



# Report

**Date:** 29 November 2023

**Security  
Level:**

~~IN CONFIDENCE~~

**To:** Hon Louise Upston, Minister for Social Development and  
Employment

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## Operating within fiscal constraints

REP/23/11/897

### Purpose

- 1 The purpose of this report is to provide you with an overview of our Vote and operational spending, including our workforce, to support an iterative discussion with you about your priorities and expectations for further reductions in government expenditure and resourcing levels, including the use of contractors and consultants. It also outlines our cost pressures, our actions to date to identify savings as part of Budget 2023, and our savings options to meet the fiscal sustainability payment agreed by the previous government.
- 2 We would also appreciate engagement on:
  - options for finding savings for the \$60.3m fiscal sustainability payment required of us by the previous government, particularly the proposed reductions in funding in the Improved Employment and Social Outcomes Support, and Community Support Services Multi-Category Appropriations (MCA)
  - whether you would like us to stop implementation or reprioritise, some Budget 2023 decisions, where the Ministry of Social Development (MSD) has not yet committed to procurement or started implementation of initiatives.

### Recommended Actions

It is recommended that you:

- 1 **note** that Vote Social Development is projected to increase going forward, mostly driven by the ageing population and number of people receiving New Zealand Superannuation, which is the largest component of the Vote
- 2 **note** that MSD's operational funding is set to decline over the next few years, due to savings committed and the expiry of time-limited funding – and cost pressures which will increase

- 3 **note** that MSD committed to a range of reprioritisation and savings through Budget 2023
- 4 **note** that MSD has already reduced spending to enable it to manage cost pressures and deliver savings within the 2023/24 financial year
- 5 **note** that MSD has established a fiscal sustainability work programme to identify \$60.3m savings for the fiscal sustainability payment; along with opportunities to reduce spending further in line with your expectations and priorities, including reducing our spend on contractors and consultants
- 6 **note** that MSD was asked to provide a draft plan to Treasury in December 2023 outlining how it will reduce its baseline by \$60.3m for the fiscal sustainability payment agreed by the previous Government
- 7 **note** that MSD understands that the process for making decisions on fiscal sustainability payments may be integrated into a broader savings process leading up to Budget 24, following decisions by the Minister of Finance and Cabinet

s9(2)(f)(iv) [Redacted]

- 9 **note** that Officials would appreciate an early opportunity to discuss deferring or pausing Budget 2023 programmes
- 10 **note** that Officials would appreciate an early opportunity to test our thinking with you about the potential savings identified
- 11 **note** that advice can be provided on further options to generate additional savings, including:
  - 11.1 Policy choices
  - 11.2 Operational policy or operational changes
  - 11.3 Stopping existing programmes or policies
  - 11.4 Reviewing MSD’s functions and number of FTE
- 12 **agree** to meet with Officials to discuss the overall fiscal sustainability work programme, your priorities and expectations for this work; and short-term decisions about MCA savings and pausing or stopping Budget 2023 decisions.

**agree/disagree**

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Sacha O’Dea  
Deputy Chief Executive, Strategy and Insights

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Date

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Hon Louise Upston  
Minister for Social Development and  
Employment

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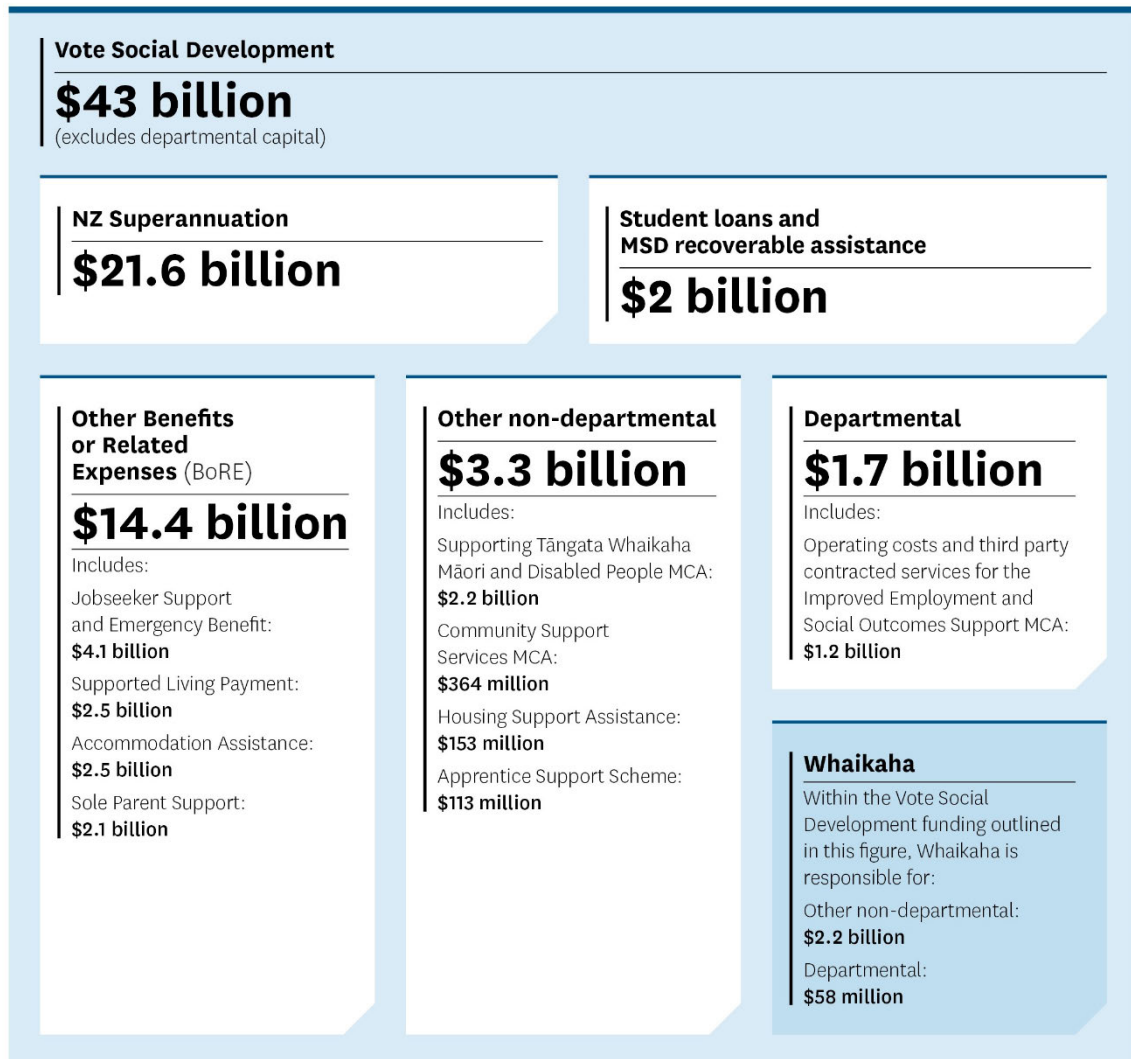
Date

## Incoming government’s signalled fiscal priorities

- 3 We understand that key fiscal principles for the Government are to achieve a return to surplus, to reduce government debt, and to examine existing government spending to ensure it is delivering value. We welcome an early discussion with you about MSD’s fiscal sustainability programme and your priorities and expectations for this.

## Overview of Vote Social Development

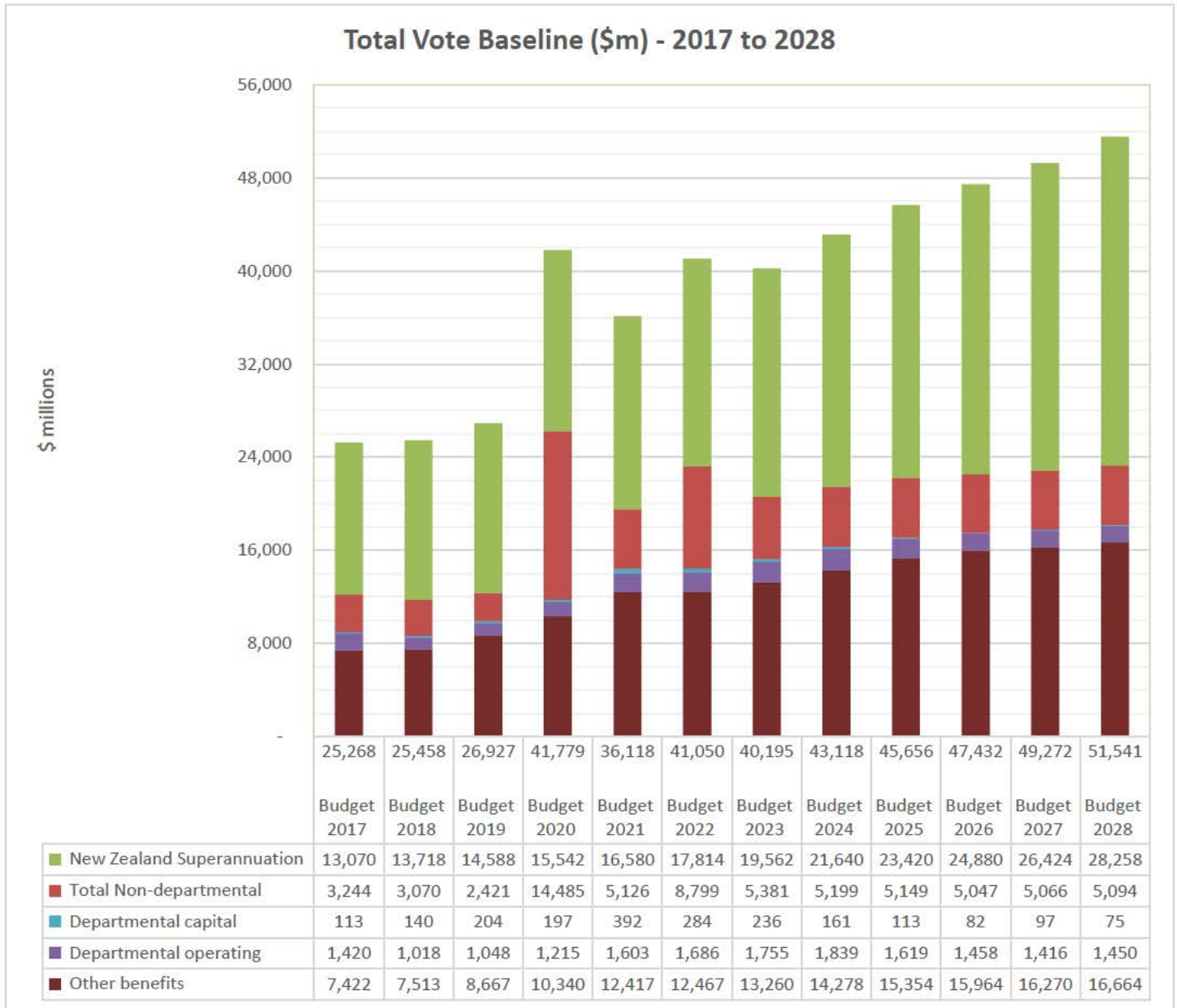
### Vote Social Development – Budget 2023/24



### Vote Social Development is projected to continue increasing, largely driven by growth in New Zealand Superannuation

- 4 As illustrated in the table above, NZ Superannuation and other Benefits or Related Expenses (BoRE) make up the large majority of total Vote Social Development expenditure (50.2 percent and 33.5 percent respectively).

- 5 The following graph shows total Vote Social Development expenditure since 2017, which is forecast to continue increasing. This is largely driven by growth in NZ Superannuation as the population ages.<sup>1</sup>



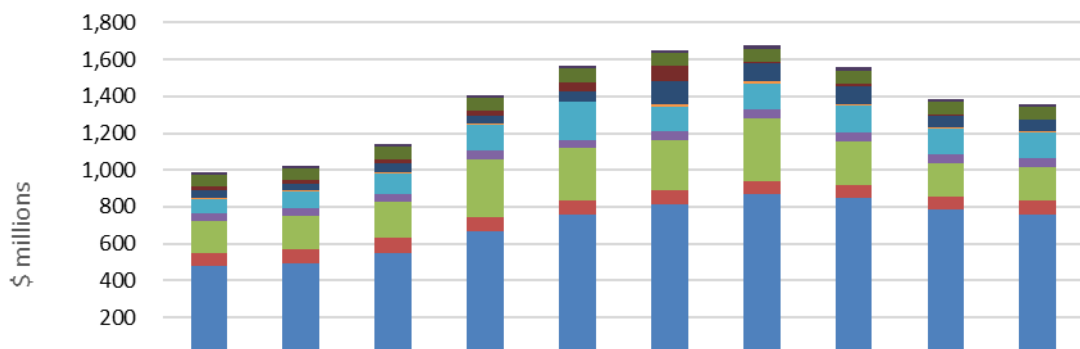
**... however MSD operational expenditure is declining at the same time as we are facing growing cost pressures and increasing demand for support...**

- 6 The graph on the next page shows MSD’s departmental funding from 2017/18 to 2026/27.<sup>2</sup>

<sup>1</sup> Note in tables and graphs: “FY” or “Budget” refers to the financial year ending in the year specified. For example, FY 2020 refers to 2019/20.

<sup>2</sup> Note that Budgeted numbers are as at 20 September 2023, and therefore do not reflect the October Baseline Update.

Expense Categories



	Actual 17/18	Actual 18/19	Actual 19/20	Actual 20/21	Actual 21/22	Actual 22/23	Budget 23/24	Budget 24/25	Budget 25/26	Budget 26/27
Capital Charge	11.933	13.727	14.172	12.261	15.691	17.631	18.211	17.537	17.555	17.932
Depreciation and amortisation	62.870	64.322	68.265	72.631	74.703	70.808	70.028	69.695	70.086	70.303
Other	22.702	20.126	24.312	26.150	45.247	84.894	6.749	18.688	7.758	-
Consultancy, contractors, professional fees	40.546	38.344	48.974	42.575	58.271	125.744	102.530	96.251	61.007	61.007
Travel	5.112	6.134	5.305	5.464	3.146	8.166	8.157	8.583	8.625	8.621
IT related operating expenses	83.325	91.805	111.897	140.907	204.468	134.302	143.291	142.217	137.624	137.986
Office expenses	38.626	40.519	41.777	45.853	42.637	48.379	50.025	49.489	48.273	48.477
Employment support and subsidies	173.101	180.845	197.426	315.315	287.137	273.425	335.548	235.391	178.497	178.369
Rental, leasing & occupancy costs	72.435	72.317	77.516	75.625	72.777	78.140	75.100	75.255	75.515	75.492
Personnel	477.292	496.123	551.852	668.844	761.126	811.245	867.117	846.016	782.607	760.335

7 Our baseline reduces significantly from 2023/24 to 2026/27 – mostly due to the expiry of time-limited funding for Historic Claims, Employment Programmes, Te Pae Tawhiti Programme, and 490 frontline staff to meet forecast increases in benefit numbers.

8 Whilst our baseline is reducing, we are facing growing demand for support. The number of people receiving a working age benefit is forecast to continue increasing, peaking at 382,900 people in January 2025 (based on PREFU<sup>3</sup> forecasts); and the number of New Zealand Superannuation recipients is also forecast to continue increasing. This will create pressures across a range of MSD’s supports and services.

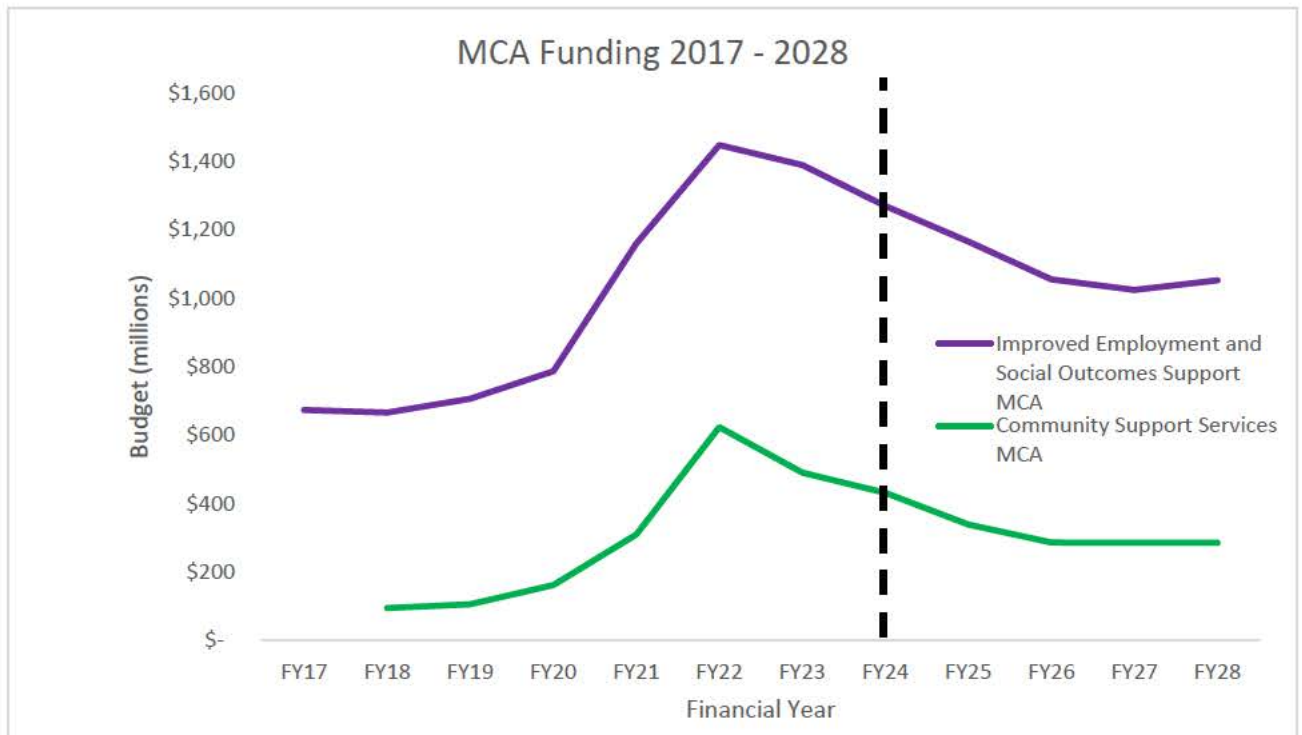
**... and our Employment and Community MCAs are also decreasing**

9 Both the Employment and Community Support Services MCAs will decrease over the next five years, as shown in the graph on the next page.<sup>4 5</sup>

<sup>3</sup> Pre-election Economic and Fiscal Update.

<sup>4</sup> Note the Community Support Services MCA was established from 1 July 2017.

<sup>5</sup> Note the Employment MCA increases from FY 27 to FY 28 due to the expiry of Departmental savings agreed through the Budget 2023 process (see paragraph 25 below for more detail).



10 These funding drops are largely due to the expiry of time-limited funding. Examples of employment programmes with time-limited funding include the Flexi-wage expansion, Apprenticeship Boost Initiative, and Mayors Taskforce for Jobs. Examples of community programmes with time-limited funding include Community Connectors and some Family and Sexual Violence initiatives.

11 There are also some cliff faces within Vote Social Development, where funding has been agreed through Budget processes for 1-2 years, with an expectation further funding will be sought through later budget processes. The most significant fiscal risks include:

- Te Pae Tawhiti – funding has been appropriated for 2 years of a 9-year programme
- Historic Abuse Claims – funding was provided for one year in Budget 23 (Treasury has today requested further on detail on this area)
- MSD support services for Emergency Housing – funding was provided from the Budget 2022 contingency for Emergency Housing for the 2023/24 financial year, with no funding for outyears.

**MSD’s workforce**

12 s9(2)(f)(iv) [Redacted]

13 MSD’s FTE has increased from 6,799 as at 30 June 2017 to 9,224 as at 30 September 2023. This includes a number of new functions that MSD has taken on as a result of government policy decisions to deliver additional services and/or functions as an interim measure or an ongoing basis, with the main initiatives outlined in paragraphs 21 and 22 below. There have also been

a number of changes, including support for the Public Housing register, Child Support pass-on and Care in the Community support.

- 14 MSD also received funding for additional FTEs for replacing our Corporate Platform (Payroll and Financial Management Information System (FMIS))<sup>6</sup> and the commencement of our Te Pae Tawhiti work programme.
- 15 Over the period, there were also staffing increases as a result of the successive COVID-19 Response and Recovery Fund packages, which provided funding to respond to the effects of the COVID-19 pandemic, and the resulting increase in New Zealanders receiving income support including additional staffing to support employment and housing needs.
- 16 Given the time limited nature of COVID-19 funding and other initiatives, Service Delivery FTE will decrease by 1,368 by 2025. Based on this, the forecast numbers of FTE for Service Delivery are 6,809 FTE on 1 July 2024, 6,173 FTE on 1 July 2025, and 6,130 FTE on 1 July 2026.
- 17 Outside of Service Delivery, we are expecting to need to reduce the FTE in other functions by at least 250 FTE to fit within our smaller baseline for 2024/25. We are currently working through a process to identify where to reduce positions with the least impact on the frontline and performance, and the least disruptive process to achieve this, for example, managing through attrition where possible. Based on our modelling to date, total FTEs are expected to be around 8,000 at the end of the 2024/25 year.
- 18 We would like to work with you to understand your agenda as part of this process, so we can align any changes to deliver on your work programme. There will be service level impacts and trade-offs and we would like to discuss these with you. We expect this is likely to be an iterative process.
- 19 With our baseline reducing in outyears, we are also undertaking work to better understand the implications for our workforce going forward, including priorities to deliver on the Government's work programme. This will lead to a further reduction in overall FTE numbers in outyears, with the main focus on ensuring that business groups which do not work directly with clients are the appropriate size.

### **Vote Social Development received funding for MSD to deliver new functions**

- 20 In July 2018, the Minister of Finance and Minister for Social Development commissioned a review of MSD's baseline, conducted jointly by MSD and the Treasury. The Baseline Review found that MSD's baseline expenditure is generally good value for money, and that MSD is broadly efficient at administering the welfare system within its processes and systems (though it also noted potential to improve operational efficiency for administration of the benefit system). Funding was provided for 263 of the 563 additional FTEs recommended in the review.
- 21 Since 2017, government made policy decisions for MSD to deliver additional services and/or functions funded out of Vote Social Development – as an interim measure or on an ongoing basis. This included:

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<sup>6</sup> These are fixed-term FTEs.

- MSD support services for Emergency Housing – funding was provided from the Budget 2022 contingency for Emergency Housing for the 2023/24 financial year, with no funding for outyears
- the transfer of He Poutama Rangatahi - Youth Employment Pathways, the Māori Trades and Training Fund, and the three Auckland-based Jobs and Skills Hubs from the Ministry of Business, Innovation and Employment (\$112.489m in 2021/22, and \$41.250m ongoing per year thereafter)
- the establishment of Whaikaha – Ministry of Disabled People (\$6.500m in 2021/22, and a total of \$4.657m over the following two years)<sup>7</sup>
- establishing and operating the Independent Childrens Monitor from July 2019 (a total of \$41.407m over five financial years), with the Monitor then shifting to a departmental agency of the Education Review Office from 1 May 2023, and
- reductions in economies of scale as a result of the decoupling of shared services MSD provided to Oranga Tamariki (a total of \$318.324m from 2016/17 to 2020/21, and over \$34m ongoing per year thereafter).

### **MSD received time-limited funding to deliver supports during COVID-19, and most of this funding has ended**

- 22 As outlined in Appendix One, MSD played a crucial role in the Government's response to the COVID-19 pandemic. In addition to support provided directly to clients and other non-departmental expenditure, this also required an increase in COVID-related departmental FTE and expenditure (as shown in the departmental graph of Appendix Two).
- 23 Further detail on the background of MSD's expenditure is attached as [Appendix One](#).
- 24 A view of MSD's departmental and non-departmental baseline, showing changes such as COVID-19 related expenditure and the establishment of Whaikaha – Ministry of Disabled People, is attached as [Appendix Two](#).

### **Responding to a tighter fiscal environment**

#### **As part of Budget 2023, MSD made savings and reprioritised funding**

- 25 As indicated in our primary Briefing to the Incoming Minister, MSD committed to a range of reprioritisation and savings initiatives through the Budget 2023 process. We committed to total savings of \$87m from 2023/24 to 2026/27, comprised of reductions in:
- MSD's National Office footprint – \$6.214m
  - IST contracts - \$18.400m
  - overall travel – \$2.892m
  - MSD's average annual leave liability - \$11.200m, and
  - MSD's budget - \$48.000m.

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<sup>7</sup> Note we are continuing to provide support to Whaikaha as a Departmental agency.



- 26 Given the pressure on Budget 2023, MSD also absorbed a total of \$48.470m from a variety of cost pressures:
- all of a departmental cost pressure for the Government Carbon Neutral Programme, as well as for fleet management, optimisation, and transition
  - part of a departmental cost pressure for MSD security guards, and
  - part of a departmental cost pressure for Service Delivery (including overtime, Transition to Work, \$5k to Work programme, 0800 call costs, letters, and MSD payment cards).
- 27 Other initiatives were partially funded through reprioritisation in the final Budget 2023 package, enabled by underspends in departmental (\$24 million) and Flexi-Wage Employment Assistance expenditure (\$117 million).
- 28 Of this funding, \$206.750m was allocated towards offsetting the cost of the following Budget 2023 initiatives, and the remainder was returned to the centre.<sup>8</sup>

Budget 2023 initiatives which received some funding from savings & reprioritisation		Approved budget (\$m)	Amount offset from savings & reprioritisation	
			\$m	%
Te Pae Tawhiti <sup>9</sup>	Opex	75.500	80.000	81%
	Capex	23.500		
Transferring unspent Flexi-wage funding forward to continue delivering Flexi-wage at expanded levels		56.000	28.000	50%
MSD Frontline Staff to Maintain Service Levels		95.550	35.550	37%
Employment MCA: Mayors' Taskforce for Jobs		28.000	28.000	100%
Employment programmes that respond to the recent extreme weather events in the North Island		40.000	35.200	88%
<b>Total</b>			206.750	N/A

<sup>8</sup> Note that any differences between approved budget and amount offset from savings and reprioritisation was new Budget funding.

<sup>9</sup> Note that MSD is also providing a further contribution of \$83m over two years, on top of this \$80m of Budget 2023 funding.

## Cost pressures are expected to continue going forward

29 Based on initial analysis, MSD has estimated total cost pressures of approximately \$208m to \$295m per annum over the four-year forecast period. Cost pressures include:

- personnel and wage drivers, including remuneration such as Manager Pay Progression<sup>10</sup>
- volume pressures, with the number of people receiving a working age benefit and the number of New Zealand Superannuation recipients forecast to increase (as outlined above), which will create pressures across a range of MSD's supports and services
- price pressures experienced in line with inflation (we are still working to better understand the specific impact across MSD's supports and services).

## There are funding cliff faces due the expiry of time-limited funding

30 The expiry of time-limited funding for supports and services is expected to create further cost pressures. In the short-term, funding is required for some initiatives from 2024/25, such as:

- Resolving Historic Abuse Claims (approximately \$58.400m for 2024/25)
- MSD support services for Emergency Housing (funding was provided from the Budget 2022 contingency for Emergency Housing for the 2023/24 financial year, with no funding for outyears), and
- Building Financial Capability (approximately \$7m per year).

31 Time-limited funding will expire for some other key initiatives from 2025/26 onwards, such as:

- Te Pae Tawhiti programme (the estimated total cost of the Programme as currently planned is between \$2.1 and \$2.6 billion)
- Frontline staff to maintain service levels (approximately \$47.822m per year)
- Food Secure Communities (approximately \$11m per year)
- Social Sector Commissioning (approximately \$1m per year, based on current costs), and
- Community Connectors (approximately \$15.901m per year).

## A Fiscal Sustainability and Effectiveness Programme was announced following Budget 2023

32 In August 2023, the former Minister of Finance announced a Baseline Savings Exercise. This announcement noted that public sector agencies are being required to trim one or two percent off their existing baselines. From 2024/25, MSD is required to identify \$60.3m of permanent savings from

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<sup>10</sup> Note that MSD is the subject of two wider Public Service pay equity claims (covering administration and clerical employees), covering around 3,000 people. The Public Service Commission leads the ongoing work to resolve these, and we will brief you on how these progress and any potential fiscal implications.

existing baselines (based on two percent of a \$3.016b baseline in 2024/25), whilst protecting frontline service delivery.

- 33 Whilst capital expenditure, hosted services, Benefits or Related Expenditure (BoRE), and Whaikaha were excluded when calculating this relevant baseline expenditure, the Treasury later confirmed that the following funding from 2024/25 was included:
- Student Allowances (BoRE) of \$716.926m (the Ministry of Education is responsible for advice on policy settings)
  - Veteran’s Pension (BoRE) of \$127.822m (Veterans Affairs is responsible for advice on policy settings)
  - Training Incentive Allowance (BoRE) of \$20.636m
  - Study, Scholarships and Awards (BoRE) of \$22.546m
  - Debt Write-downs (Non-departmental Other Expenses) of \$132.022m
  - Reimbursement of Income Related Rent Overpayments of \$6.262m
  - Non-Recoverable Housing Support Assistance of \$6.441m.
- 34 The impact of this was that the savings expectation of \$60.3m for MSD is actually 3 percent of the departmental baseline.
- 35 A draft plan for how savings will be achieved was asked to be submitted to Treasury by December 2023. We now understand that the process for making decisions on fiscal sustainability payments may be integrated into a broader savings process leading up to Budget 24, following decisions by the Minister of Finance about the savings programme and Budget 24 processes.

### **We have identified savings options to achieve our baseline reduction...**

- 36 MSD has reviewed our expenditure, initially focusing on costs directly within our control (such as our discretionary spend, contractors and consultants, and accommodation). Following this, we reviewed our MCA expenditure for further savings opportunities. We have identified savings options for our baseline reduction, as shown in the following table.

<b>Area of expenditure</b>	<b>Savings per Financial Year (\$m)</b>
Discretionary spend	4.200
Contractors and consultants	11.650
Reducing contractors and consultants for backfill – cost differential	4.000
Accommodation	0.700
Employment MCA	s9(2)(f)(iv)
Community Support Services MCA	s9(2)(f)(iv)
Reprioritisation from stopping Budget 2023 initiatives, including Minimum Wage Exemption	At least 11.937

*Savings on discretionary expenditure*

- 37 After completing a line-by-line review of expenditure, savings of \$4.2m have been identified from MSD's discretionary spending, for example travel.

*Savings on contractors and consultants*

- 38 We are committed to reducing future spending on contractors and consultants including our reliance on contractors to perform core functions, and our spend on projects outside of Te Pae Tawhiti Programme. Note that the Corporate Platform (Payroll and FMIS) work is due to be completed by 30 June 2024.

*Accommodation savings*

- 39 MSD has been considering opportunities to consolidate our National Office footprint, including reviewing occupancy levels, cost per square meter, and co-location possibilities. Alternative ways of working could also generate longer-term savings and impact on MSD's future accommodation requirements. We have recently taken a decision to consolidate and reduce our Wellington National Office property footprint by two buildings, with savings of \$0.7m in 2024/25.

*Employment MCA savings*

- 40 s9(2)(f)(iv)

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- 41 This approach will be balanced against the forecasted increase of working-age benefit recipients, and the support required for them to return to employment. More detail on the proposed reduction is attached as [Appendix Three](#).

*Community Support Services MCA savings*

- 42 We have also conducted a review of the Community Support Services MCA. We have identified potential savings of s9(2)(f)(iv) from the MCA, and further detail is provided in [Appendix Four](#).
- 43 The Community Support Services MCA sees an overall decline in year-on-year funding after a period of significant investment. The majority of this funding was to support the time-limited COVID-19 and NIWE responses. It also included additional investment into a range of other new and existing services and programmes (most notably in the areas of family violence and youth crime).
- 44 Community-based social services are delivered largely by not-for-profit organisations, and much of MSD's investment in this area is contributory. Between 2017 and 2023, there has also been cost pressure investment to maintain service levels and quality via a mix of price increases and shifts towards more sustainable funding models.
- 45 As a result, the Community Support Services MCA will reduce to a higher ongoing baseline by 2026/27 (\$285.440m) than existed in 2017/18 (\$94.316m).

### *Stopping the Minimum Wage Exemption project*

46 Our initial modelling shows that stopping the implementation of the Minimum Wage Exemption project would provide indicative savings of \$9.708 million in 2024/25, 11.593 million in 2025/26, 12.973 million in 2026/27 and \$12.242 million in outyears. We will provide further advice on this initiative. We think that the additional funding of approximately \$2.2m for 2024/25 will be able to be met through stopping time-limited Budget 23 initiatives that are not government priorities.

### **... and we would appreciate an opportunity to discuss this with you**

47 At this stage, MSD has been asked to provide a draft plan to Treasury in December 2023 outlining how we will achieve our baseline reduction. However, we understand that this process may change and be integrated into the Budget 24 process.

48 We would appreciate an opportunity to discuss the savings options outlined above with you, in particular the reductions in funding for employment and community programmes, and the Minimum Wage Exemption.

## **Options for further fiscal savings**

### **We will provide you with further advice regarding potential additional savings, in line with the priorities of the incoming Government**

#### *Additional fiscal savings*

49 We understand that the Government will be seeking to further reduce public sector expenditure by requiring Chief Executives to identify back-office spending not critical to frontline services (excluding non-core and frontline agencies such as health, education and corrections). For the purposes of this advice, we have assumed that the exemption does not apply to MSD.

50 As outlined above, the savings expectation of \$60.3m for MSD is 3 percent of the departmental baseline. We would like to understand if some of this saving could therefore contribute to the further reduction required.

51 We would like to discuss the broader options available for achieving savings within Vote Social Development including:

- Policy choices that reduce costs of Benefits or Related Expenses
- Operational policy or operational changes that reduce costs of Benefits or Related Expenses
- Stopping existing programmes or policies
- Reviewing MSD's functions and number of FTE.

52 We have done some work to identify a range of areas where you may want to explore policy choices. We are engaging with Treasury to start a conversation about options to measure and recognise potential savings from operational policy or operational changes. Following our discussion earlier this week, we will also provide you advice on existing programmes or policies you may wish to reconsider.

53 As discussed earlier in this briefing, we are currently doing work on FTEs to:

- Identify where to reduce FTEs for 2024/25 in fit within our baseline

- Understand the implications for our workforce for outyears when our baseline reduces further.

54 We would like to work with you to understand your agenda as part of this process, so we can align any changes to deliver on your work programme. There will be trade-offs and we would like to discuss these with you, including service level impacts and trade-offs. We expect this is likely to be an iterative process.

#### *Contractors and consultants*

55 Large scale change programmes such as Te Pae Tawhiti and the Corporate Platform require strong specialist capability across integration, design, implementation, change management, and specialist technical skills. MSD does not have all the required capability internally, so we have needed to go to market to supplement our own expertise. External resources complement and support internal resources to deliver outputs that are pragmatic and owned by MSD. We are taking a long-term approach to building the capability required to support transformation and our future.

56 During the 2022/23 financial year, MSD spent \$101.9m on contractors and consultants for operating costs (an additional \$31m was spent on capital programmes), and we had forecasted a spend of \$118m operating and \$32m capital spend for 2023/24. We have recently confirmed with the Public Service Commission that we are confident we will remain within forecast contractor and consultant costs for 2023/24.

57 The Public Service Commission expectation is that all agencies will get contractor and consultant operating spend to below 11 percent of workforce spending by the beginning of the 2025/26 financial year. MSD's forecasted 2023/24 contractor and consultant spend is 10.5 percent of our workforce cost. The main pressures of our contractor and consultant spend are our Te Pae Tawhiti programme and Corporate Platform, which is necessary to execute large programmes of this scale. Excluding the Te Pae Tawhiti transformation programme, our forecasted contractor spend sits at 7.7 percent.

58 We monitor and review our use of contractors as part of our ongoing programme of work. We are looking for ways to further decrease our reliance on external resources and reduce costs for the 2024/2025 year. The completion of the Corporate Platform work this financial year will also reduce the need for external resources from 2024/25.

59 We have identified where contractors are undertaking core Ministry work, and we are planning to transition these resources to permanent or fixed arrangements if necessary. All extensions to current contracts are being scrutinised, and where possible, renegotiated in terms of hourly rates or fixed term arrangements to ensure we reduce our expenditure over time.

60 Our considerations are aligned with Ministry of Business, Innovation and Employment (MBIE) guidance on the use of contractors and consultants. The guidance states that:

- agencies should not use contractors and consultants to deliver core functions
- agencies should not engage contractors and consultants for longer than one year at a time

- there are limited circumstances in which a contractor or consultant is required, including skills and expertise not found in the public service, getting an independent view, unforeseen short capacity needs, building public services capability
- several tests are recommended for consideration before engaging a contractor, including agencies' own capacity test, duration and scope of work, quality expected, and security.

**Pausing or stop implementation on some Budget 2023 decisions**

61 There are a number of community programmes that are currently in planning or procurement. s9(2)(f)(iv)

**Appendices**

Appendix One – Background on MSD's expenditure

Appendix Two – View of MSD's departmental and non-departmental baseline expenditure

Appendix Three – Further detail on potential Employment MCA savings

Appendix Four – Further detail on potential Community Support Services MCA savings

## Appendix One – Background on MSD’s expenditure

### A review of MSD’s baseline was released in early 2019, and found that our baseline expenditure is generally good value for money

- 62 In July 2018, the Minister of Finance and Minister for Social Development commissioned a review of MSD’s baseline, conducted jointly by MSD and the Treasury. The primary objectives of the review were to provide advice on:
- value for money and the effectiveness of expenditure
  - alignment of baseline expenditure to MSD’s strategy and the Government’s wellbeing priorities
  - cost pressures over the following four years and alignment of those to the above strategy and priorities, and
  - options to manage within different funding paths.
- 63 In scope for the review was approximately \$1.4 billion of Vote Social Development funding (BoRE, New Zealand Superannuation, Student Loans, and Recoverable Assistance were excluded from the funding review).
- 64 The Baseline Review report was released in February 2019. The report found that MSD’s baseline expenditure is generally good value for money, and that MSD is broadly efficient at administering the welfare system within its processes and systems. The report also noted potential to improve operational efficiency for administration of the benefit system, as there are a number of policy, system and process settings that consume both staff and client time.
- 65 MSD has a multi-year Transformation Programme - Te Pae Tawhiti - underway, to ensure MSD has the capability to serve New Zealanders now and for the coming decades. The Te Pae Tawhiti Programme will enable MSD to better allocate our resources and investment to target the right services to the right people in an effective and efficient way. An important part of the Programme is to deliver modern technology that is responsive to change, which will enable MSD to shift our human resource from manual processes to conversations with clients.

### A range of time-limited funding was provided to support the response to the COVID-19 pandemic

- 66 MSD played a key role in the Government’s response to the COVID-19 pandemic. To address additional demand for our services from both existing clients and non-clients, assumptions were required around the anticipated effects of the pandemic on benefit numbers. Whilst numbers did not reach forecast levels (in part due to the interventions listed below), the number of people accessing support grew significantly.
- 67 MSD also played a key role in providing government economic supports, including administering the following COVID-19 response schemes:
- Wage Subsidy Scheme
  - Leave Support Scheme
  - Short Term Absence Payment, and
  - Income Relief Payment



- Care in the Community.

68 A range of investment was provided through successive COVID-19 Response and Recovery Fund (CRRF) packages to fund these schemes. This included time-limited funding for additional frontline staff, which enabled MSD to meet anticipated demand and support record high exits from benefit to employment.

69 Appendix Two shows how this time-limited funding impacted MSD's baseline over the COVID-19 pandemic.

**Other funding was provided through Budgets 2020 to 2022 to address cost pressures and fund new initiatives**

70 As well as the COVID-19 specific funding, a range of other funding was provided through Budgets 2020 to 2022 to deliver better support for clients, as set out in the table below.

Budget	Initiatives
2020	Cost pressures such as: <ul style="list-style-type: none"> <li>• sustaining Building Financial Capability services</li> <li>• keeping community-based services open for disabled people, and</li> <li>• ensuring continued access to family violence services.</li> </ul> New initiatives such as: <ul style="list-style-type: none"> <li>• establishing and operating the Independent Children's Monitor</li> <li>• ensuring a safe and secure environment at MSD for clients and staff, and</li> <li>• supporting Out of School Care and Recreation Services (OSCAR).</li> </ul>
2021	Cost pressures such as: <ul style="list-style-type: none"> <li>• meeting additional demand for MSD's employment services and products</li> <li>• supporting people in emergency housing, and</li> <li>• funding repayments to clients (and/or their estates) for Residential Care Subsidy underpayments.</li> </ul> New initiatives such as: <ul style="list-style-type: none"> <li>• increasing main benefits</li> <li>• improving Childcare Assistance for low and middle-income families, and</li> <li>• providing a more flexible medical certificate process for MSD clients.</li> </ul>
2022	Cost pressures such as: <ul style="list-style-type: none"> <li>• supporting clients on the Public Housing Register</li> <li>• addressing disability support services cost pressures,</li> <li>• and continuing family violence response coordination services.</li> </ul>

	<p>New initiatives such as:</p> <ul style="list-style-type: none"> <li>• passing child support payments directly on to sole parents</li> <li>• permanently increasing income limits to eligibility for hardship assistance</li> <li>• providing more support for immediate and essential dental treatment for low-income New Zealanders, and</li> <li>• improving access to driver licences.</li> </ul>
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### **Budget 2023 funding was provided for some key initiatives...**

- 71 Budget 2023 took place in the context of a range of cost drivers and pressures for Vote Social Development, such as:
- the expiry of the time-limited COVID-19 funding, described above
  - volume pressures, including an increase in client numbers for particular services, and a forecast increase in the total number of working age benefit recipients<sup>11</sup>
  - personnel and wage drivers, such as remuneration increases arising from collective bargaining commitments
  - price pressures, such as inflationary pressures on IT and property, and
  - the need to address the impacts of the NIWE in early 2023.
- 72 To fit within the reduced envelope available for Budget 2023, further time-limited and/or scaled funding was provided through Budget 2023 to offset some key cost pressures, including funding to:
- retain additional frontline staff to maintain service levels
  - address remuneration cost pressures
  - continue providing a range of employment programmes and services
  - extend the Food Secure Communities programme, and
  - continue resolving claims of historic abuse.
- 73 Budget 2023 also included funding to support the regions affected by the adverse NIWE, including funding for:
- approximately 65 Community Connectors (alongside separate funding to retain 100 Community Connectors nationwide)
  - the employment recovery response
  - extending community support funds
  - community food provision through the Food Secure Communities programme

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<sup>11</sup> The Half Year Economic and Fiscal Update released in December 2022 noted that the Treasury were expecting a period of lower economic and employment growth than forecast at the Budget Economic and Fiscal Update 2022 from around mid-2023. The number of working age people receiving a benefit was therefore expected to increase between mid-2023 and January 2025.

- retaining existing Regional Public Service Commissioner support staff, and
- the implementation of the Social Sector Recovery Plan.

74 Funding was also provided for new Vote Social Development initiatives, such as:

- continuing MSD's Te Pae Tawhiti Transformation Programme
- improving the accessibility of Childcare Assistance
- permanently reinstating the Training Incentive Allowance to support higher-level study, and
- introducing a wage supplement to replace Minimum Wage Exemption permits.

**... however reprioritisation and savings were also committed to**

75 As outlined in paragraph 25 of this report, MSD committed to a range of reprioritisation and savings as part of the Budget 2023 process.

### **The former Minister of Finance established a Fiscal Sustainability and Effectiveness Programme...**

76 In June 2023, the former Minister of Finance wrote to all Ministers regarding the introduction of a Fiscal Sustainability and Effectiveness Programme (FSEP), to help the Government achieve its goals in the challenging fiscal environment. This letter set out an all-of-government approach to ensure resources are focused on the highest priority and highest value activities.

77 The Public Service Commissioner also wrote to government department Chief Executives, expressing an expectation that they would:

- stand up a structured programme of work to identify efficiencies and productivity improvements
- establish a structured and systematic review of all Crown expenditure to identify opportunities for reprioritisation, and
- review their agency's financial management capability and systems to ensure they are appropriate and effective.

78 In response, MSD established a work programme off the back of the work already done, to identify potential savings from both departmental and non-departmental expenditure.

**... which resulted in further savings made in August 2023**

79 In August 2023, further savings were announced on top of those realised through Budget 2023. For Vote Social Development, this included:

- savings from the Improved Employment and Social Outcomes Support multi-category appropriation (MCA) – s9(2)(f)(iv) [REDACTED]
- the closure of the remainder of the Social Sector Recovery Plan tagged contingency for regions affected by the NIWE

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<sup>12</sup> s9(2)(f)(iv) [REDACTED]

- a reduction in the tagged contingency to establish and operate the Children and Young People’s Commission.

**The former Minister of Finance also announced a Baseline Savings Exercise, and MSD is required to identify \$60.3m of permanent savings from our existing baseline**

- 80 The former Minister of Finance also announced a Baseline Savings Exercise as part of the FSEP. From 2024/25, MSD is required to identify \$60.3m of permanent savings from existing baselines (based on two percent of the \$3.016b baseline identified by the Treasury in 2024/25). We are also required to ensure future spending on contractors and consultants is below 11 percent of our workforce costs (returning to pre-pandemic levels).
- 81 MSD’s calculation of our relevant baseline expenditure for 2024/25 (Non-Departmental Expenditure and Departmental Output Expenses) is \$2.020 billion. This means that \$60.3m is actually a 3 percent reduction of our relevant baseline.
- 82 The following table sets out the total savings to date (including the \$60.3m baseline reduction), which equate to approximately 7.31 percent of MSD’s relevant baseline expenditure.

Item	Unit	2023/24	2024/25	2025/26	2026/27	Total
MSD's assessment of eligible baseline	(\$000)	2,234,529	2,020,204	1,971,323	1,951,866	<b>8,177,922</b>
Total savings initiatives to date	(\$000)	163,002	151,760	105,408	177,443	<b>597,613</b>
	(% of baseline)	7.29%	7.51%	5.35%	9.09%	<b>7.31%</b>

**The previous Government established a set of rules and guiding principles for the Baseline Savings Exercise, however we understand further guidance will be provided following Treasury engagement with the incoming Minister of Finance**

- 83 In early October 2023, the Treasury released supporting guidance for departments regarding the Baseline Savings Exercise. This included a template for the eventual submission of savings proposals.
- 84 The guidance outlined the following set of rules and guiding principles to inform how savings should be delivered – set by the former Minister of Finance.

*Rules:*

- the first port of call must be consultancy spend and departmental workforce controls for non-frontline roles, including FTE reductions through closing vacancies and pausing recruitment
- savings must not negatively impact delivery of frontline services.

*Guiding Principles*

## Baseline savings:

- should focus on savings from operating expenses, rather than capital expenditure
- must be targeted and achievable
- should not have negative implications for other agencies (i.e. avoid reducing spend in one area that results in increased cost pressures in another)
- must seek to avoid creating long-term service delivery or programme integrity issues, and
- must ensure agencies continue to meet all legal requirements and continue to deliver Government priorities.

85 The guidance noted that departments should consult with their Minister(s) on savings proposals and any alternative options. The following assurance process was outlined:

- departments engage with Treasury vote teams early in the development of savings proposals
- Treasury review submitted savings proposals and provide advice to Budget Ministers
- Budget Ministers sign off proposals, and they are implemented in time to take effect at Budget 2024.

86 The guidance noted that the final approach on timeframes and assurance process will be agreed by the [incoming] Minister of Finance following the election.

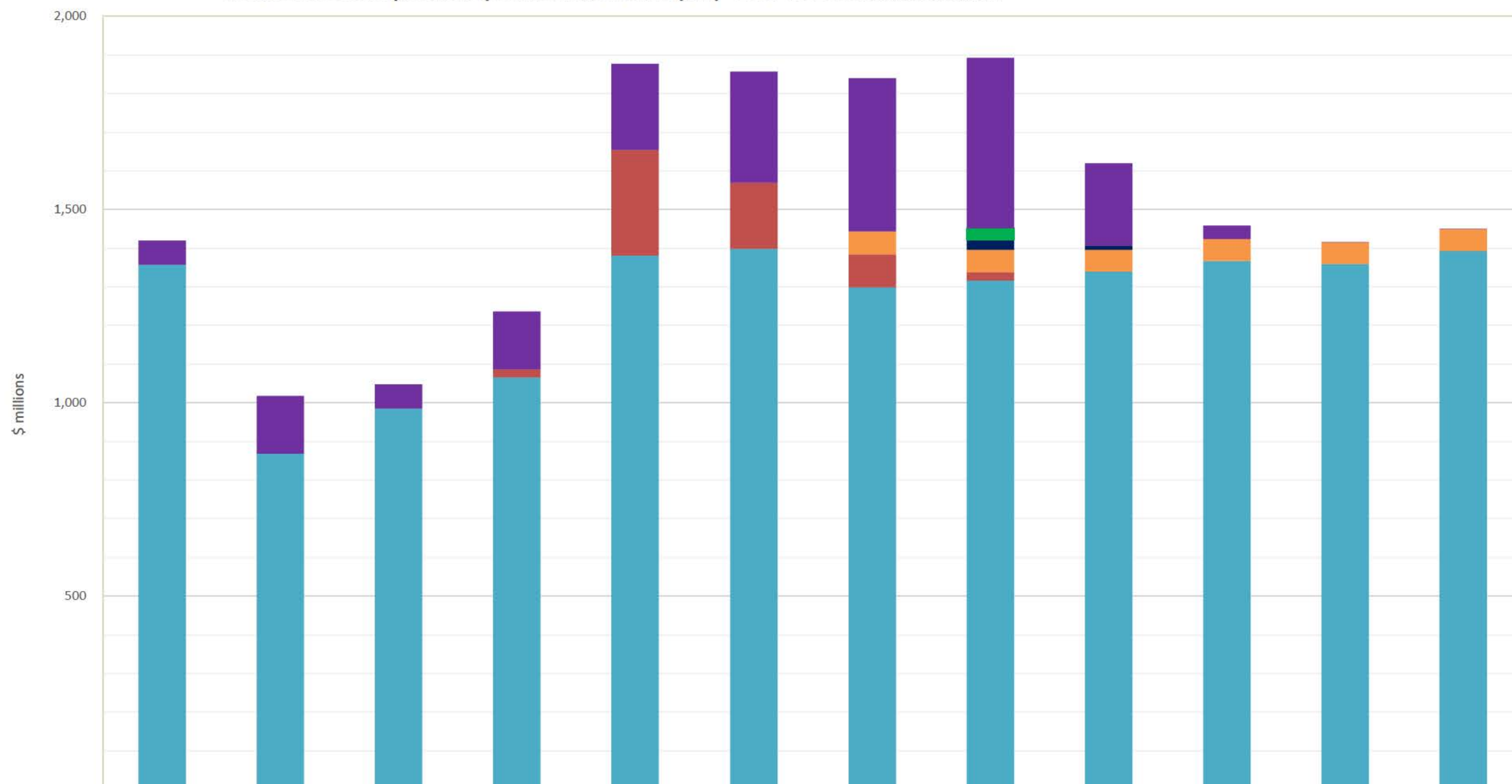
## Appendix Two – View of Vote Social Development expenditure

## Total baseline

Financial Year Budget	Total BoRE (\$m)	Total Non-departmental (\$m)	Total Departmental (includes Capital) (\$m)	Total (\$m)
2017	20,491	3,244	1,533	<b>25,268</b>
2018	21,230	3,070	1,158	<b>25,458</b>
2019	23,255	2,421	1,251	<b>26,927</b>
2020	25,883	14,485	1,412	<b>41,779</b>
2021	28,997	5,126	1,996	<b>36,118</b>
2022	30,281	8,799	1,969	<b>41,050</b>
2023	32,822	5,381	1,991	<b>40,195</b>
2024	35,918	5,199	2,000	<b>43,118</b>
2025	38,774	5,149	1,732	<b>45,656</b>
2026	40,844	5,047	1,540	<b>47,432</b>
2027	42,694	5,066	1,513	<b>49,272</b>
2028	44,922	5,094	1,524	<b>51,541</b>

Note the decrease in departmental funding between 2017 and 2018 was a result of the establishment of Oranga Tamariki as a new department.

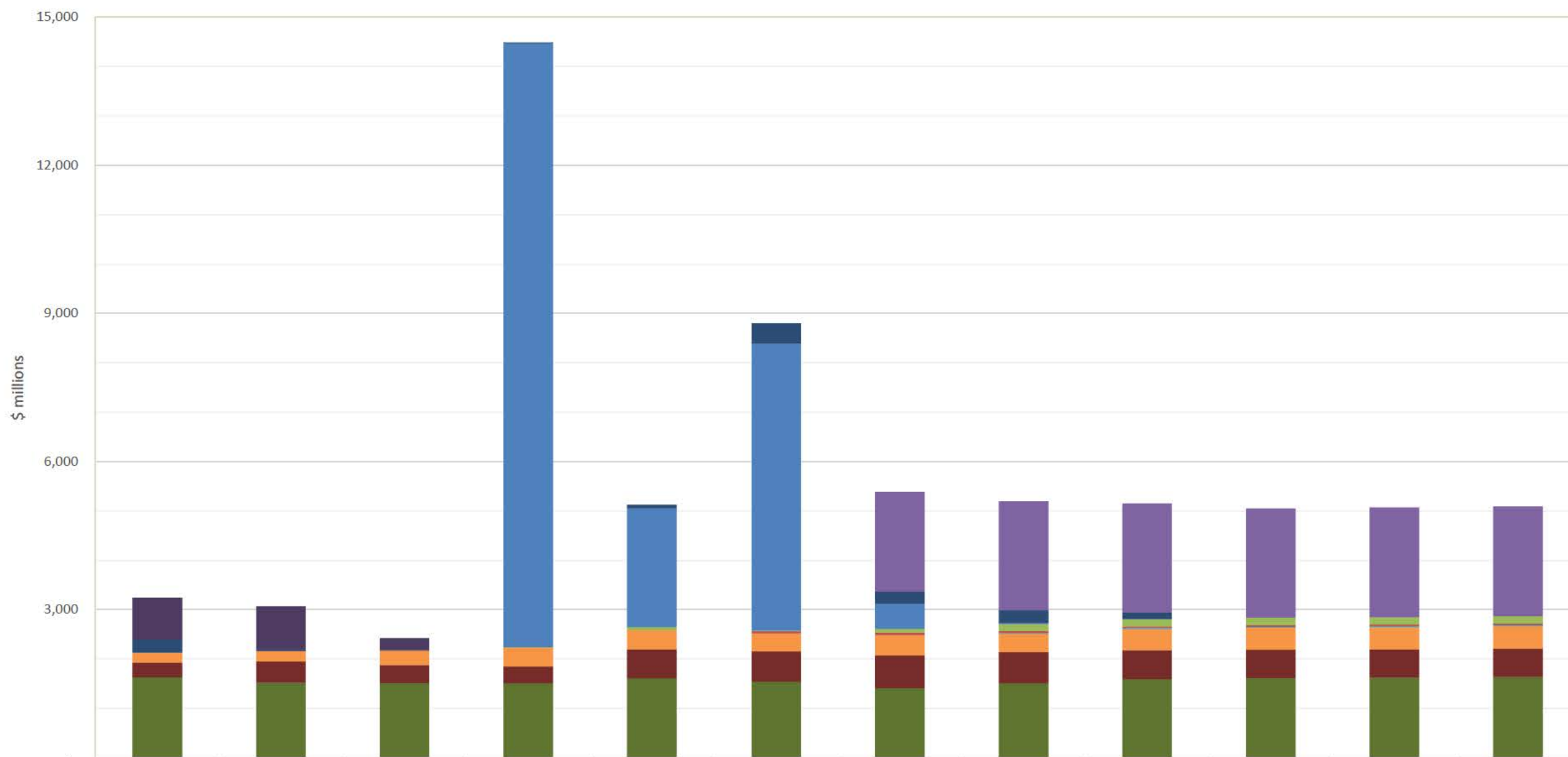
Vote Social Development Departmental Baseline (\$m) - 2017 to 2028 (excludes Dept Capital)



	1,420 Budget 2017	1,018 Budget 2018	1,048 Budget 2019	1,215 Budget 2020	1,603 Budget 2021	1,686 Budget 2022	1,755 Budget 2023	1,839 Budget 2024	1,619 Budget 2025	1,458 Budget 2026	1,416 Budget 2027	1,450 Budget 2028
Other Time Limited	63	150	63	150	223	287	396	440	213	35	0	0
Emergency Housing System	-	-	-	-	-	-	-	32	-	-	-	-
Severe Weather Response	-	-	-	-	-	-	-	24	11	-	-	-
Whaikaha - Ministry of Disabled People	-	-	-	-	-	-	60	58	56	56	56	56
Time Limited COVID	-	-	-	21	273	171	85	21	-	-	-	-
Ongoing baseline funding	1,357	868	985	1,066	1,381	1,398	1,299	1,316	1,340	1,367	1,359	1,393

As above, note the decrease in departmental funding between 2017 and 2018 was a result of the establishment of Oranga Tamariki as a new department.

MSD : Non-departmental Baseline (\$m) - 2017 to 2028

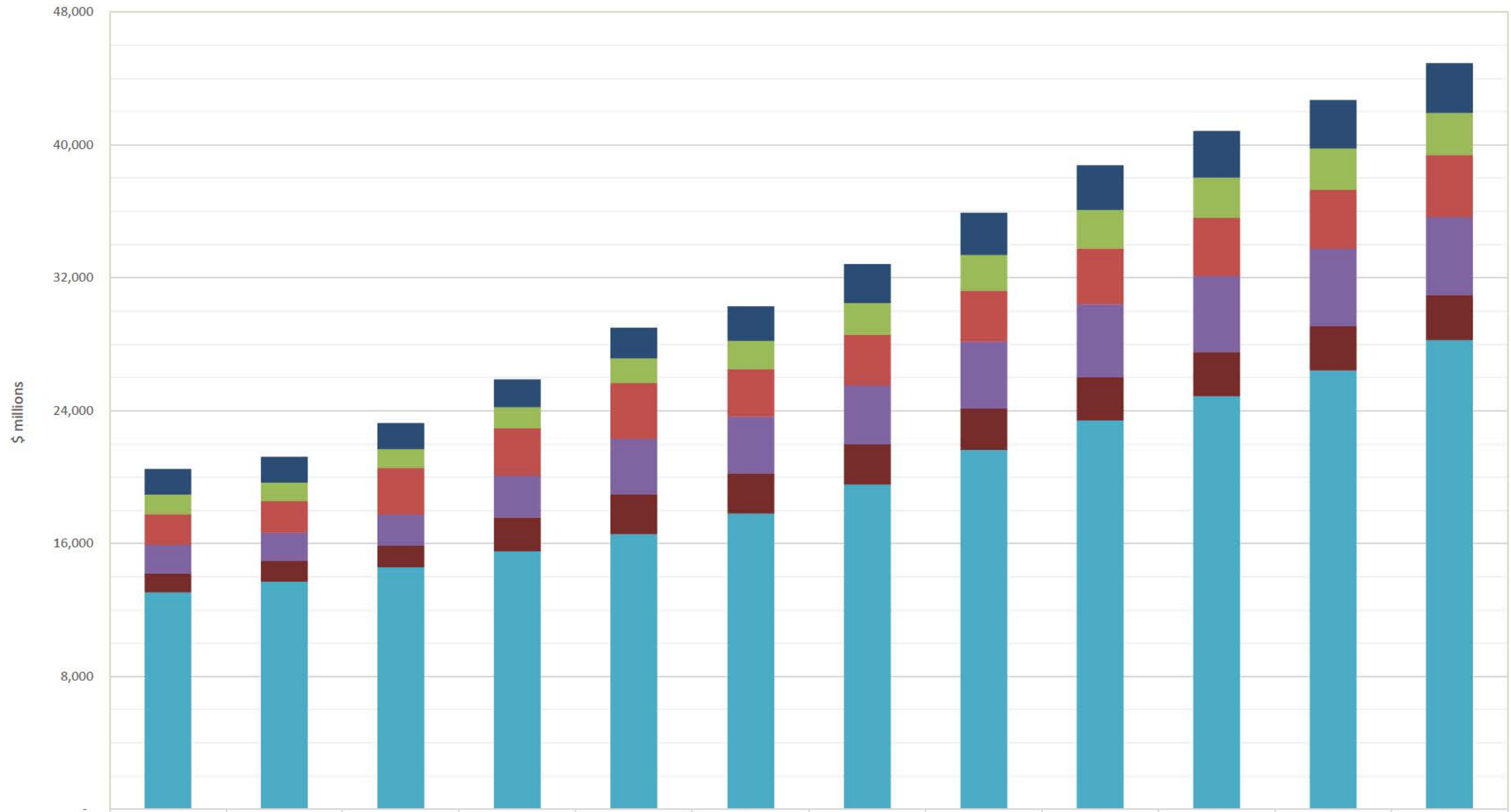


	Budget 2017	Budget 2018	Budget 2019	Budget 2020	Budget 2021	Budget 2022	Budget 2023	Budget 2024	Budget 2025	Budget 2026	Budget 2027	Budget 2028
■ Purchase of Social Housing Provision	848	889	240	-	-	-	-	-	-	-	-	-
■ Disability MCA	-	-	-	-	-	-	2,014	2,211	2,206	2,210	2,219	2,227
■ Other Time Limited	267	23	9	15	75	413	248	261	135	2	-	-
■ Time Limited COVID	-	-	-	12,227	2,404	5,810	507	21	-	-	-	-
■ Housing Support MCA	-	-	-	5	64	14	74	141	146	148	148	148
■ He Poutama Rangatahi	-	-	-	-	-	44	53	42	39	33	33	33
■ Drivers Licence Support	-	-	-	-	-	-	-	15	19	20	20	20
■ Recoverable Assistance	196	205	293	388	386	362	413	365	422	447	451	458
■ Other Ongoing	299	431	363	342	588	613	658	637	590	571	570	572
■ Student Loans	1,634	1,522	1,515	1,508	1,608	1,544	1,414	1,507	1,591	1,616	1,625	1,636

“Other Ongoing” includes appropriations such as Community Participation Services, Out of School Care and Recreation Programmes, Supporting Victims and Perpetrators of Family and Sexual Violence, and Debt Write-downs.



Vote Social Development Total Benefits or Related Expenses (BoRE) (\$m) - 2017 to 2028



	20,491 Budget 2017	21,230 Budget 2018	23,255 Budget 2019	25,883 Budget 2020	28,997 Budget 2021	30,281 Budget 2022	32,822 Budget 2023	35,918 Budget 2024	38,774 Budget 2025	40,844 Budget 2026	42,694 Budget 2027	44,922 Budget 2028
Supported Living Payment	1,537	1,548	1,563	1,667	1,847	2,067	2,335	2,533	2,680	2,802	2,899	2,987
Sole Parent Support	1,176	1,123	1,128	1,277	1,488	1,719	1,932	2,146	2,332	2,429	2,488	2,535
Other Benefits	1,850	1,901	2,815	2,838	3,354	2,864	3,026	3,085	3,347	3,490	3,562	3,733
Jobseeker Support and Emergency Benefit	1,712	1,710	1,879	2,533	3,331	3,406	3,545	4,027	4,396	4,595	4,652	4,710
Accommodation Assistance	1,146	1,231	1,283	2,026	2,397	2,411	2,423	2,486	2,599	2,649	2,669	2,699
New Zealand Superannuation	13,070	13,718	14,588	15,542	16,580	17,814	19,562	21,640	23,420	24,880	26,424	28,258

### Departmental Baseline by Appropriation<sup>13</sup>

<b>Appropriation</b>	<b>2016/17 Actual (\$ million)</b>	<b>2017/18 Actual (\$ million)</b>	<b>2018/19 Actual (\$ million)</b>	<b>2019/20 Actual (\$ million)</b>	<b>2020/21 Actual (\$ million)</b>	<b>2021/22 Actual (\$ million)</b>	<b>2022/23 Actual (\$ million)</b>	<b>2023/24 Budget (\$ million)</b>	<b>2024/25 Budget (\$ million)</b>	<b>2025/26 Budget (\$ million)</b>	<b>2026/27 Budget (\$ million)</b>	<b>2027/28 Budget (\$ million)</b>
Administering Income Support	279.498	299.872	319.805	353.317	421.149	476.924	466.162	524.175	458.809	466.738	451.067	479.191
Administering Support for the Mental Health and Employment Social Bond Pilot (MYA Expense)		0.040	0.060					-	-	-	-	-
Administering Youth Development	2.492	2.079	3.276	3.061	3.931	4.479	4.094	5.038	4.576	3.846	3.846	3.846
Administration of Service Cards			3.467	5.598	6.231	6.882	7.413	7.962	8.172	7.327	7.205	7.205
Adoption Services	3.998							-	-	-	-	-
Care and Protection Services	316.957							-	-	-	-	-
Children's Action Plan	8.780							-	-	-	-	-
Claims Resolution (MYA Expense)	1.837	5.666	6.094					-	-	-	-	-
Connecting people with supports and communities							8.752	11.360	12.470	14.200	16.170	17.180
Corporate Support Services	25.000	86.629	72.970	67.459	56.968	20.756	16.956	17.462	15.355	15.355	15.355	15.355
Data, Analytics and Evidence Services	11.684	12.471	16.196	29.425	32.750	37.839	39.746	46.580	41.426	45.034	33.389	33.145
Designing and Implementing Social Investment	8.309							-	-	-	-	-
Developing and Managing Community Services		23.728	25.395	31.435	36.324	31.843	51.720	43.473	37.239	34.431	33.918	33.918
Enhancement and Promotion of SuperGold Cards			0.114	2.693	1.283	1.534	1.506	1.723	1.729	1.734	1.735	1.735

<sup>13</sup> Note that Budgeted numbers are based on the October Baseline Update, and therefore may differ from numbers presented in the graph on page 5.

<b>Appropriation</b>	<b>2016/17 Actual (\$ million)</b>	<b>2017/18 Actual (\$ million)</b>	<b>2018/19 Actual (\$ million)</b>	<b>2019/20 Actual (\$ million)</b>	<b>2020/21 Actual (\$ million)</b>	<b>2021/22 Actual (\$ million)</b>	<b>2022/23 Actual (\$ million)</b>	<b>2023/24 Budget (\$ million)</b>	<b>2024/25 Budget (\$ million)</b>	<b>2025/26 Budget (\$ million)</b>	<b>2026/27 Budget (\$ million)</b>	<b>2027/28 Budget (\$ million)</b>
Establishing Whaikaha - Ministry of Disabled People						3.740	1.980	0.544	-	-	-	-
Establishment of Independent Monitor of the Oranga Tamariki System			0.608	4.156	3.523	0.151		-	-	-	-	-
Historic Claims (MYA Expense)				17.804				-	-	-	-	-
Historic Claims Resolution (MYA Expense)					19.129	19.950	23.602	83.707	-	-	-	-
Improving Employment Outcomes	298.677	272.580	282.968	305.411	450.250	592.121	549.457	504.594	485.613	438.676	426.650	426.650
Improving Employment Outcomes to Support People Impacted by Extreme Weather Events								23.212	10.212	-	-	-
Improving Work Readiness Outcomes	78.868	83.392	91.333	92.285	106.468	107.019	120.688	108.368	111.445	106.242	105.932	105.932
Income Support and Assistance to Seniors	43.167	46.561	48.850	57.452	61.688	52.551	56.957	71.190	69.953	68.247	67.487	67.487
Independent Monitoring and Assurance of the Oranga Tamariki System				0.835	3.960	7.700	8.320	-	-	-	-	-
Investigating and Responding to Alleged Social Work Offending							0.113	0.347	-	-	-	-
Investigation of Overpayments and Fraudulent Payments and Collection of Overpayments	48.054	46.726	48.313	51.302	57.631	48.823	53.400	63.866	65.691	63.157	62.058	62.058
Investing in Communities	37.290							-	-	-	-	-
Jobs and Skills Hubs						3.253	5.197	8.722	8.857	7.171	7.089	7.089
Management of Residual Obligations arising from the Disestablishment of Superu			0.430					-	-	-	-	-
Management of Service Cards	4.602	5.387	2.532					-	-	-	-	-

<b>Appropriation</b>	<b>2016/17 Actual (\$ million)</b>	<b>2017/18 Actual (\$ million)</b>	<b>2018/19 Actual (\$ million)</b>	<b>2019/20 Actual (\$ million)</b>	<b>2020/21 Actual (\$ million)</b>	<b>2021/22 Actual (\$ million)</b>	<b>2022/23 Actual (\$ million)</b>	<b>2023/24 Budget (\$ million)</b>	<b>2024/25 Budget (\$ million)</b>	<b>2025/26 Budget (\$ million)</b>	<b>2026/27 Budget (\$ million)</b>	<b>2027/28 Budget (\$ million)</b>
Management of Student Loans	15.083	16.553	16.803	18.006	22.712	24.438	23.621	24.530	25.353	24.194	23.695	23.695
Management of Student Support	16.667	16.587	16.569	18.014	22.722	24.447	23.626	24.653	25.477	24.318	23.819	23.819
National Leadership and Administration of Social Sector Trials programme. and Individual-led Social Sector Trials	0.764							-	-	-	-	-
Place-based initiatives - national support	0.252							-	-	-	-	-
Place-Based Initiatives - South Auckland Social Wellbeing Board			1.017	2.793				-	-	-	-	-
Place-based Initiatives - Tairāwhiti Local Leadership	0.194	0.391	0.941	1.819				-	-	-	-	-
Planning, Correspondence and Monitoring	6.310	5.355	6.044	6.615	7.731	5.252	4.419	6.389	6.452	6.503	6.503	6.503
Policy Advice	19.798	13.791	15.130	15.243	18.024	21.990	20.386	23.420	22.576	22.625	22.425	22.425
Processing of Veterans' Pensions	0.464	0.641	0.621	0.627	0.559	0.685	0.713	0.783	0.803	0.776	0.763	0.763
Promoting Positive Outcomes for Disabled People	3.949	5.025	5.256	6.145	6.678	7.883		-	-	-	-	-
Promoting Positive Outcomes for Seniors	0.850	1.139	1.024	1.147	1.298	1.819	2.698	2.725	2.350	1.950	1.952	1.952
Regional System Leadership Framework								11.060	-	-	-	-
Services to Support People to Access Accommodation	39.640	43.327	26.166	48.855	64.616	63.124	71.414	94.623	55.120	53.127	52.494	52.494
Services to Support People to Access Accommodation (MCA Transition)			12.280					-	-	-	-	-
Stewardship of the Disability System							40.433	59.017	52.905	52.791	52.411	57.141
Te Pae Tāwhiti – Horizon One (MYA Expense)								69.728	96.756	-	-	-

<b>Appropriation</b>	<b>2016/17 Actual (\$ million)</b>	<b>2017/18 Actual (\$ million)</b>	<b>2018/19 Actual (\$ million)</b>	<b>2019/20 Actual (\$ million)</b>	<b>2020/21 Actual (\$ million)</b>	<b>2021/22 Actual (\$ million)</b>	<b>2022/23 Actual (\$ million)</b>	<b>2023/24 Budget (\$ million)</b>	<b>2024/25 Budget (\$ million)</b>	<b>2025/26 Budget (\$ million)</b>	<b>2026/27 Budget (\$ million)</b>	<b>2027/28 Budget (\$ million)</b>
Te Pae Tawhiti Transformation Programme							49.361	-	-	-	-	-
Transformation Programme: Investing in New Zealand Children and their Families	21.128							-	-	-	-	-
Youth Justice Services	95.528							-	-	-	-	-
<b>Total</b>	<b>1,389.840</b>	<b>987.942</b>	<b>1,024.262</b>	<b>1,141.497</b>	<b>1,405.625</b>	<b>1,565.203</b>	<b>1,652.734</b>	<b>1,839.251</b>	<b>1,619.339</b>	<b>1,458.442</b>	<b>1,415.963</b>	<b>1,449.583</b>













