Aide-mémoire

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Meeting

Date: 29 November 2024 **Security Level:** BUDGET SENSITIVE

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

File Reference: REP/24/11/1089

Budget 2025 update and bilateral advice

Meeting date/time	Thursday 5 December 2024, 1:45pm
Meeting location	EW 7.2
Expected attendees	**Ministers** • Hon Nicola Willis – Minister of Finance **Ministry of Social Development officials** • Debbie Power – Chief Executive • Sacha O'Dea – Deputy Chief Executive, Strategy and Insights • Simon MacPherson – Deputy Chief Executive, Policy • Viv Rickard – Deputy Chief Executive, Service Delivery • Chris Bunny – Deputy Chief Executive, Disability Support Services • Brad Young – Chief Financial Officer
Purpose of meeting	This meeting is to discuss the following with the Minister of Finance: • **Agenda Item 1** – Disability Support Services cost pressures • **Agenda Item 2** – MSD cost pressures, reprioritisation, and savings • **Agenda Item 3** – Te Pae Tawhiti Transformation Programme.

Summary

This aide memoire provides you with materials for your upcoming Budget bilateral meeting:

- Talking points to support your discussion (Appendix One)
- Draft summary of the Budget 2025 invited initiatives (Appendix Two)
- Back pocket information (Appendix Three)
- Budget 2025 Vote Social Development invitation letter (Appendix Four).

Priorities for discussion

In previous Budget processes, bilateral meetings have taken place after the Ministry of Social Development (MSD) has submitted initiatives to the Treasury, and you have provided your submission letter to the Minister of Finance.

However, the bilateral on 5 December 2025 will take place before those submissions have occurred – which differs from standard process. We understand from Treasury officials that the Minister of Finance will want to talk about:

- Disability Support Services (DSS) cost pressures
- your Budget 2025 savings strategy, including:
  - proposed targeted policy savings
  - how MSD will address its cost pressures including reprioritisation
  - the proposed employment invest-to-save initiative
- the Te Pae Tawhiti Programme.

We have provided talking points to support your discussion (attached as Appendix One).

Appendix Two contains initiative-specific key points for the remainder of the package, as well as advice on the fiscal impacts, status, and next steps regarding each initiative.[1]

Back pocket information and talking points for Automated Decision-Making and the ongoing review of housing supports is included in Appendix Three.

Budget 2025 invitation letters

You received the Budget 2025 Vote Social Development invitation letter (the invitation letter) from the Minister of Finance on 18 November 2024 (attached as Appendix

1 Note that this appendix contains the latest advice, and this information (including fiscal impacts) is still under development and subject to change. This material will be finalised in advice ahead of initiative submissions.

Four). The invitation letter specifies a deadline of 23 December 2024 for:

- MSD to submit Budget 2025 templates to the Treasury, and
- you to provide a Budget 2025 submission letter to the Minister of Finance.

Note that MSD is proposing that these documents be submitted on Friday 20 December. We have provided you with a proposed timeline in our separate Budget 2025 advice (REP/24/11/1092 refers).

Disability Support Services

The recent independent review into DSS sustainability found that there was inadequate budgetary control and commercial rigour in the system. Despite Government spending increasing in Budget 2024 to $2.6b (with a $1.1b funding boost over 5 years), the reviewers found that the 2024/25 appropriation would be breached if spending was not controlled. You have taken urgent action to mitigate the risk for this financial year, but work to stabilise DSS will continue into 2025/26.

You plan to ask Cabinet to take decisions on allocation and flexible funding in May 2025. You will also seek agreement to a forward work programme to define DSS moving forward – It will be that future work that directly engages with how to manage cost growth for DSS.

In addition to the December submission deadline, the Minister of Finance's invitation letter notes that a requirement of the DSS cost pressures initiative is for MSD officials to provide information to Treasury around current year spending (actuals and forecasts), and the implications of current year spend for 2025/26 by 19 February 2025 (incorporating January actuals).

By February 2025, MSD should also be able to present options that bring down the cost for *Inflationary cost pressures - residential care*.

Abuse in Care

You will also be aware that the Minister of Finance provided a Budget 2025 Abuse in Care invitation letter to Minister Stanford, in her capacity as the Lead Coordination Minister for the Government's Response to the Royal Commission's Report into Historical Abuse in State Care and in the Care of Faith-based Institutions.

The letter invites Minister Stanford to coordinate the development of a package of survivor-focused initiatives requiring investment for Budget 2025, working closely with other relevant Ministers. Placeholder initiatives must be submitted by the 23 December deadline, however final submissions will be due on 18 January 2025.[2]

Social Investment

We also understand that the Social Investment Agency (SIA) are running a process to develop a social investment budget package. MSD is contributing to this process and focusing on identifying social investment opportunities for first 2,000 days delivering on your new Child and Youth Strategy.

Other savings

In addition to the three targeted policy savings, there are other savings that have been delivered as a result of work to meet Government targets, such as further Emergency Housing savings, and savings associated with 26-week reapplications.

'Ministry of Social Development: Targeted Savings'

Following the discussion of policy cost savings advice (REP/24/10/983 refers) at the meeting on 4 November 2025, we have been working on the options you indicated interest in:

1. s9(2)(f)(iv) [redacted]
2. [redacted]
3. Jobseeker Support: tightening eligibility for 18-19-year-olds (Option 7a from report).

Given the timing of your bilateral with the Minister of Finance we have included the latest information that we have on the proposals you agreed that we progress and will prepare Budget templates for them.

We have not included advice on all the options you agreed to in our policy cost savings advice, as decisions were only just received (REP/24/10/983). s9(2)(f)(iv) [redacted]

1. s9(2)(f)(iv) [redacted]

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

2 Next steps and key points regarding the two key areas of the Abuse in Care package for MSD are included in Appendix Two.

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

2. s9(2)(f)(iv) [redacted]

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

3 s9(2)(f)(iv) [redacted]

s9(2)(f)(iv)

[redacted]

3. Jobseeker Support: tightening eligibility for 18-19-year-olds

We have further developed the option to remove access to Jobseeker Support for 18- and 19-year-olds. We have adjusted this to be "tightening" eligibility for Jobseeker Support to reflect wider welfare system settings and ensure that there is still a safety net for this age group. The tightening is still based on the rationale that parents should play a greater role in financially supporting their children between the ages of 18 and 19.

A parental support test would be added to the eligibility criteria for people aged 18-19 applying for JS. The test would ensure only people whose parents cannot or will not support them financially could access JS. We will need to design this test – and will be largely based on the test for Youth Payment, acknowledging that there may be good reasons to make the test different to reflect the circumstances of 18- and 19-year-olds. This same test would be applied to Emergency Benefit (EB) to ensure those not eligible for JS under the new criteria would not flow through to EB.

This option has the strongest policy rationale, is less complex, easier to explain to clients (given similarities to requirements for Youth Payment) and easier for MSD to implement than alternatives that we explored. Implementation is estimated at 36 months given the complexity of design required.

MSD estimates this proposal will save $113.051 million over 5 years when accounting for the lead-in time of 36 months. This would create savings of $84.797 million per year in outyears. There are limitations to these estimates, as due to the variability of circumstances it is difficult to

	measure the impact on supplementary and hardship assistance (e.g. Accommodation Supplement and Temporary Additional Support).
Appendices	Appendix One – Talking points to support your discussion Appendix Two – Draft summary of the Budget 2025 invited initiatives Appendix Three – Back pocket information Appendix Four – Budget 2025 Vote Social Development invitation letter

Responsible manager: Sacha O'Dea – Deputy Chief Executive, Strategy and Insights

Appendix One – Talking points to support your discussion

Introduction

- I understand the need to identify savings to deliver on our Government's work programme. During this financial year, we expect to recognise significant additional savings from the Budget 2024 Emergency Housing invest-to-save initiative, given savings are higher than originally forecast.
- There are other savings resulting from the 26-week reapplications policy change.
- In addition to identifying savings for the Government's work programme, my priority for Budget 2025 is to realise sufficient savings to offset cost pressures and deliver on the Te Pae Tawhiti Work programme – s9(2)(f)(iv) [redacted]

Item1: Disability Support Services cost pressures

- Disability Support Services provide essential services and support to around 52,000 disabled people and their whānau, as well as Environmental Support Services including equipment and modification services for approximately 100,000 New Zealanders, some of whom receive DSS service and supports as well.
- As you are aware, in September 2024, DSS moved from Whaikaha – Ministry of Disabled People to MSD.
- There are a number of significant risks within DSS, s9(2)(h) [redacted], and continued volume growth on a capped appropriation that has historically been treated as demand-driven. Funding for DSS has grown from $1.2b in 2015/16 to $2.6b in 2024/25. In the last 10 years, DSS expenditure has not remained within the funding allocated at Budget, requiring additional funding.

High and Complex Framework (HCF) - capital investment for secure services

- Future investment is urgently needed to respond to significant challenges raised by the Ombudsman Oversight report.

- A Programme Business Case (PBC) approach is being taken to explore investment options in facilities for people living under the HCF.
- Businesses cases are planned to be developed for capital builds with Kāinga Ora (for NGOs services) and Health New Zealand (for forensic hospital costs), and for the operating costs necessary to support the capital investment.
- A staged approach could be taken with upgrades to the most urgent facilities.
- A contingency could be considered through Budget 2025, to be accessed following completion of the PBC.

High and Complex Framework – Service Improvement

- There is an urgent need to upgrade some facilities to ensure people referred to them by Court Orders under the High and complex Framework can be appropriately placed in secure locations.
- The issues have been highlighted in the Ombudsman's Oversight report.
- Without additional funding there is may be both a risk to public safety and to the people referred to the HCF.

Cost pressures – Disability Support Services

Inflationary cost pressures

- There is a 2.1% inflationary pressure for the 2025/26 financial year on services excluding residential care. This is in the middle of the target inflationary band of 1-3% per annum.
- This funds increases to prices for providers, supporting them with the inflationary pressures in the economy, including the cost of labour and the costs of the equipment, others goods, and services purchased as part of delivering disability support services.
- Without this increase, providers would need to find ways to absorb cost increases within their baselines; this would like create sustainability challenges.
- A settlement negotiated by Health NZ with support workers for pay equity will likely create a pressure over and above the 2.1%

(about $50M per annum for every $1 increase to support worker wages). This cost isn't included in these estimates.

- Funding to increase residential care pricing is outlined separately below, as part of the response to the rapid review of residential pricing.

Volume pressures due to population growth and increased demand for services

- I released an Independent Review of the disability support system in August 2024. The Review found unsustainable spending resulting in cost pressures and a lack of fairness and transparency across disability support services and outlined future work was needed to strengthen the system.
- In response, I commissioned the transfer of the DSS team from Whaikaha to MSD in September. MSD has set up a taskforce to lead work on strengthening the system. This work is underway and has taken actions such as putting budgets in place for Needs Assessment and Service Coordination Agencies and temporality freezing funding for residential care, as part of managing fiscal risk.
- There is, however, still significant demand in the disability system for supports. About 50,000 people received disability supports in 2023/24. The number of people supported is increasing. About 4000 additional people are receiving supports each year, an increase of 8-10% per annum.
- These people meet the eligibility criteria for funded supports, so their entrance into the system results in an increase in costs as more services are delivered. The work to stabilise the system, ensuring transparency and fairness, will provide better assurance over expenditure and the implementation of budgets seeks prioritisation of resources from assessors. The funding sought assumes that growth levels are lower than has been seen in previous levels because of the heightened focus on fairness and prioritisation, but also recognises that there is pressure driven by the number of disabled people receiving supports.
- As work to stabilise the Disability system is ongoing, this bid seeks ongoing funding for pressures from the 2025/26 year only. Pressures for outyears may be sought once a firmer

understanding of the real cost pressures on the system has been developed.

Inflationary cost pressures – residential care

- Following our August decisions, I put in place a temporary funding freeze to control the overall spend on residential care, pending a rapid review of pricing and contracting models. The freeze will not be sustainable long-term and providers expect it to be removed by 1 July 2025 (or earlier) as signalled in the Independent Review.
- The rapid review has focused on developing a credible approach to price. Without credible prices, providers are increasingly seeking individualised rates, driven by provider demands, rather than deliberate decisions by government. This makes both fiscal control and accurate forecasting of future expenditure challenging.
- The options developed for the December SOU paper have been built from a new pricing model based on current (2024) costs of service delivery in community group home settings. Officials estimate that implementing the modelled prices will result in a cost pressure of between 2 percent and 6 percent in all three options (representing the current price related cost pressures in the residential care sector).
- Maintaining credible pricing is critical to ongoing fiscal management of residential care. Under all of the options presented, the government will be able to review rates against cost pressures each Budget, depending on government Budget priorities. This shifts the locus of control over pricing from NASCs/Providers to the government.
- This is a cost pressure; it reflects a move to credible pricing, rather than a shift in policy.
- There will be options in terms of implementation of the pricing model, including the approach taken to the transition to new banded rates – both in terms of timing or grandparenting of rates, and the number and level of neutral/increased/decreased rates paid on the bands compared to current levels.
- The cost pressures for residential care and wider inflationary costs provide for an uplift to meet real costs and provide

credibility and reliability of out-year costs based on the system as it is now. Volume and related cost pressures below provide options to manage costs but will require strong management to achieve.

- As requested in your invitation letter, MSD officials will be providing further information on Disability Support Services cost pressures by 19 February 2025.

Item 2: MSD Cost pressures, reprioritisation and savings

- MSD's reprioritisation plan is to manage cost pressures, wherever possible, through internal reprioritisation. MSD has agreed to engage with Ministers if the cost pressure exceeds a financial threshold of $10 million per annum.
- I propose to reprioritise funding or use savings to offset MSD's larger cost pressures and my priority new initiatives in Budget 2025.
- I have asked officials to develop:
    - Targeted Policy Savings – including options for changes to benefit settings – which I am particularly keen to discuss with you today
    - an employment-focused invest-to-save initiative – to recognise savings from reductions in benefit expenditure, and re-invest funding into case management and employment programmes – which will support ongoing work to achieve the Jobseeker target.
- I understand Minister Seymour will be running a separate savings process, and options from the longer list of potential Policy savings could be considered through that process.
- It will not be possible for MSD to implement all of these options for Budget 2025. We will need to balance the quantum of savings we need with the lead in time to implement and other things that I have already asked MSD to do to achieve the Jobseeker and Emergency Housing targets.
- I am also aware that Ministers may consider options around s9(2)(f)(iv) and Working for Families that MSD will need to implement.

Potential 'Ministry of Social Development: Targeted Savings'

- From a longer list of options, I am currently considering:
    - s9(2)(f)(iv) [redacted]
    - further options that I will work with the Minister of Housing on.

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

s9(2)(f)(iv)

[redacted]

3. Tightening eligibility to Jobseeker Support Benefit for people aged 18 and 19 years

- Currently the minimum age requirement to apply for Jobseeker Support is 18. This option adds a parental support test to the JS eligibility criteria for people aged 18 and 19. The test would ensure only people whose parents cannot or will not support them financially could access JS.
- This option would have significant impacts for New Zealanders e.g. placing additional pressure on families and community service providers.
- Due the flow-on implications and design complexity MSD estimates approximately 36 months would be required to implement this policy after decisions are taken.
- This option is fiscally significant with savings estimated at $113.051 million over 5 years when accounting for a lead-in time of 36 months. This would be $84.797 million per year in outyears.

Invest-to-save

- As you are aware, we have a challenging Government target to reduce the number of people on Jobseeker target to 140k by December 2029. To achieve this challenging target, I am proposing an invest to save proposal to enable us to meet with more young jobseekers and those with health conditions and disabilities. 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.

- This proposal will include investment in my welfare that works programme, additional case managers and effective evidence based employment programmes.

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.
- Additional investment in case management and employment programmes would enable MSD to continue to work with similar numbers and potentially increase the number of people in active case management, targeting specific cohorts. 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 and future employment investment strategies.

Increasing funding for case management

- An invest-to-save approach will 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. This proposal would enable MSD to retain 490 frontline staff, where funding is due to end on 30 September 2025.
- MSD proposes to invest for two years in a combination of frontline and phone-based case management to target young jobseekers and those with a health condition or disability. It would also incorporate an expansion of the Welfare that Works approach.

Increasing funding for employment programmes

- There is currently a $117m reduction in employment programme funding from the 2024/25 to the 2025/26 financial year. An invest-to-save approach could draw on MSD's strong employment programme evidence base. MSD proposes to invest for two years into evidenced 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. This initiative would utilise the framework developed with the Treasury. It would allow savings from forecast reductions in Jobseeker numbers to be recognised.

Item 3: Te Pae Tawhiti Programme

- MSDs' current technological environment is complex and slow to change, with a large number of core platforms, systems and applications, which have been built through changing governments (a number of which are over 30 years old).
- Several critical systems are end of life and have no future roadmap. They have security vulnerabilities, and performance issues.
- Without transformation, MSD will need to spend over $1 billion on technology changes incrementally remediating, maintaining or replacing these at risk and critical systems.
- One of my top priorities is therefore to progress MSD's multi-year Te Pae Tawhiti Programme – to modernise the payments and public employment systems while future-proofing the welfare system and enabling a more strategic approach to commissioning. The programme will transform MSD's underlying business processes and technology to enable a fit-for-purpose service model.
- Since we last spoke about MSD's Business Transformation on 1 August 2024, I have also met with Infrastructure and Investment Ministers.
- The Ministry have addressed our feedback, reassessed the Programme in light of Government priorities and focus on fiscal sustainability, and developed a compelling Detailed Business Case (DBC).

- As directed, a Gateway Review occurred in early November, with the Programme awarded a positive Amber/Green rating. The business case assessment reflected its high quality.

- Gateway confirmed that the programme has considerable momentum and subject to the approval of this DBC and the provision of funding certainty, the Programme is well placed to progress.

- MSD's needs are unique. No other agency has systems that are configured to meet MSD business needs.

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

- The Programme is on track, delivering on time and within budget and has already delivered its first improvements. MSD has the experience, governance and assurance mechanisms in place to deliver Transformation.

- At Cabinet I will recommend proceeding with Transformation and advise of my intentions in Budget 2025.

Appendix Two – Draft summary of the Budget 2025 invited initiatives

See attached table.

Appendix Three – Back pocket information

This Appendix provides back pocket information and talking points regarding additional initiatives.

Automated Decision-Making (ADM)

Information

In addition to targeted policy savings, MSD will develop a template to reflect the decisions you have made about s9(2)(h) [redacted].

You have agreed to seek Cabinet agreement to enact a general authorising provision for the use of ADM, alongside appropriate safeguards, alongside any legislative amendments required to give effect to remediation decisions (REP/24/3/258 and REP/24/3/259 refer).

Remediation options for the processes s9(2)(h) [redacted] all have future Benefit or Related Expenditure (BoRE) savings associated, with a combined total of $163.118 million over five years (although this may be adjusted down to reflect implementation timing).

All remediation options for the processes will also have a cumulative impact of increasing demand on frontline staff and will require investment in IT changes. Without additional investment, MSD will have to divert existing staff from priority work to mitigate the impact of these changes. You have previously agreed to seek a cost transfer to cover IT and FTE costs, as implementation is not possible without this (REP/24/8/723 and REP/24/8/801 refer).

Talking points

- MSD uses Automated Decision-Making (ADM) in a number of processes to enable a more proactive and efficient welfare system. It allows MSD to automate low-value administrative tasks which enables staff time to be focused on high-value engagement with clients, such as employment conversations.
- I will be seeking Cabinet agreement in 2025 to enact a general authorising provision for ADM accompanied by appropriate safeguards, alongside legislative amendments required to give effect to remediation decisions.
- This is a fiscally significant proposal, with the estimated future Benefits or Related Expenses (BoRE) savings from the remediation proposals of $163.118 million over five years (although this may be adjusted down to reflect implementation timing).
- To deliver this initiative would require associated IT costs and FTE impacts to be funded from the BoRE savings delivered by the remediation options. This would enable MSD to invest in frontline FTE, alongside IT system changes, to reduce demand on staff and increase our ability to direct staff effort towards achieving the Jobseeker reduction target.

Two proposals for – 'Ongoing review of housing supports (including Accommodation Supplement s9(2)(f)(iv) [redacted] s9(2)(f)(iv) [redacted])' (joint with Minister of Finance)

Information

We recommend only presenting the options deferred at Budget 2024, while the review is ongoing.

In line with the Budget letter, and given recent discussions with the Minister of Housing about areas of interest for further work on housing supports, we recommend presenting only the two AS s9(2)(f)(iv) [redacted] savings proposals that were deferred last Budget:

- s9(2)(f)(iv) [redacted]
- increasing the Accommodation Supplement entry threshold for homeowners from 30 percent to 40 percent.

You may also want to seek the Minister of Finance's agreement to progress Accommodation Supplement boundary adjustments.

In line with your commitment in response to the Petitions Committee, MSD is also preparing a new funding Budget bid to update the Accommodation Supplement (AS) boundaries and introduce a mechanism to regularly update boundaries every 5 years. At an estimated cost of $14.8 million over the forecast period, this initiative could be funded through some of the savings realised from increasing the homeowner threshold (estimated to save $72.3 million over the forecast period). As you have not been invited to submit a bid for this funding, you will need to seek the Minister of Finance's agreement to include this in your submission.

Talking points

Minister Bishop and I have talked this morning, and we will present the Accommodation Supplement (AS) /s9(2)(f)(iv) [redacted] options deferred at Budget 2024 as savings options for this Budget [contingent on outcome from meeting with Minister Bishop]

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

s9(2)(f)(iv)

[redacted]

Increasing Accommodation Supplement entry threshold for homeowners (from 30% to 40%)

- This would increase the proportion homeowners contribute to their accommodation costs before being able to receive the Accommodation Supplement from 30 percent to 40 percent of their income.
- This would make settings more equitable for renters and boarders who generally have less ability to reduce housing costs. Homeowners have more options to manage accommodation costs, e.g. sale of home, rates rebate, refinancing, accepting boarders/flatmates, repayment holiday.
- Out of 37,565 homeowners receiving AS, the change is forecast to reduce the AS amount received for 15,439 recipients and reduce support to zero for 3,564 recipients.
- This will have a larger impact on those with fixed incomes (including those receiving New Zealand Superannuation/Veteran's Payment or Supported Living Payment) and people with boarders who are due to be impacted by Budget 2024 changes. If we wanted to exclude some groups from this proposal it would reduce the savings.

Proposal for funding - Updating the AS boundaries

- In response to a petition to rezone the Accommodation Supplement earlier in the year, the coalition Government publicly agreed that more regular updates would help the AS remain fit-for-purpose.
- I would like to progress with updating AS area boundaries through Budget 2025 and introduce a mechanism for MSD to update the boundaries in line with urban expansion every 5 years.
- I know that I have not been invited to submit this bid but would like you to consider it if we find savings from other areas. The estimated cost is $14.8 million over the forecast period.

Appendix Four – Budget 2025 Vote Social Development invitation letter

See attached letter.