Report

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Date: 13 February 2025 **Security Level:** BUDGET SENSITIVE

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

Reference: REP/25/2/079

Budget 2025 – Talking points for Ministerial engagement

Purpose

1 This report provides you with talking points to support Ministerial engagement on Budget 2025 proposals in the week beginning 17 February.

Recommendations

It is recommended that you:

1 **note** you have bilateral meetings scheduled in the first week of March with the Minister of Finance (MoF)

2 **note** that we recommend that you engage with Ministerial colleagues prior to the Social Development and Employment bilateral on 6 March

3 **note** that we have provided talking points to support engagement in Appendices One to Three

4 **note** that we understand that you have discussed the housing initiatives with the Minister of Housing, and we can provide talking points to support a discussion with the Associate Minister of Housing if you wish

5 **note** that an updated Budget Strategy A3 with the latest figures is attached as Appendix Four

6 **note** we will provide draft material to support your bilateral meetings by 21 February

7 **discuss** this report at your Officials' meeting on 17 February.

13/2/25

Sacha O'Dea
Deputy Chief Executive, Strategy and Insights
Date

Hon Louise Upston
Minister for Social Development and Employment
Date

Dates have been set for bilateral meetings

2 Now that we have more certainty about the bilateral meetings with MoF, we have updated the Budget 2025 process timeline between now and early March, set out below.

3 This does not include the 13 February submission deadline for the Baseline Savings Programme led by Hon David Seymour. The timeline has been extended until 21 February, but will depend on the timing of a response to your letter from the end of January.

Key:	**Advice you will receive** **Ministerial meeting** **Specific deadline**
Week beginning Monday 17 February	Engagement with your Ministerial colleagues about your Budget 2025 proposals
Wednesday 19 February	MSD due to provide information regarding current year spending for Disability Support Services (actuals and forecasts), and the implications of current year spend for 2025/26 to the Treasury
Friday 21 February	Advice to support your bilateral meetings with MoF, including talking points (three separate aide memoires)
Wednesday 5 March 7:00pm - 7:30pm	Bilateral meeting with MoF – Working for Families (also includes the Minister of Revenue)
Wednesday 5 March 7:45pm - 8:30pm	Bilateral meeting with MoF – Housing (also includes the Minister of Housing and the Associate Minister of Housing)
Thursday 6 March 10:30am - 11:15am	Bilateral meeting with MoF – Vote Social Development

Ministerial engagement

Talking points

4 We recommend that you engage with your colleagues regarding initiatives with impacts on other portfolios before your bilateral meetings. We have provided you with key talking points, attached as Appendices One to Three, to assist your engagement with:

- Hon David Seymour and Hon Shane Jones as Associate Ministers of Finance (attached as Appendix One)
- members of the Child and Youth Ministers Group (particularly the Minister of Health, Minister for Youth, and Minister for Children) (attached as Appendix Two), and
- Hon Erica Stanford as Minister of Education and Minister of Immigration (attached as Appendix Three)

5 You have previously discussed the Budget 2025 housing initiatives with the Minister of Housing, and we can provide talking points to support a discussion with the Associate Minister of Housing should you require it.

6 We will also provide separate advice regarding Working for Families.

Budget Strategy

7 An updated Budget Strategy A3 is attached as Appendix Four for your reference and includes the latest costings.

8 The only significant costing change is the employment invest-to-save initiative. s9(2)(g)(i) [redacted]

s9(2)(g)(i) [redacted]

Disability Support Services

9 As part of the Budget 2025 letter, MoF invited officials to provide information to the 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). We have been discussing this with the Treasury and will provide information summarising:

- the year-to-date spend on service provision, up to 31 January 2025;
- the projected expenditure for the remainder of the year; and
- any implications of the current year spend on the next financial year (2025/26).

10 The information is due to the Treasury by 19 February. We will provide an update to your office next week.

Next steps

11 We recommend that you discuss the contents of this report at your Officials' meeting on 17 February.

12 We will provide advice by 21 February to support your bilateral meetings with MoF in early March.

Appendices

Appendix One – Talking points for engagement with Associate Ministers of Finance

Appendix Two – Talking points for engagement with Ministers from the Child and Youth Ministers Group

Appendix Three – Talking points for engagement with the Minister of Immigration and Minister of Education

Appendix Four – Updated Budget Strategy A3

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

Appendix One – Talking points for engagement with Associate Ministers of Finance

This Appendix provides talking points to support a discussion with the Associate Ministers of Finance from your coalition partners – Hon David Seymour and Hon Shane Jones.

Key talking points

- I am committed to supporting the Government's fiscal sustainability objectives and to ensuring that our resources are directed towards the highest value investments.
- In Budget 2024, I contributed over $700m in savings from the Social Development and Employment portfolio. That included savings from my Emergency Housing invest-to-save initiative and since then, there has been a further reduction in the Emergency Housing appropriation of $703.6m in HYEFU 24.
- For Budget 2025, I am proposing that further savings be realised from targeted policy savings and other savings.

Targeted Policy Savings

- My targeted policy savings proposals include:
  s9(2)(f)(iv)
  - [redacted]
  - [redacted]
  - Tightening eligibility to Jobseeker Support Benefit and Emergency Benefit for people aged 18 and 19 years (estimated net savings of $173.4m over five years).
    - Currently the minimum age requirement to apply for Jobseeker Support is 18. This option adds a parental support gap test to the

Jobseeker Support and Emergency Benefit eligibility criteria for people aged 18 and 19. The test would ensure only people whose parents cannot or will not financially support them could access Jobseeker Support or Emergency Benefit.

    - There are no easy options to generate fiscally significant savings, and there are some choices and trade-offs that need to be made given this option would have significant impacts for New Zealanders e.g. placing additional financial pressure on families and community service providers.
    - Due to the flow-on implications and design complexity, MSD estimates it will take 18 months (from 1 July 2025) to implement this proposal.
  - Increasing Accommodation Supplement (AS) entry threshold for homeowners (estimated net savings of $46.4m over five years).
    - AS is currently available to homeowners who spend at least 30 percent of their income on their accommodation costs. I am proposing to increase this threshold to 40 percent for AS homeowners, excluding those receiving NZ Superannuation, Veteran's Pension or Supported Living Payment. For context, the 'housing cost overburden rate' used by the OECD measures the proportion of households or population that spend more than 40 percent of their disposable income on housing costs.
    - The AS entry threshold for other tenure types (such as renters and boarders) is currently 25 percent. The additional five percent acknowledges that the AS payment to homeowners also helps the recipient to acquire an asset. However, there is a lack of justification as to why this was valued at five percent of income. Some homeowners also have options to manage accommodation costs that renters and boarders do not, such as rates rebates, refinancing and repayment holidays.
    - Out of approximately 25,000 homeowners receiving AS (excluding those receiving NZ Superannuation/Veteran's Pension or the Supported Living Payment), the change is forecast to reduce the accommodation assistance received for 9,900 recipients and reduce the AS to zero for 1,300 recipients.
    - This initiative would not apply to recipients of NZ Superannuation/Veteran's Pension or the Supported Living Payment. These homeowners will continue to have their AS assessed on 30 percent of their income.
    - I have discussed priorities with the Minister of Housing and we are proposing that some of the savings from this initiative be reprioritised to adjust Accommodation Supplement Area Boundaries and introduce a mechanism for future adjustment to reflect urban expansion (at a cost of $22.8m). This aligns with the Government's commitment that more regular updates to AS geographic boundaries would help the AS remain fit-for-purpose, in response to a petition to rezone the AS earlier in the year.
    - The net savings from these two initiatives are $23.6m.
- The Ministry of Social Development only has capacity to progress two Targeted Policy Savings initiatives through Budget 2025 – the AS initiative plus one of the remaining three Targeted Policy Savings proposals. Ministers

will therefore need to make decisions regarding the phasing of savings, including savings that could be considered for Budget 2026.

- I am also aware that Ministers may consider options around s9(2)(f)(iv) [redacted] and Working for Families that MSD will need to implement.

Invest-to-save s9(2)(g)(i) [redacted]

- As you are aware, we have an ambitious Government target to reduce the number of people on Jobseeker Support to 140,000 by 2030. 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.
- s9(2)(g)(i) [redacted] It includes three key components:
    - Maintaining current levels of Case Management – the proposal would enable MSD to retain 490 frontline staff, where funding is due to end on 30 September 2025.
    - Community Job Coaching – the proposal includes funding for the Government's manifesto commitment for Community Job Coaches as part of Welfare that Works.
    - Continuing employment programmes – the proposal would enable MSD to continue delivering key employment programmes that have time-limited funding set to expire, including Flexi-wage, Regional Employment Placement Programmes, Oranga Mahi IPS and Here Toitu.
- An invest-to-save approach draws on MSD's strong employment programme evidence base. The initiative would:
    - enable MSD to maintain current levels of income and employment support, targeting specific cohorts
    - support delivery of the Jobseeker target
    - manage the risk of time-limited funding expiring, and
    - gather evidence about benefits over the longer term to provide learnings for MSD's Te Pae Tawhiti programme and future employment investment strategies.
- The proposal utilises MSD's joint invest-to-save framework with the Treasury, and agencies will continue to work through assumptions and refine costings.

Other savings

- In addition to my Targeted Policy Savings proposals and invest-to-save initiative, I am proposing other savings through Budget 2025, including Automated Decision-Making changes (estimated net savings of $220m over five years), and the return of some other funding (approximately $58m over the forecast period).

Detailed supporting material (back pocket)

<u>Invest-to-save</u>

- As you are aware, we have an ambitious Government target to reduce the number of people on Jobseeker Support to 140,000 by 2030. 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. s9(2)(g)(i) [redacted]

- Based on modelling to 30 September 2022, young people under 25 and currently on a main benefit are estimated to spend on average 20.4 future years supported by a main benefit, and people on Jobseeker Support – Health Condition and Disability are estimated to spend on average 12.3 future years supported by a main benefit.
- This proposal will include investment in my welfare that works programme, maintaining current levels of Case Management and investment in 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. At HYEFU 2024 we had forecast that the number of people receiving Jobseeker Support would peak at around 215,900 people in January 2025.
- 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 in dedicated employment case management.
- Continued investment in case management and employment programmes would enable MSD to maintain current levels of income and employment support, targeting specific cohorts. The continued 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 draws on existing case management evidence from the original investment approach work that showed that the return on investment of a similar service in 2017 was positive. Continued strengthening of our evidence base through an agreed monitoring and evaluation plan will occur. 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 draws on MSD's strong employment programme evidence base. MSD proposes to invest for two years into evidence-based high impact employment programmes, such as Flexi wage. This initiative utilises the framework developed with the Treasury. It allows savings from forecast reductions in Jobseeker numbers to be recognised.

Appendix Two – Talking points for engagement with Ministers from the Child and Youth Ministers Group

This Appendix provides talking points to support a discussion with Ministers from the Child and Youth Ministers Group – particularly Hon Simeon Brown (Minister of Health) and Hon James Meager (Minister for Youth) in their new portfolios, as well as Hon Karen Chhour (Minister for Children).

Child and Youth Strategy

- Cabinet has agreed that the refreshed Child and Youth Strategy focus on three key priorities:
  - supporting children and families in the first 2,000 days
  - reducing child material hardship, and
  - preventing child harm.
- These priorities span Ministerial portfolios and contribute to outcomes across multiple domains, including in areas where we have set Government and portfolio targets.
- Making progress in our Strategy priorities requires us to coordinate our efforts and identify opportunities to deliver greater value and impact across the system.
- As lead Minister for the Child and Youth Strategy, I am proposing an investment approach focused on reprioritisation opportunities and pooling investment across portfolios.
- This will require collaborative work across Ministerial portfolios and agencies, and I therefore suggest that Ministers look to progress the investment approach through Budget 2026.
- However, I am keen to start the process through Budget 2025 for Vote Social Development, and to this end I have submitted a Budget 2025 bid seeking to reprioritise funding from the Vote to help deliver on our priorities in the Strategy.
- I am proposing to reprioritise $40m over four years from Vote Social Development to support three initiatives. I am not seeking any new funding through this bid.

  1. Continue the KickStart Breakfast programme for a further year ($1.23m in 2025/26)
     - Government will continue to partner with Fonterra and Sanitarium to provide daily free breakfasts to more than 42,000 students in over 1,400 schools.
     - Currently, there is no funding appropriated for the Government contribution to continue beyond the 2024/25 financial year. Continuing the funding for a further year will provide continuity while the Ministry of Education completes the review of broader provision of food in schools.
     - Continuing this initiative will contribute to reducing child material hardship.
  2. Continue provision of jackets by KidsCan in schools ($750,000 across two years)
     - KidsCan will be funded to continue to provide 17,500 waterproof jackets to schools over the next two years.

- Currently, there is no funding appropriated for this KidsCan programme beyond the 2024/25 financial year.
- Continuing this initiative will contribute to reducing child material hardship.

3. Establish a contingency to fund evidence-based parenting programmes ($38m across four years).

- The contingency would be used to purchase the provision of prevention-focused programmes and resources that support positive parenting practices in the first 2,000 days of children's lives (conception to age 5).
- This initiative will contribute to supporting children and their families in the first 2,000 days and to preventing child harm.

- This bid will contribute towards the Strategy priorities that this Government has agreed. It also supports our Government's social investment approach of using evidence to invest in early intervention initiatives which we know work, and which can save money in the long run.
- As a Minister on the Child and Youth Ministers Group, you have a key role in driving improved outcomes for our children and youth, and this bid is relevant to your portfolio and your work programmes.
- I would appreciate your support for this bid, which will demonstrate our Government's commitment to delivering on the Strategy and to reprioritising funding towards what works.
- I also look forward to working with you and other members of the Child and Youth Ministers Group on my proposed cross-portfolio investment approach for Budget 2026 and beyond.

Food Secure Communities

You may also wish to discuss your food proposal, which also has an impact on children and youth.

- I also intend to reprioritise funding to invest $15m in 2025/26 to continue the Food Secure Communities programme for one more year (at 2024/25 levels). The investment will fund:
  - existing national and regional food distribution infrastructure to cost-effectively distribute bulk and rescued food
  - community-based food security initiatives giving them more time to transition to self-sustaining funding models
  - community-level food providers, including foodbanks
  - an evaluation of the programme within the wider food support eco-system to enable the development of more self-sustaining pathways for food security.
- The continued investment is needed in 2025/26 to support families with ongoing cost-of-living pressures. Treasury now expects the pace of economic recovery to be slower than previously forecast and unemployment to remain higher for longer.
- The benefits of the programme include:
  - providing value-for-money, including through rescuing surplus food and sourcing supplies significantly below retail costs.

    - promoting a whānau-centred approach which especially benefits children and aligns with the *increased student attendance* Government target
    - reducing greenhouse gas emissions through food rescue.
- MSD will continue to work with other agencies and community partners to explore ways to transition the Food Secure Communities work programme onto a more self-sustaining basis.

Appendix Three – Talking points for engagement with the Minister of Immigration and Minister of Education

This Appendix provides talking points to support a discussion with Hon Erica Stanford who is both Minister of Education and Minister of Immigration.

Key talking points

s9(2)(f)(iv)

[redacted]

s9(2)(f)(iv)

- [redacted]

Tightening eligibility to Jobseeker Support Benefit (JS) and Emergency Benefit (EB) for people aged 18 and 19 years (estimated net savings of $173.4m over five years)

- We have other initiatives in the Budget 2025 package that may be of interest to you as the Minister of Education, such as tightening eligibility to Jobseeker Support Benefit (JS) and Emergency Benefit (EB) 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 gap test to the JS and EB eligibility

criteria for people aged 18 and 19. The test would ensure only people whose parents cannot or will not financially support them could access JS or EB.

- This option is fiscally significant with net savings estimated at $173.4m over five years when accounting for lead-in of 18 months.
- There are no easy options to generate fiscally significant savings, and there are some choices and trade-offs that need to be made given this option would have significant impacts for New Zealanders, e.g. placing additional financial pressure on families and community service providers.
- Due to the flow-on implications and design complexity, MSD estimates it will take approximately 18 months (from 1 July 2025) to implement this proposal.

Invest-to-save s9(2)(g)(i) [redacted]

- As you are aware, we have an ambitious Government target to reduce the number of people on Jobseeker Support to 140,000 by 2030. 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.
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- The proposal utilises MSD's joint invest-to-save framework with the Treasury, and agencies will continue to work through assumptions and refine costings.

Detailed supporting material (back pocket)

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

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Tightening eligibility to Jobseeker Support Benefit (JS) and Emergency Benefit (EB) for people aged 18 and 19 years

- Tightening JS eligibility for 18-19-year-olds could create perverse incentives for people to apply for other assistance. For instance, people may apply for a Student Allowance or Student Loan with no intent to finish study.
- We are not able to estimate the impact of this because it is difficult to know what proportion of the affected cohort would be likely to take-up study without historic data to support this assumption.
- At this stage there are no changes to the eligibility of Jobseeker Support Student Hardship.

Invest-to-save

- As you are aware, we have an ambitious Government target to reduce the number of people on Jobseeker Support to 140,000 by 2030. 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. The proposal is estimated to deliver net savings of approximately $300m over the forecast period.
- Based on modelling to 30 September 2022, young people under 25 and currently on a main benefit are estimated to spend on average 20.4 future years supported by a main benefit, and people on Jobseeker Support – Health Condition and Disability are estimated to spend on average 12.3 future years supported by a main benefit.
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