

Report



MINISTRY OF SOCIAL
DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Date: 6 September 2024 **Security Level:** BUDGET SENSITIVE

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

Reference: REP/24/9/825

Budget 2025 – cost pressures and potential savings

Purpose

- 1 This report provides you with the following documents, to support a Budget 2025 discussion at the Officials' meeting on 9 September 2024:
 - Initial draft Performance Plan cost pressure template and supporting context ([Appendix One](#))
 - Possible invest-to-save initiatives ([Appendix Two](#)).
- 2 This report also provides you with an update regarding further work on policy savings options.

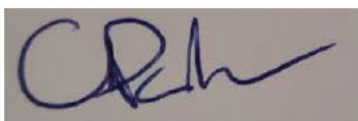
Recommended actions

It is recommended that you:

- 1 **note** that the Ministry of Social Development (MSD) is required to submit a cost pressures template to the Treasury on 12 September 2024, as part of the Performance Plan process
- 2 **discuss** the initial draft Performance Plan cost pressure template and supporting context ([Appendix One](#)) at the Officials' meeting on 9 September 2024
- 3 **note** that you have approved the proposed framework for recognising welfare savings (REP/24/8/788 refers) and this is now with the Minister of Finance for approval
- 4 **note** that we understand the Minister of Finance's approval of the proposed framework is subject to providing a list of potential initiatives the framework could apply to

- 5 **discuss** possible invest-to-save initiatives that could be pursued at Budget 2025 s9(2)(f)(iv) (Appendix Two) at the Officials' meeting on 9 September 2024
- 6 **note** that MSD has also been considering policy changes that may result in cost savings, and we expect to be able to update you in the next month.

pp



6 September 2024

Sacha O'Dea
Deputy Chief Executive, Strategy and Insights

Date

Hon Louise Upston
Minister for Social Development and Employment

Date

Cost pressures

- 3 As outlined in our recent Budget 2025 Strategy advice (REP/24/8/776 refers), Cabinet has agreed a range of activities as part of the Budget 2025 process. This includes the commissioning of Performance Plans, to give Ministers assurance that departments have a plan in place to deliver within set baselines.
- 4 As part of the development phase of the Performance Plan process, departments have two check-ins with the Treasury. The first of MSD's check-ins will be on 12 September 2024, and will predominantly cover:
 - MSD's approach and timeline to developing the Performance Plan
 - any early insights and emerging challenges, including where additional support from Central Agencies may be useful, and
 - the submission of the Treasury cost pressures template.
- 5 We have attached an initial draft of this cost pressures template, as well as draft contextual information for the Treasury, as Appendix One. We would like to discuss this with you at your Officials' meeting on 9 September 2024, before we finalise and submit the template on 12 September 2024.
- 6 Note that we are continuing to refine the cost pressure analysis ahead of submission to the Treasury.
- 7 The second Performance Plan check-in is on 17 October 2024, and we will provide you with further advice ahead of this.

Framework for recognising welfare savings

- 8 MSD and the Treasury provided joint advice to you and the Minister of Finance regarding a framework for recognising welfare savings on 26 August 2024 (REP/24/8/788 refers).
- 9 You have agreed to the proposed framework. However we understand that approval from the Minister of Finance is subject to providing a list of potential initiatives the framework could apply to, and engaging with the Social Investment Agency (SIA).
- 10 MSD and Treasury officials met with SIA officials to discuss the framework on 3 September 2024. SIA officials agreed to review the evidence standards approach used in the framework to ensure that we are aligning with their approach to evidence standards.
- 11 We have also created a shortlist of invest-to-save initiatives that could be pursued at Budget 2025 s9(2)(f)(iv) (attached as Appendix Two). We would like to discuss this with you at the Officials' meeting on 9 September 2024.
- 12 Subject to your feedback, we will work with your office to provide this shortlist to the Minister of Finance by the end of next week (13 September 2024).

Further work on policy savings options

- 13 MSD has been considering policy changes that may result in cost savings, s9(2)(f)(iv)

s9(2)(f)(iv)

14 s9(2)(f)(iv)

We will focus on proposals in the areas where you have asked for advice (for example, related to Jobseeker Support settings). We expect to be able to update you in the next month.

Next steps

15 Subject to your feedback, MSD will:

- finalise and submit the cost pressures template and supporting context to the Treasury on 12 September 2024
- work with your office to provide the shortlist of invest-to-save initiatives that could be pursued at Budget 2025 s9(2)(f)(iv) to the Minister of Finance by 13 September 2024, and
- provide you with an update on policy savings options in the next month.

Author: Theo Lyster, Senior Advisor Budget, Strategy and Insights

Responsible manager: Carolyn Palmer, Director Office of the DCE, Strategy and Insights

Appendix One – Initial draft Performance Plan cost pressure template and supporting context

s9(2)(g)(i)

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

Memo



**MINISTRY OF SOCIAL
DEVELOPMENT**
TE MANATŪ WHAKAHIATO ORA

To: Keiran Kennedy, Manager, Welfare & Oranga Tamariki Team,
The Treasury

From: Carolyn Palmer, Director Office of the Deputy Chief Executive,
Strategy and Insights, Ministry of Social Development

Date: 12 September 2024

Security level: BUDGET SENSITIVE

Additional information to support MSD's submission for *Managing within baselines: Current and Future drivers*

Purpose

- 1 This memo provides the Treasury Vote Team with additional information to support the Ministry of Social Development's (MSD) template submission regarding *Managing within baselines: Current and future drivers*.

Information to support MSD's template

- 2 Following the Treasury's Performance Plan guidance, we have included significant cost pressures in our template, along with plans for mitigation. Significant cost drivers relate to:
 - managing increased client demand¹
 - workforce collective bargaining and pay progression commitments
-

¹ Demand pressures are based on a high level model to show the potential extra staff resources required to support the forecast increases in our JobSeeker and NZ Superannuation client numbers. While MSD has received time limited FTE funding increases for JobSeeker demand, there has been no additional funding for New Zealand Superannuation demand. Benefit numbers show a 17% increase in New Zealand Superannuation client numbers from June 2019 to June 2024, and within this there is increased demand for support. The outyear model does not include any policy change which has been signalled but not yet enacted which may impact on demand, for example 26 week reapplications and the Traffic Light System. The model has used average interactions across the entire Working Age Main Benefit (WAMB) population however there is likely to be slight differences in the interaction levels for JobSeeker clients which will require further refinement. The model uses WAMB interactions as at June 2024.

- accommodation price increases from committed leases (net of the accommodation savings in Budget 2024)
 - inflationary pressures for technology and data and digital initiatives.
- 3 In addition, without continued investment in MSD's Te Pae Tawhiti transformation programme, MSD faces significant cost pressures to deliver existing services within the constraints of our existing systems and processes.
 - 4 MSD will also be entering bargaining over the forecast period, with updated information to inform the bargaining approach available later this month.
 - 5 Given these challenges, MSD has developed a savings strategy for Budget 2025 s9(2)(f)(iv) This includes options for utilising the invest to save framework that we have developed with you and potential policy choices. s9(2)(f)(iv)
 - 6 We have analysis underway to quantify the savings associated with each element so that this can be included in the Performance Plan ahead of the next check in.

Broader challenges not included in the template

- 7 There are some broader challenges that we have not included in the template, but may give rise to future pressures. For example:
 - Pay equity. MSD is currently undertaking work to pass on pay equity funding to social service providers for people in social work roles. We understand the Treasury has a contingency in place for completing this process. However if this is not sufficient, completion of this process would become a cost pressure. There are also wider pay equity settlement issues, in particular, a pay parity issue for a crown entity that MSD monitors – the New Zealand Artificial Limb Service, as a result of pay equity settlements in the health sector.
 - Software as a service – from 30 June 2022 financial year, the accounting treatment for 'as a service' arrangements changed, resulting in costs that would normally be classified as capital now being classified as operating. This accounting change is giving rise to substantial cost pressures for agencies, and this is starting to realise within MSD. Without a system response it means an increasing risk for service performance, as baseline operating funding is being directed to meet software as a service costs.
 - Response to the Royal Commission of Inquiry into Abuse in Care:
 - decisions made by Ministers regarding the response to the Royal Commission may have an impact on demand for services in the future
 - time-limited funding which enables MSD to continue resolving claims of historic abuse in care expires at the end of 2025/26, and depending on decisions regarding the new system, further funding may be required

- the increased focus on historic abuse in care could lead to demand pressures ahead of the implementation of the new system, if more people seek to have their claims resolved in the short-term.
- Funding for community services. As there is no formal commitment, MSD has not included a cost pressure for price or volume increases for community providers. This raises a fiscal sustainability and coverage risk for providers, particularly with funding constraints across the social sector. Work to improve social sector commissioning may help mitigate these pressures. Related to community provision, Te Kāhui Kāhu accredits social service providers on behalf of six government agencies that fund a range of social services, and the six agencies share the cost of accreditation service between them. If providers continue to diversify and grow (we are predicting a small increase in accreditation assessments for 2024/25), this demand pressure may lead to additional costs.

Disability Support Services

- 8 Disability Support Services (DSS) will be transferred to MSD in the near future. Given this will be after the submission date for cost pressure information, the Ministry of Disabled People – Whaikaha will be submitting the DSS cost pressure information. Following transfer to MSD, DSS will be incorporated into MSD's Performance Plan.

Appendix Two – Possible invest-to-save initiatives

Budget 25

Initiative – Invest-to-save initiative to support specific cohorts into employment

In December 2023, 190,000 people were receiving Jobseeker Support. The Government has a target for there to be 50,000 fewer people on Jobseeker Support Benefit by 2030. We estimate that the number of people receiving Jobseeker Support will peak at around 214,000 people in January 2025. After January 2025 the number of people receiving Jobseeker Support is expected to decrease as economic conditions improve.

As part of the Jobseeker target delivery plan, MSD already has a range of increased activation activities under way, such as Kōrero Mahi work seminars and phone-based case management. Based on current levels of funding this enables us to work actively with around 70,000 people at a time. Levels of funding are due to drop which will decrease our ability to work at this level. Additional investment in case management and employment programmes would enable MSD to continue to work at this level and potentially increase the number of people in active case management, targeting specific cohorts such as youth and HCID. Based on modelling to 30 September 2022, young people under 25 and currently on a main benefit are estimated to spend 21.3 future years on average supported by a main benefit, and people on Jobseeker Support – Health Condition and Disability are estimated to spend 12.3 future years on average supported by a main benefit. The additional investment would support target delivery, manage the risk of time-limited employment funding coming to end and gather evidence about benefits over the longer term to provide learnings for MSD's Te Pae Tawhiti programme.

Increasing funding for case management

- An invest-to-save approach could draw on existing case management evidence from the original investment approach work and continue to strengthen our evidence base through an agreed monitoring and evaluation plan. At present there is time limited funding for 670 Service Delivery FTEs. In particular, funding for 490 frontline staff ends on 30 June 2025.

Increasing funding for employment programmes

- This would provide additional funding for evidence based high impact employment programmes, such as Flexi wage. There is a strong evidence base on the impacts of MSD's employment programmes that could inform an invest-to-save approach. There is currently a \$117m reduction in employment programme funding from the 2024/25 to the 2025/26 financial year.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

Additional notes

- Earlier this week MSD provided advice on Automated Decision-Making (ADM) remediation options for four processes. The advice recommends seeking Cabinet agreement to offset the costs associated with the remediation options using expected BoRE savings in future years. ^{s9(2)}
^(b) We are not intending for this to be an invest-to-save initiative at Budget 25.
- MSD is forming a list of potential policy savings initiatives for Budget 25. Some of the invest-to-save options listed here are also included in the long-list of policy savings initiatives.
- Estimates of future years on a main benefit allows for people to exit and re-enter multiple times over their working age lives, so it is not a continuous measure. They are not official statistics. These estimates have been created for research purposes from the Integrated Data Infrastructure (IDI) which is carefully managed by Stats NZ. For more information about the IDI, please visit www.stats.govt.nz/integrated-data. The results are based in part on tax data supplied by Inland Revenue to Stats NZ under the Tax Administration Act 1994 for statistical purposes. Any discussion of data limitations or weaknesses is in the context of using the IDI for statistical purposes, and is not related to the data's ability to support Inland Revenue's core operational requirements.