

Report



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

Date: 1 November 2024 **Security Level:** Budget Sensitive

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

File Reference: REP/24/10/983

Budget 2025 – potential policy cost savings options in the benefit system

Purpose of the report

- 1 This report describes several policy savings change proposals that could be considered for Budget 2025 or beyond. This paper accompanies *Budget 2025 – performance plan and savings overview* [REP/24/10/982 refers].

Executive summary

- 2 The Ministry of Social Development (MSD) has developed three policy cost savings options, s9(2)(f)(iv)

- option 1: s9(2)(f)(iv)

- option 2: s9(2)(f)(iv)

- option 2A: s9(2)(f)(iv)

OR

- option 2B: s9(2)(f)(iv)

- option 3: s9(2)(f)(iv)

- 3 s9(2)(f)(iv)

4 s9(2)(f)(iv)

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6 We also canvassed fundamental changes to age settings for Jobseeker Support (JS). These were developed given previous advice on s9(2)(f)(iv) receiving JS. These options are:

- option 4: s9(2)(f)(iv)
- option 5: Introducing a parental income test for JS recipients s9(2)(f)(iv)
- option 6: s9(2)(f)(iv)
- option 7A: s9(2)(f)(iv)
- option 7B: s9(2)(f)(iv)

7 Options 4 to 7 have large savings in comparison to options 1 to 3. This demonstrates that to generate large savings, policy changes would need to be more fundamental in nature and would involve significant trade-offs regarding impacts for clients, families and communities.

8 Given the potential negative impacts, which are canvassed in **Appendix 2**, we do not recommend progressing options 4 to 7. You may wish to talk with other Ministers and Coalition partners about these options.

9 s9(2)(f)(iv)

10 Given the number of changes in the design and implementation stage, we recommend you select a maximum of two options for further advice in the lead up to Budget 2025.

Recommended actions

It is recommended that you:

1 s9(2)(f)(iv)

Options 1 to 3

2 **indicate** if you wish to receive further advice on:

2.1

s9(2)(f)(iv)

2.2

YES / NO

OR

2.2.2

s9(2)(f)(iv)

YES / NO

2.3

s9(2)(f)(iv)

YES / NO

Options 4 to 7

s9(2)(f)(iv)

3 **indicate** if you wish to receive further advice on options 4-7 [not recommended]:

3.1 option 4: s9(2)(f)(iv)

s9(2)(f)(iv)

3.2 option 5: introducing a parental income test for jobseekers with estimated savings between \$75 and \$300 million over five years

s9(2)(f)(iv)

YES / NO

3.3 option 6: s9(2)(f)(iv)

s9(2)(f)(iv)

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3.4 option 7A: s9(2)(f)(iv)

s9(2)(f)(iv)

3.5 option 7B: s9(2)(f)(iv)

s9(2)(f)(iv)

s9(2)(f)(iv)

4 s9(2)(f)(iv)

5 s9(2)(f)(iv)

s9(2)(f)(iv)


Bede Hogan
Policy Manager, Income Support Policy

31/10/2024
Date


Hon Louise Upston
Minister for Social Development and
Employment

20/24/24
Date

Background

- 11 The Budget strategy for Vote Social Development includes the consideration of further policy changes to achieve savings. This paper accompanies an update on Budget 2025 - *Budget 2025 - performance plan and savings overview* - which sets out other savings options including invest-to-save and potential options for Budget 2026 [REP/24/10/982 refers].
- 12 We are still working through the design of the changes to implement the Budget 2024 cost savings initiative around housing subsidies for boarders.
- 13 s9(2)(f)(iv) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] We centered our analysis on changes to Jobseeker Support (JS), given manifesto commitments, discussions between you and officials, and advice on s9(2)(f)(iv) [REDACTED] [REP/24/7/649 refers].
- 14 In addition, you may be interested in considering options for Budget 2025 that were identified in the lead up to Budget 2024, including changes to:

- s9(2)(f)(iv) [REDACTED]
- s9(2)(f)(iv) [REDACTED]
[REDACTED]

Assessment of the options (refer to Appendix 1)


- 15 To assess the options, we used the following criteria to guide our advice and demonstrate the benefits, limitations, and disadvantages of each option.
 - **Confidence in the savings estimates.** As MSD does not capture all the data necessary for precise forecasting for some options, actual savings may diverge from the current estimates.
 - **Scale of impact on benefit incomes.** As all the options s9(2)(f)(iv) [REDACTED] you may prefer options that do not significantly reduce incomes, or options that limit the impact to a smaller group of people. We would need to undertake further work to quantify the impact of the options for different client groups.
 - **Delivery of the options – including lead-in time and whether legislative change is required.** 18 months from decisions is generally the minimum lead-in time for delivery (including IT and operational changes), when the proposal requires primary legislative amendments.
 - **International precedence.** Comparing New Zealand's policies to similar Organisation for Economic Cooperation and Development (OECD)

countries provides a benchmark for the policy change across countries with similar democratic systems and values.

- **Risk that the proposal shifts costs somewhere else.** Some proposals may relocate the cost of providing support to other Votes (e.g. Justice, Health) or communities (e.g. non-governmental organisations).
- **Impact on existing welfare system settings/frameworks.** Some proposals could significantly shift the role of the welfare system in providing income support to New Zealanders. This criterion indicates the level of impact the option could impose on clients and the benefit system.

- 16 Our analysis, using the above criteria, resulted in the seven options presented in this report. The fulsome criteria analysis is attached as **Appendix 1**, alongside the assumptions embedded in our savings, impacts on the target, and delivery estimates.
- 17 The timeframes indicated in this paper are individual to each proposal, meaning they are likely to change depending on the suite of policy changes you want to progress via Budget 2025 and the relationship to MSD's wider work programme capacity [REP/24/10/1009 refers]. All timeframes in this advice include both legislative processes and policy implementation.
- 18 Operational costs (including IT, FTE, and project costs) have not been provided in this advice. Grandparenting implications (the provision where old rules continue to apply to existing situations, while the new rules will apply to all future clients) have also not been included. Operational costs and grandparenting approaches will reduce the savings generated by these options. We can canvass this in further advice.

s9(2)(f)(iv)



¹ s9(2)(f)(iv)

s9(2)(f)(iv)

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s9(2)(f)(iv)

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s9(2)(f)(iv)



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s9(2)(f)(iv)

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s9(2)(f)(iv)

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We also canvassed policy changes that target people s9(2)(f)(iv) on Jobseeker Support (Options 4 to 7)

47 We have also considered a range of options to target people s9(2)(f)(iv) on JS:

- option 4: s9(2)(f)(iv)
- option 5: Introducing a parental income test for JS recipients s9(2)(f)(iv)
- option 6: s9(2)(f)(iv)
- option 7A: s9(2)(f)(iv)
- option 7B: s9(2)(f)(iv)

48 Analysis on these options is summarised in table 2, with more detailed analysis is attached at **Appendix 2**.

49 Options 4 to 7 are the most likely to generate significant savings, as they have broad impacts compared to options 1-3. For instance, s9(2)(f)(iv)

50 However, with those savings there would be large impacts on New Zealanders. Options 4 to 7 demonstrate that while large savings are possible it requires policy changes that are fundamental in nature, with significant impacts for the existing income support system compared to its current prescription in the Act. You would likely need to make trade-offs in respect of increases in hardship assistance and poverty, with consequent imposition of costs onto families and communities.

51 We would need to work with the Treasury on potential economic impacts, particularly in respect of options 6 and 7 and the role of JS as an automatic fiscal stabiliser.

- 52 For these reasons, we do not recommend seeking further advice on options 4-7. You may wish to discuss these options with your colleagues or Coalition partners.

Table 2: Summary of impacts for options 4-7

	Option 4	Option 5	Option 6	Option 7A	Option 7B
Savings	s9(2)(f)(iv)	\$75-300m over five years (abatement regime)	s9(2)(f)(iv)		
Delivery implications	Primary legislative amendments required for all options				
	s9(2)(f)(iv)	Delivered within 24 months from decision	s9(2)(f)(iv)		
Impact of proposal on other services or communities		Shifts provision of support from MSD to parents			
Estimated impact on benefit incomes		Low-medium			

s9(2)(f)(iv)

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s9(2)(f)(iv)

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s9(2)(f)(iv)

56 s9(2)(f)(iv)

s9(2)(f)(iv)

57 s9(2)(f)(iv)

Next steps

- 58 Due to the number of initiatives in train that require policy and legislative change and have a direct impact on MSD's frontline capacity (refer to REP/24/10/1009 *Shaping MSD's work programme*), MSD recommends selecting a maximum of two options for further advice on their potential inclusion in Budget 2025.
- 59 Once you have indicated your preferred options for future advice, we will undertake further analysis to refine the costings and timing of these proposals. This will also include estimates for FTE, IT and project costs, and choices around grandparenting which will reduce the total savings achieved. We will then prepare cost savings templates for submission to the Treasury.

60 s9(2)(f)(iv)

Appendix

- 61 Appendix 1 - Options analysis for cost savings options, and assumptions and caveats.
- 62 Appendix 2 – Further analysis of age options.

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