part due to higher than expected increases to median incomes compared to those on lower incomes (increases BHC50).

Treasury projects a further drop in 2020/21. This reflects:

- economic forecasts that show slower growth in median household incomes than previous years and an associated reduction in the poverty threshold (decreases BHC50)
- previous policy changes, which increased benefit rates in April 2020 (decreases BHC50), and
- an increase in unemployment and the number of households reliant on benefits (increases BHC50).

The benefit increases announced in Budget 2021 are expected to reduce BHC50 poverty in 2021/22 and 2022/23. After this, median incomes are projected to rise faster than incomes at the bottom of the distribution. Without further Government intervention, this would result in an upward trend.

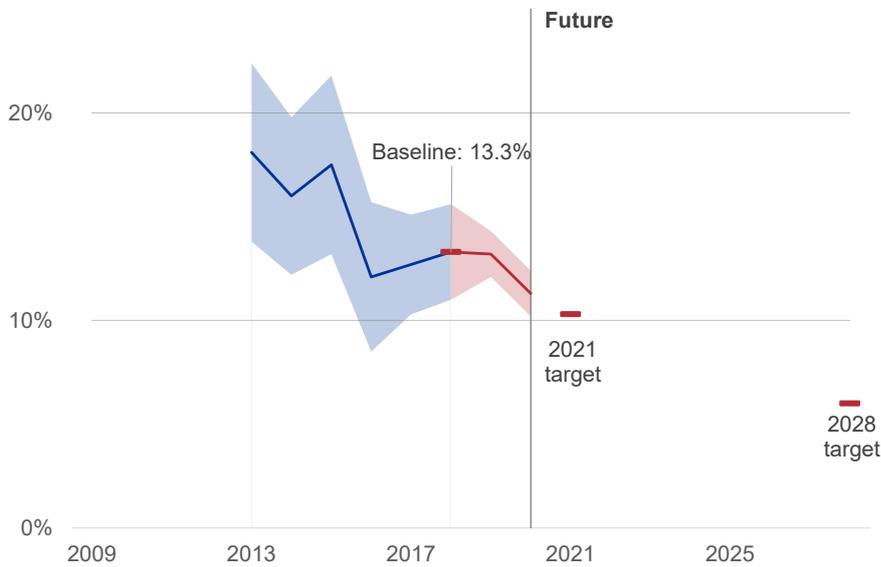
What do we expect to happen?

We estimate that with these changes, by 2022/23 the number of children in poverty will have reduced by **between 34,000 and 72,000 children** (a 3.4 to 6.8 ppt reduction) compared to the 2017/18 baseline year.

We estimate that although the measure is trending downwards towards 2021, the 2021 BHC50 target of 10.5 percent will not be met. The projections suggest a BHC50 child poverty rate of 12.6 percent ± 1.3 percent in 2020/21. These projections assume no other policy changes.

Non-Income measure: Material hardship

Figure 3 – Proportion of children in households experiencing material hardship (Stats NZ)



What does this show?

Stats NZ figures show that, since 2017/18, this measure has decreased by 2 ppt, likely in part because of the Families Package.

What do we expect to happen?

The 2019/20 rate for material hardship is 11.3 percent ± 1.1 percent. This rate is close to the 2021 material hardship target of 10.3 percent but it is difficult to estimate what will happen for 2020/21 rates.

Material hardship is affected by many factors, including income, household costs and other non-financial support. This means it is hard to predict how rates will be affected by different policies. Therefore projections are not possible using the Treasury's model.

What else are we doing to support children in poverty?

Improving child wellbeing is about more than meeting targets. We are focussed on a range of initiatives that will make a material difference to the lives of the families and children living in poverty. Some initiatives can reduce the depth and severity of poverty itself. Others, such as education and health initiatives, can address some of the related challenges faced by families and children living in poverty by mitigating the consequences of poverty and disadvantage and improving the wellbeing of children and young people.

Changes to support parents into and to remain in employment

- We are supporting parents to upskill by reinstating the **Training Incentive Allowance**, which provides financial support for sole parents to pursue higher qualification levels. We are also investing in more **employment services** through the Ministry of Social Development and expanding **Flexi-wage** to support more people from a benefit into work.
- We are introducing indexation of **Childcare Assistance** income thresholds, so they increase every year in line with wage increases and working in partnership with **Out of School Care and Recreation Service (OSCAR)** providers to support low-income families with after-school childcare.

Changes to support families to remain safe and well in their homes

- We are delivering more insulation and heating retrofits for low-income homeowners by extending the **Warmer Kiwi Homes** Programme. We are ensuring compliance with the **Healthy Homes Standards** with proactive investigation and enforcement and are expanding the reach and impact of the **Healthy Homes Initiative**, which works with low-income families to create warmer, drier, healthier homes.
- In addition to our wider changes intended to increase housing supply, we are also accelerating immediate delivery of new housing and repairs to existing stock for Māori across Aotearoa New Zealand through **Whai Kāinga Whai Oranga**.

Changes to ensure children have the basic essentials

- We are extending the **Ka Ora, Ka Ako Healthy School Lunches Programme** to provide free and healthy school lunches to over 200,000 students and supporting **KickStart** to provide breakfasts for 36,000 school children in high deprivation areas.
- We are supporting **KidsCan** to provide 17,500 raincoats to children in need. We are also helping children learn by expanding **Reading Together Te Pānui Ngātahi Partnerships and Duffy Books in Homes**.

Changes in the health sector to help children get the best start in life

- We are taking action to support core health checks for children and their families through **Well Child Tamariki Ora**. In addition, we are supporting Pacific health providers to implement **Ola Manuia** – the Pacific Health and Wellbeing Action Plan.
- We're improving equitable access to Sexual and Reproductive Health Services by funding **Family Planning**. We're also continuing primary maternity funding to enable ongoing access to free **maternity services** for New Zealand women.

What are we doing to help break cycles of disadvantage and intergenerational poverty?

There are also a number of Budget 2021 initiatives that are likely to have a positive impact on the wider wellbeing of some children living in poverty and may also help break cycles of disadvantage and intergenerational poverty over the longer term. These include initiatives related to child development, whānau wellbeing, mental health, prisoner reintegration, child protection and family violence.

Changes to support children in State Care

- We're **improving financial assistance for caregivers** by aligning the standard payments received when caring for children both inside and outside the State Care system. Through Budget 2021 we're also providing funding to **meet the increased costs of assessed needs**, such as education and health, of children in Oranga Tamariki's care.
- We're also supporting Oranga Tamariki's partners to lead a shift in the way that government **supports tamariki and whānau in greatest need**. This funding will support Māori to develop, design, and deliver solutions to ensure that tamariki Māori are thriving under the protection of whānau, hapū, iwi and hapori Māori.

Changes to address harm caused by family and sexual violence

- We want all children to live in safe homes which is why we're continuing our actions to prevent family and sexual violence. This includes sustaining current multi-agency safety responses designed to ensure the immediate safety of victims and children, and to work with perpetrators to prevent further violence. These place-based models and crisis responses provide foundations for the design and success of integrated, community-led, whānau-centred approaches.

Changes to support whānau through the justice system

- We are providing additional **legal aid funding** to cover increasing costs and demand and **making changes to safeguard child wellbeing in the family justice system** by enabling faster resolution of disputes in the Family Court. We are also taking action to support **Te Pae Oranga iwi community panels** by establishing 12 additional locations over four years, and to improve **Kaupapa Māori Services for Wāhine** in the care and management of Corrections in Ōtautahi and across the wider Canterbury region.

Changes in the education sector to support how children learn

- We're investing in **System Infrastructure for the Equity Index** (replacing the current decile system). This will ensure schools and kura are best supported to mitigate the socio-economic barriers faced by learners, the wider school community and whānau.
- We are supporting learners through an additional 7,500 student places in the **Attendance Service** to enable them to attend school regularly, as well as alleviating cost pressures for **alternative education services**. Through our investment in the **Reform of Tomorrow's Schools** we are giving staff in the regions the resources to respond more quickly and identify local solutions to some of the emerging needs.
- We are also continuing the **Mana Ake** initiative to make mental health support available to all primary and intermediate school-age students in Canterbury and Kaikōura. Utilising the learnings from Canterbury and Kaikōura, we are also assisting the co-design of mental wellbeing supports in primary and intermediate schools in five new District Health Board areas.

