

# Aide-mémoire



MINISTRY OF SOCIAL  
DEVELOPMENT  
TE MANATŪ WHAKAHIATO ORA

## Cabinet paper

**Date:** 7 June 2024 **Security level:** In-Confidence

**For:** Hon Louise Upston, Minister for Child Poverty Reduction

**File Reference:** REP/24/6/520

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## Cabinet paper – Continuing to reduce child poverty: setting the third intermediate targets for child poverty reduction

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**Cabinet Committee** Cabinet Business Committee

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**Date of meeting** 10 June 2024

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**Purpose** This aide-memoire provides you with talking points to support you at the Cabinet Business Committee on Monday 10 June 2024.

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**Proposal** The Cabinet paper seeks agreement under the Child Poverty Reduction Act 2018 (the Act) to set the third round of the three-year, intermediate child poverty targets.

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**Key issues and talking points** The third intermediate targets must be set by the end of June 2024. They can be changed at any time over the next three years, prior to the end of the intermediate target period of 2027.

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You may wish to provide your colleagues with a brief overview of the Act.

- The Child Poverty Reduction Act 2018 requires governments to set ten-year (long-term) targets for reducing child poverty on the primary measures in the Act, and three-year (intermediate) targets for tracking progress.
- The primary measures consider after-housing-costs income poverty (AHC50), before-housing-costs income poverty (BHC50), and material hardship.
- As the Minister for Child Poverty Reduction, I must set the third intermediate targets (covering the period 2024/25 to 2026/27) by the end of June 2024.
- I propose to set the targets in line with what I consider to be achievable in the current context, and based on the economic outlook and Treasury's child income poverty forecasts.
- I propose to set the third intermediate (2026/27) targets to:
- 11% of children on the material hardship measure (compared to the most recent 2022/23 rates of 12.5%)
- 14% of children on the AHC50 measure (compared to the most recent 2022/23 rates of 17.5%), and
- 15% of children on the BHC50 measure (compared to the most recent 2022/23 rates of 12.6%).

### ***Treasury's forecasts***

Treasury's modelled estimates in this year's Child Poverty Budget Report 2024 provide the best indication of the impact of the economic outlook on AHC50 and BHC50 poverty rates.

- Treasury's forecasts give a sense of the direction of travel for income poverty rates.
- Material hardship rates can't be modelled but are strongly correlated with overall AHC50 poverty rates.
- The forecasts take into account the impact of the Budget 2024 package, in the absence of further policy intervention.
- The projections are broadly positive for the AHC50 measure and, by association, the material hardship measure.

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- This reflects the impact of our 2024 Budget Package initiatives of tax relief, increases to the In-Work Tax Credit, and the introduction of Family Boost.
  - Of the three primary measures, material hardship is the one I'm most focused on. It's readily understood and directly reflects whether families have access to the 'basics' in life.
  - The forecasts suggest that the Budget package hasn't significantly altered the outcome for the BHC50 measure, however, which is forecast to increase (to 15% of children in 2026/27).
  - Unlike the AHC50 measure, the BHC50 measure reflects how low-income households with children are faring, relative to middle-income households.
  - Because we've invested in middle-income as well as low-income working households, we've had little impact on this measure.

### ***Approach to reducing child poverty***

You may want to talk your colleagues through your key levers for reducing child poverty.

- In reducing child poverty, my focus will be on employment as I believe it's the best route out of poverty.
- Our wider focus on economic growth and reducing inflation will also ease pressure on household incomes and reduce the number of children in hardship.
- Over the longer term, our work in areas such as education, health, and housing will be critical in addressing the underlying drivers of child poverty.

### ***Options for setting the targets***

You may want to let your colleagues know you considered other options for the targets.

- I considered other options for setting the targets but we're constrained by what we can achieve in the time available.
  - There are limited options to achieve reductions on the BHC50 measure in particular.
  - Unlike the other primary measures, the BHC50 measure isn't sensitive to policy changes that reduce inflation and cost-of-
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living pressures – which means that to achieve a lower target would require significant additional and targeted investment through increases to benefits or Working for Families tax credits to lift the incomes of low-income families faster than middle-income families.

### ***Child Poverty Related Indicators***

You are updating the Child Poverty Related Indicators as part of the Child and Youth Wellbeing Strategy refresh.

- I also intend to make changes to the current Child Poverty Related Indicators as part of the refresh of the Child and Youth Wellbeing Strategy.
- I will be reporting to Cabinet on this later this year.
- Under the Act, the Child Poverty Related Indicators are measures that reflect the causes, correlates or consequences of poverty.
- I intend to align them to the Government Targets, focussing on the indicators that reflect our priorities and help tackle the underlying drivers of poverty.

### ***The ten-year targets (if required)***

There is currently a mismatch between the proposed third intermediate targets and the ten-year targets due to be achieved a year later.

The ten-year targets can be changed at any time before the end of the target period of 2028. (See Appendix One for a table showing the proposed third intermediate targets and the current ten-year targets.)

- The ten-year targets were ambitious when set and my recently-commissioned review of the ten-year targets concluded that they cannot practically be achieved in the current economic context and fiscal climate.
- I considered changing the ten-year targets alongside setting the third intermediate targets, but decided now was not the right time.
- The proposed third intermediate targets are significantly higher than the ten-year targets due to be achieved in 2027/28, which is just a year after the third intermediate target period ends (2026/27).

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- But I have set the intermediate targets in line with what I consider to be achievable in the current context.
  - I am continuing to consider whether the ten-year targets need to be changed and when the right time to do this would be.

***The negative BHC50 target (if required)***

You may want to raise the issue of the BHC50 rate tracking up in the forecasting.

- Because of the forecasts for the BHC50 measure, and the limited options to achieve reductions on the measure, I have set a negative target on BHC50 (in line with the forecasts).
- This, alongside the mismatch between the proposed third intermediate targets and the ten-year targets, is likely to attract media attention and public commentary.

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## Appendix One: Proposed third intermediate and current ten-year targets

Table 1: Proposed third intermediate and current ten-year targets

Primary Measure	Baseline 2018 (measured) rate	2022/23 measured rate	2026/27 proposed third int. targets (aligned with forecasts)	Ten-year target rate
<p><b>Material hardship</b></p> <p>The proportion of children living in households scoring 6 or more out of 17 on the DEP-17 material hardship index.</p>	13.30%	12.50%	11.0%	6.0%
<p><b>AHC50</b></p> <p>The proportion of children living in households with incomes less than 50% of the median income in 2018, after deducting housing costs and adjusting for inflation.</p>	22.80%	17.50%	14.0%	10.0%
<p><b>BHC50</b></p> <p>The proportion of children in households with disposable incomes less than 50% of the median in a given year.</p>	16.50%	12.60%	15.0%	5.0%