MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Aide-mémoire

Meeting

Date:	28 January 2025	**Security Level:**	BUDGET SENSITIVE
For:	Hon Louise Upston, Minister for Social Development and Employment		
File Reference:	REP/25/1/016		

Advice to support your meeting with Hon David Seymour to discuss the Baseline Savings Programme

Meeting	5.00-6.00pm, Tuesday 28 January 2025 Room 7.6 EW
Expected attendees	**Ministers** Hon David Seymour, Associate Minister of Finance (the Minister) **Ministry of Social Development officials** Debbie Power, Chief Executive Sacha O'Dea, Deputy Chief Executive, Strategy and Insights Simon MacPherson, Deputy Chief Executive, Policy Brad Young, Chief Financial Officer
Purpose of meeting	This meeting is to discuss options that could be considered for the Minister's Baseline Savings Programme.
Summary	This aide memoire provides you with advice to support your meeting with the Minister regarding the Baseline Savings Programme.
Talking points	**Introduction about Vote Social Development and growth** • Vote Social Development has grown significantly over the last ten years and is forecast to continue to grow, mainly due to the growing cost of New Zealand Superannuation (NZS) as the population ages. NZS is

forecast to cost $23.2 billion in 2024/25, which is just over half (51%) of the $45.7 billion Vote.
  - Benefits and other related expenses (BoRE) make up a further $15.2 billion of the Vote (33.3%).
  - Student loans and MSD recoverable assistance account for another $2 billion (4.4%).
  - Disability Support and Whaikaha make up another $2.54 billion (5.6%).
- MSD's Departmental funding (excluding Disability Support Services) peaked last year, and is now declining with $1.699 billion in 2024/25, reducing to $1.432 billion in 2025/26 and remains flat at $1.322 billion from 2027/28.
- When I took up this portfolio, I worked through an iterative and comprehensive process with MSD to understand the Vote. This has provided the foundation to enable me to prepare for Budgets 24 and 25.
- Comparisons between 2016/17 and 2025/26 baselines show that:
  - Growth in NZS and benefit numbers are the key drivers of growth in the Vote
  - NZS costs have almost doubled from $13.1 billion to $24.7 billion
  - Benefit costs have doubled from $7.4 billion to $15.6 billion
  - Non-departmental has increased by 18.6% from $3.2 billion to $3.8 billion
  - Departmental operating has increased by 40.7% from $1.02 billion in 2017/18 to $1.43 billion
  - Funding has come into the Vote for Disability Support of $1.6 billion.
- As at 31 December 2024, MSD had 9,041 FTE. This compares to 6,799 in June 2017.
- Since 2016/17, Ministers have made decisions to move functions into MSD on a permanent or temporary basis (for example, Disability Support, and the Child Wellbeing and Poverty Reduction Group, on a permanent basis). This accounts for around 925 FTE.
- Funding has also been provided for additional frontline staff to meet demand:490 FTE are time-limited and due to end in September 2025 and an additional 237 FTE were funded in 2019/20 following a Treasury baseline review.
- MSD is actively managing FTE numbers including reductions over the last year through attrition, voluntary

redundancy and change processes. MSD is expecting a further reduction in FTE by June 2025.

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

You may wish to handover to Debbie Power to provide further information at this point.

Your approach to Budgets 24 and 25

- Savings of $792.4 million were found in Vote Social Development as part of Budget 24. This included an invest to save initiative to reduce the number of people in Emergency Housing: $350.5 million was booked in Budget 24. On top of that, the balance of savings can now be booked ($285 million) and a further reduction in expenditure ($418.6 million) recognised in the Half Year Economic and Fiscal Update 2024 (HYEFU). The total impact of this is $703.6 million.
- Other Savings in Budget 24 included:
    - s9(2)(f)(iv) [redacted]
    - Savings from Community programmes including a small Community Innovation Fund and not proceeding with implementing a wage supplement to replace the minimum wage exemption ($52.9 million)
    - Departmental savings including reductions in contractors and consultants, 165 FTE, travel, and accommodation ($154.9 million)
    - Time limited funding including COVID-19 departmental funding, and two social sector capability funds ($83.1 million).
- For Budget 25, I am committed to supporting the Government's fiscal sustainability objectives. I have a multi-year Vote Social Development savings strategy. This will give Ministers choices about phasing of savings, including savings that could be considered for Budget 26.
- As part of the Budget 25 package, I have submitted:
    - An Employment invest to save proposal (savings of around $374 million)
    - Four options for potential policy savings ($288.6 million):

        - s9(2)(f)(iv) [redacted]
        - s9(2)(f)(iv) [redacted]
        - Tightening eligibility for 18-19 year olds for Jobseeker Support
        - Increasing entry threshold for homeowners receiving the accommodation supplement
    - Other savings ($279.4 million).
- In addition to identifying savings for the Government's work programme, I am focused on realising sufficient savings to offset cost pressures in 2025/26 and deliver on the Te Pae Tawhiti Work programme – s9(2)(f)(iv) [redacted]

The Baseline Savings Programme

- This is all background for what we have come to discuss today: potential areas for additional savings as part of the Baseline Savings Programme you are leading.
- I have identified three potential areas in Vote Social Development you could consider for exploration as part of your Baseline Savings Process. I want to clarify upfront that these are three areas that meet the criteria for the Baseline Savings Programme and are areas where significant savings could be identified.
- I have not considered these as potential savings for the Budget process and would not propose these as part of my policy agenda for this portfolio, particularly consideration of any changes to s9(2)(f)(iv) [redacted]
- Working with MSD, I have identified areas to explore that:
    - are large appropriations (where the Budget for 2024/25 is over $400 million)
    - do not conflict with my priorities including the Jobseeker Support target, and reducing Child Material Hardship and Disability
    - are not part of the general Budget 2025 process and have not been in previous baseline savings processes.
- The three areas are:
    - s9(2)(f)(iv) [redacted]
    - Income charging improvements
    - s9(2)(f)(iv) [redacted].

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

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

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

- [redacted]
- [redacted]

3. Income charging improvements

- Changes to how MSD collects information about salary and wages that people receive could be an area for savings.
- There is a challenge with people incorrectly or not declaring income from wages and salary to MSD. This manifests as overpayments or underpayments which has negative impacts for clients and the Government.
- At the moment, MSD can only manually check around 10 percent of the records received from Inland Revenue under existing integrity processes, which does not include all clients. This is because it requires staff time to manually review the information. Where errors are found this generally results in the establishment of overpayment debt in these cases.
- Following Inland Revenue's Business Transformation, MSD has an opportunity to harness Inland Revenue's more detailed and timely PAYE wages and salary income information to improve the accuracy of income charging for people working and receiving an abated benefit or supplementary assistance payment.
- This would see MSD pay less financial assistance as it would have near real-time income information sourced from Inland Revenue as opposed to relying on clients to declare, and the charging process would be automated.
- To fully utilise PAYE information from Inland Revenue we would need to make policy, legislative, and operational settings, to receive the information and to automate its use. Because income touches almost every part of MSD's system there is operational and system complexity to implement changes, which would require multiple years for implementation.
- An initial estimate of savings for BoRE is around $300 million per year.

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

s9(2)(f)(iv)

- [redacted]
- [redacted]

s9(2)(f)(iv)

[redacted]

Clarifying which options to explore for 13 February submissions

- I am aware that submissions are due on 13 February. To maximise what officials can achieve by this date, we need to confirm which of these areas you would like us to work up.
- I also want to understand how the genesis of these initiatives will be framed as some of these areas reach over Coalition Agreements, or were discounted by the Prime Minister prior to Budget 24. I am comfortable with these being framed as you asking me to work with my agency on what options could look like. But I am not proposing these as options myself.
- There are capacity limits for MSD which means that for any areas you want to explore in this process need to weigh up the quantum of enduring savings against decisions in Budget 2025 for savings and other things that I have already asked MSD to do.

Understanding broader process and any impact on other Votes

- I am interested in the cumulative impact of savings and revenue raising initiatives, particularly on those with fixed incomes and for families with children. I am thinking about this within my own Vote, and wonder whether you have considered this across your Baseline Savings Programme?

- Areas to consider may also have impacts for or require effort by other portfolios – including Inland Revenue – and this is something that hasn't been raised with them.

Reactive talking points

Treasury proposed these areas for exploration so you may need reactive talking points.

Employment

- I do not suggest any additional savings measures for Employment Assistance (EA) programmes.
- These programmes support my employment priorities and deliver to the Government's target of fewer people receiving Jobseeker Support.
- Overall spending on EA was $539 million in 2023/24, which is relatively low compared to the OECD countries and per capita.
- In 2023/24, around 94% of the spending that was assessed with statistical modelling was found to be effective at reducing peoples' time on benefit.
- Around $450 million (84%) of total EA spend has been or will be formally evaluated using statistical modelling.
- For the remaining balance of $89 million (16%) that cannot be formally evaluated using this method, MSD uses international literature and other evidence to assess which interventions are worthwhile.
- I am confident that MSD continually monitors and evaluates programmes, making changes when they are not effective.

Accommodation Supplement

- I have agreed with the Ministers of Finance and Housing not to consider additional savings measures for the Accommodation Supplement (AS) at this time
- s9(2)(f)(iv) [redacted]
- [redacted]

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

Family Violence and Sexual Violence programmes

- Changes to FV/SV funding are systematically and collectively considered by FV/SV Ministers to ensure a coordinated, system-wide approach to savings and reprioritisation. Te Puna Aonui agencies will be working with Te Puna Aonui Business Unit and the Social Investment Agency to begin a full review of investment across the FV/SV portfolio this year, which is an action in the second Te Aorerekura Action plan. This work will be used to inform collective investment decisions going forward.
- My priority within the FV/SV portfolio is to reprioritise available funding towards violence prevention initiatives.
- There is already an overall reduction in MSD's FV/SV funding of $13.398 million for 2025/26, as time-limited funding for several initiatives ends.
- MSD’s FV/SV funding is almost completely invested in multi-year funding agreements. Any significant changes would require early termination of these contracts, leading to sector disruption and uncertainty for clients and providers.

Appendices

- Appendix 1 – Template for initial engagement
- Appendix 2 – Overview of Vote Social Development and drivers
- Appendix 3 – Further detail of proposed savings options
- Appendix 4 – Accommodation Supplement
- Appendix 5 – MSD Budget 2025 strategy A3
- Appendix 6 - Overview of policy changes from 2017 – 2023

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