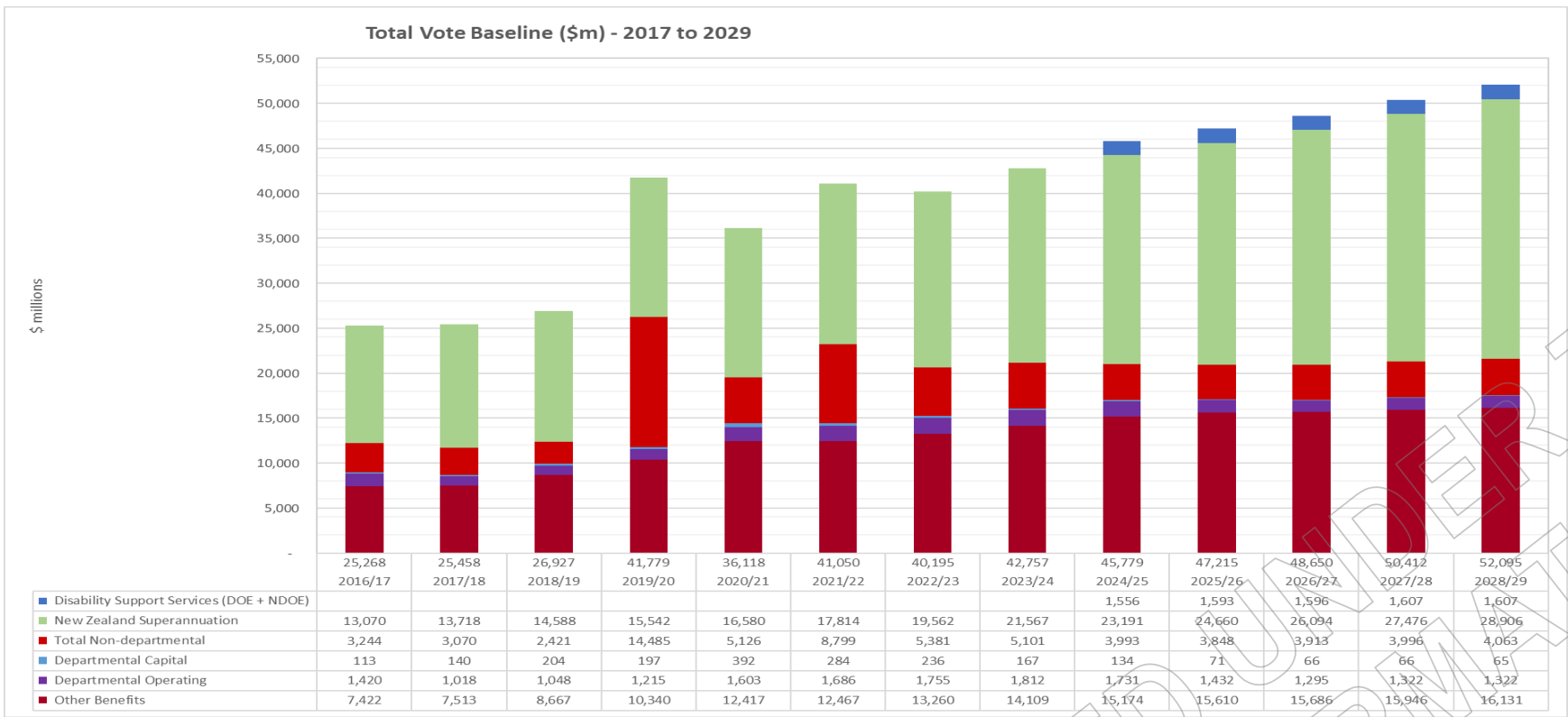


Appendix 1: Baseline Savings Programme – Ministry of Social Development

Growth



See Appendix 1A for a larger version of this graph and further information about MSD's baseline since 2017.

Growth drivers

Expenditure on New Zealand Superannuation increased by \$8,726m between 2016/17 and 2023/24 due to increasing cost and volume. We expect expenditure to continue to increase by around \$5,608m between 2024/25 and 2028/29, due to both volume and cost. Cost increases are due to indexation (to CPI and wages).

Policy changes such as the Families Package (introduction of Winter Energy Payment [WEP] and Best Start, increases to Family Tax Credit and Accommodation Supplement as well as increases to paid parental leave and retaining the Independent Earner Tax Credit) and benefit rate increases have added significant costs to this Vote (and Vote: Revenue). Changes made as part of the response to COVID-19, including wage subsidy, resulted in a significant temporary increase in the Vote.

The WEP was introduced in 2017 as part of the Families Package. It now costs \$536m, about \$90m higher than in 2017/18 due to an increase in volume. We expect expenditure to continue to increase by around \$85m between 2024/25 and 2028/29, due to increased volume.

Expenditure on Working Age Benefits has increased significantly due to policy changes over the last six years, rising number of people on benefits since 2022, and indexation. Main working age benefits rates are indexed to inflation (and were briefly indexed to wage growth) – this will continue to drive increases into the future. The number of people on Working Age benefits is expected to reduce over the next five years, which is factored into forecast expenditure. Achieving Jobseeker Support targets is not factored into the forecasts and would result in further savings.

As at 31 December 24, MSD has 9,041 FTE. This compares to 6,799 FTE as at 30 June 2017. MSD has been reducing FTE over the last twelve months (including a reduction of 165 FTE in Budget 24) and is expecting a further reduction by June 2025. Since 2016/17, funding has been provided for FTE for additional functions, and time-limited projects or teams. 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.

As part of Budget 24, we received additional funding to extend time-limited funding for emergency housing (117 FTE) and historic claims (104 FTE). In 2024, Disability Support Services was transferred to MSD (183.8 FTE).

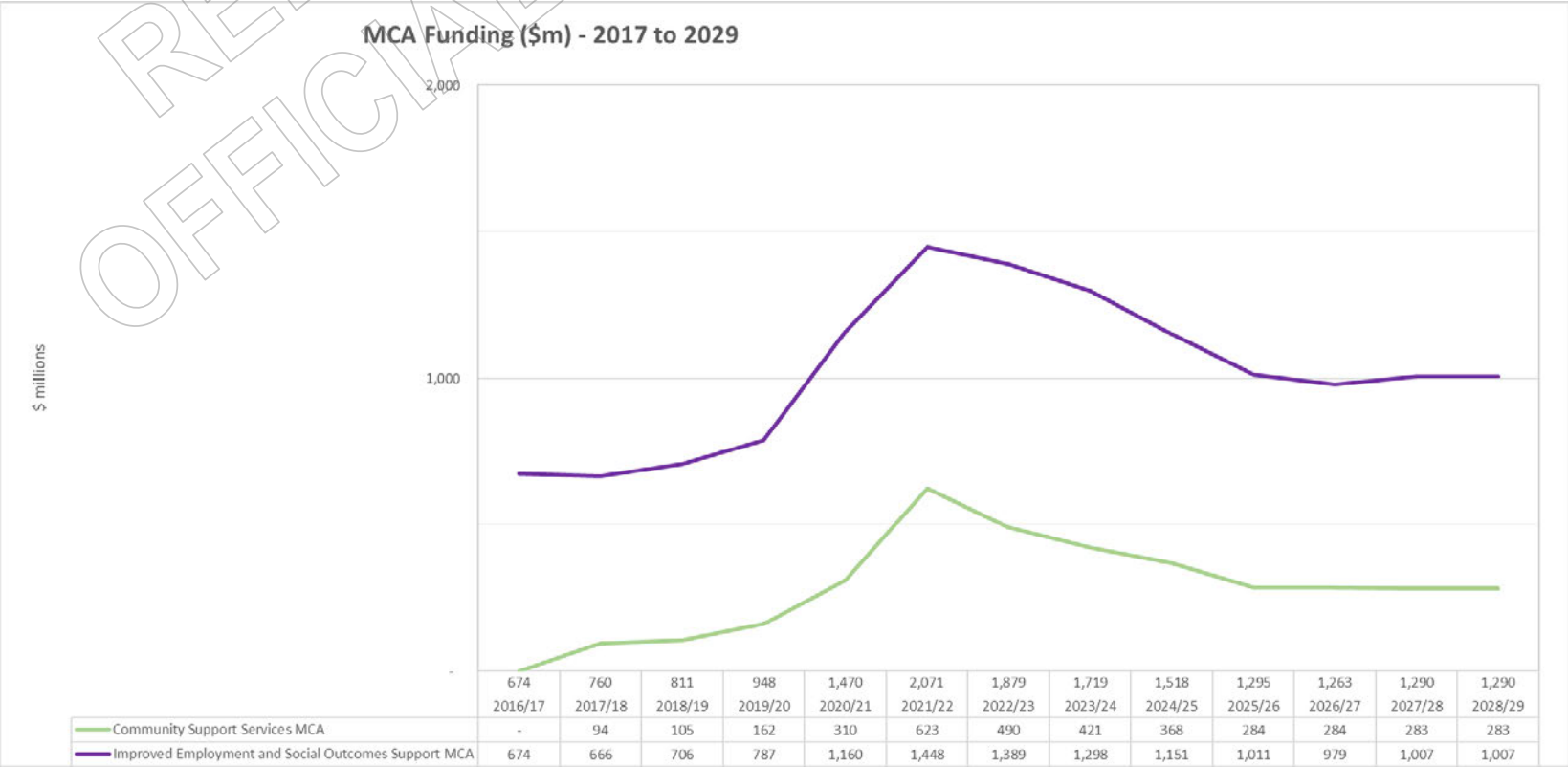
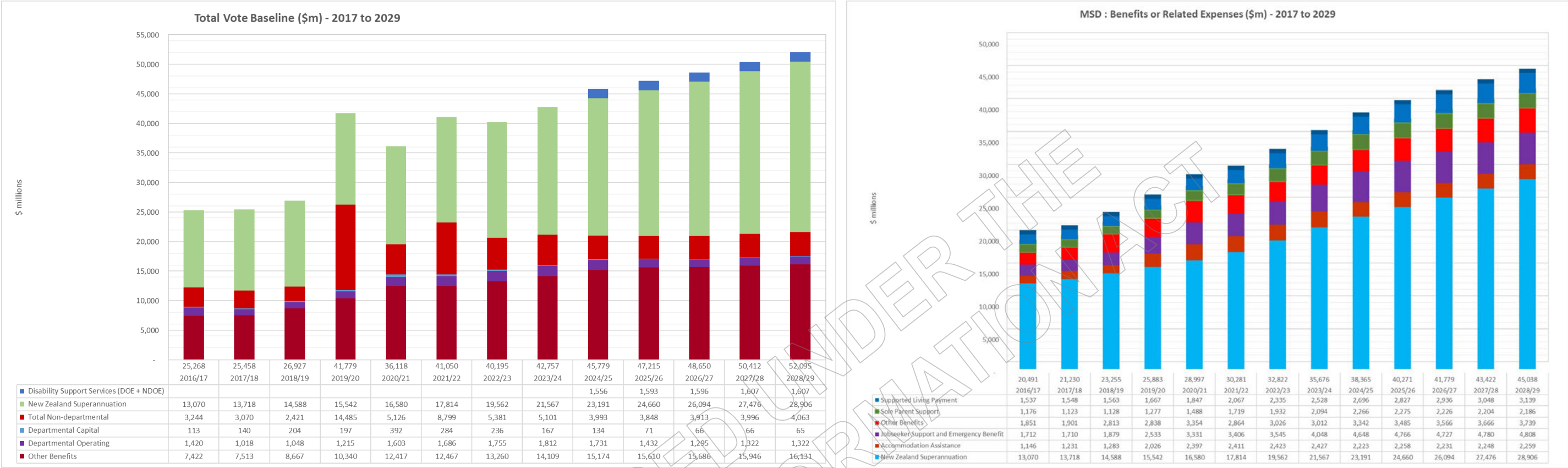
See Appendix 1B for more information about growth drivers in Vote Social Development.

Savings options (Refer to Appendix 1C for more detail)

Savings options	Description of potential options	Savings operating average	Risks / challenges
s9(2)(f)(iv)			
3) Income charging improvements	Increase the accuracy of how income is charged for benefits and supplementary assistance.	Large (estimated at \$300m per year)	Requires legislative change. High complexity.
s9(2)(f)(iv)			

Appendix 1A: MSD baseline since 2017

Note that the figures in this paper are as at OBU, and do not account for ongoing MBU changes for the Whaikaha/DSS split.



Appendix 1B: Growth drivers in Vote Social Development

Caveats:

- We are unable to provide as much detail on the drivers of actual benefit expenditure between 2016/17 and 2023/24 compared to the drivers of forecast expenditure. This is because estimating the drivers of actual benefit expenditure requires estimating the impact of historic policy changes and inflation.
- Historic policy changes could affect either the number of people on benefit, the average payment rate, or both. Indexation will affect the average payment rate.
- The forecast impacts of New Zealand Superannuation (NZS) and the Winter Energy Payment (WEP) are produced as part of each forecast round.
- The forecast average payment rate reflects impacts before inflation adjustments. For example, deductions off benefit payment (abatement/sanctions), or changes in the proportion of people in each payment rate, can change the average payment.
- Other (see Table 2, row 5) reflects forecast growth/decrease in Debt establishments and Overseas Pension Recoveries.

Table 1: Drivers of benefit expenditure between 2016/17 and 2023/24

	New Zealand Superannuation	Winter Energy Payment
Numbers of recipients	\$3,382.487m	\$0.537m
Other factors (incl. average payment rate and indexation)	\$5,343.112m	-
Total Growth	\$8,725.599m	\$0.537m

New Zealand Superannuation: Expenditure on NZS increased by around \$8,726m between 2016/17 and 2023/24. Most of the increase in expenditure on NZS can be explained by increases in inflation and wage growth, which is captured in the 'other factors' row. Increases in the number of people receiving NZS accounted for an increase of around \$3,382m over this period.

Winter Energy Payment: Expenditure on the WEP increased by around \$536m between 2016/17 and 2023/24. The weekly payment rates of WEP have been unchanged since the payment was introduced in December 2017 (excluding the Government's support package during COVID-19 which included doubling the WEP). Therefore, all of the increase in expenditure on WEP can be explained by increases in the number of people receiving WEP over this period.

Table 2: Drivers of forecast expenditure for New Zealand Superannuation

	2024/25 to 2025/26	2025/26 to 2026/27	2026/27 to 2027/28	2027/28 to 2028/29	Total
Numbers of recipients	\$788.6m	\$789.3m	\$871.9m	\$704.1m	\$3,154.0m
Average Payment Rate	(\$14.6m)	(\$8.2m)	(\$3.4m)	(\$1.4m)	(\$27.5m)
Indexation	\$593.8m	\$666.6m	\$534.9m	\$745.3m	\$2,540.6m
Other	(\$6.3m)	(\$15.4m)	(\$21.8m)	(\$15.2m)	(\$58.6m)
Total Growth	\$1,361.5m	\$1,432.4m	\$1,381.7m	\$1,432.9m	\$5,608.5m

New Zealand Superannuation: At HYEPU 2024 we expect that expenditure on NZS will increase by around \$5,608m between 2024/25 and 2028/29. Indexation in the average payment rate and the number of people receiving NZS are expected to contribute fairly evenly to the overall increase in expenditure.

Table 3: Drivers of forecast expenditure for the Winter Energy Payment

	2024/25 to 2025/26	2025/26 to 2026/27	2026/27 to 2027/28	2027/28 to 2028/29	Total
Numbers of recipients	\$60.3m	\$5.8m	\$8.8m	\$10.3m	\$85.2m
Average Payment Rate	-	\$0.2m	(\$0.3m)	(\$0.5m)	(\$0.6m)
Total Growth	\$60.3m	\$6.1m	\$8.5m	\$9.7m	\$84.6m

Winter Energy Payment: At HYEPU 2024 we expect that expenditure on WEP will increase by around \$85m between 2024/25 and 2028/29. This is mainly due to an increase in the number of people expected to receive WEP.

Appendix 1C: Further detail on policy options

Savings option (e.g. Appropriation X, Option Z)	Description (i.e. Settings/choices to reduce expenditure)	Potential size of savings (S, M, L) ¹	Risks/challenges	Additional Comments
s9(2)(f)(iv)				
3. Income charging improvements	<p>Across main benefits and supplementary assistance, we reduce payments based on income earned from employment (we call this income charging). There are opportunities to change income charging settings by leveraging information from employers (via Inland Revenue) about how much people earn and automatically adjusting payments. This would be:</p> <p>3A. Increasing the accuracy of how income is charged for benefits and supplementary assistance.</p>	L (savings estimated at \$300m per year).	<p>Would require legislative change.</p> <p>High complexity for implementation.</p> <p>s9(2)(f)(iv)</p>	N/A
s9(2)(f)(iv)				

¹ Over forecast period:
Small impact <\$10 million
Medium between \$10 million and \$100 million
Large >\$100 million