

Report



MINISTRY OF SOCIAL
DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Date: 21 February 2025 **Security Level:** BUDGET SENSITIVE

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

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Budget 2025 update – preparing for March bilaterals

Purpose of the report

- 1 You have three Budget 2025 bilateral meetings with the Minister of Finance (MoF) on Wednesday 5th and Thursday 6th March. Ministry of Social Development (MSD) officials are meeting with you online next week to prepare for these bilateral meetings. This report provides you with:
 - 1.1 a draft aide memoire for the Social Development bilateral
 - 1.2 a proposed agenda for our discussion next week, including choices about proposed sequencing of savings proposals and changes to the Employment Invest to Save proposal
 - 1.3 an update on the Baseline Savings Programme.
- 2 Draft aide memoires are also being provided for the other two bilaterals, which will also be discussed at our online meeting next week.

Recommended actions

It is recommended that you:

- 1 **note** you are meeting with MSD officials next week to prepare for your upcoming bilateral meetings
- 2 **note** our proposed agenda for discussion at this meeting (Annex 2)

- 3 **discuss and provide feedback** on the provisional sequencing and phasing of initiatives (Annex 3)
- 4 **agree** to receive further advice regarding:
- 4.1 this sequencing of Budget 2025 initiatives, following discussion and incorporation of your feedback
- AGREE / DISAGREE
- 4.2 the implications of implementing all the Budget 2025 initiatives on the pipeline of policy, legislative and change work on MSD's work programme
- AGREE / DISAGREE
- 5 **note** that MSD has been working through an iterative process with Treasury to thoroughly test this proposal
- 6 **note** that we are proposing to make changes to the proposal to optimise the savings profile, while still delivering on Welfare that Works and making progress on the Jobseeker Support target
- 7 **discuss** the employment invest-to-save initiative
- 8 **indicate** whether you require any further information or material to support your bilateral meetings
- 9 **note** that MSD may be able to provide more information once the Treasury have provided advice to their Minister on 28 February
- 10 **note** the Treasury are preparing a report for the Cabinet Expenditure and Regulatory Review Committee (EXP) regarding Performance Plans, and will assign a RAG rating to each Plan.



Sacha O'Dea
Deputy Chief Executive
Strategy and Insights

21/2/25

Date

Hon Louise Upston
Minister for Social Development and
Employment

Date

Preparing for the March bilateral meetings

- 3 Three bilateral meetings have been scheduled for the first week of March: Social Development, Housing, and Working for Families.
- 4 A draft aide memoire for the Social Development bilateral is attached (Annex 1) for you to discuss with officials next week during your bilateral preparation meeting. You may wish to provide feedback or request further information during this discussion.
- 5 A proposed agenda for the meeting with MSD officials next week to prepare for your upcoming bilateral meetings is attached as Annex 2.
- 6 Final versions of the aide memoire will be provided on Monday 3 March, following our discussion.
- 7 We anticipate that Treasury will be providing its final briefing material to MoF in the weekend bag prior to the bilateral meetings. We will include the latest information we have from Treasury in the final aide memoire on 3 March 2025.

Sequencing and phasing of initiatives

- 8 We have previously indicated that it would not be possible to implement all the targeted policy savings and other savings initiatives at the same time.
- 9 We have undertaken further work to understand what sequencing of implementation would look like if we were asked to book and deliver all the initiatives as part of Budget 2025. We have staggered the implementation dates to account for:
 - 9.1 when capacity becomes available (starting from implementation of Traffic Light System Phase 2 and 26-week reapplications, and following go-live of Digital Employment Service)
 - 9.2 client impacts (e.g. of Budget 2024 changes for Accommodation Supplement and then Budget 2025 proposals for Accommodation Supplement)
 - 9.3 staff impacts (to allow change to be embedded before the next initiative goes live)
 - 9.4 largest savings being implemented first (ADM and Jobseeker Support – tightening eligibility for 18-and-19-year-olds).
- 10 Annex 3 sets out the estimated implementation timing for the initiatives. Overall, we have determined that:
 - 10.1 MSD can implement all the initiatives through Budget 2025, but it will take more time than was indicated for individual initiatives when progressing all of them

- 10.2 a shift in go-live dates will reduce total savings over the forecast period
- 10.3 it will be challenging to fit any additional change into the schedule and this will impact other priorities in the portfolio. For example – this timing does not account for any changes you may want to consider for ^{s9(2)(f)(iv)}
- 11 We can provide further advice on:
 - 11.1 timing and fiscal impacts to reflect any preferred prioritisation for the sequencing of initiatives
 - 11.2 what capacity remains for change and how this impacts your Ministerial work programme over 2025 and 2026.
- 12 This analysis does not include impacts from the Baseline Savings Programme initiatives, or initiatives led by other agencies. Any additional work will put pressure on this schedule and delivery of existing initiatives may be delayed.

Employment invest-to-save update

- 13 Over the last month, we have been working through an iterative process with Treasury to:
 - 13.1 respond to questions on the proposal
 - 13.2 test the assumptions underpinning the bid including costs and operational assumptions
 - 13.3 understand the evidence used to support proposed return on investment for different components of the bid
 - 13.4 review MSD's analysis, parameters and assumptions for non-participant effects
 - 13.5 quality assure the modelling.
- 14 ^{s9(2)(g)(i)}
- 15 ^{s9(2)(g)(i)} we are proposing to make changes to the proposal that we would like to discuss with you. The key objectives are to:
 - 15.1 optimise the savings profile
 - 15.2 secure funding for Welfare that Works for at least two years
 - 15.3 retain 490 frontline FTE to support achievement of the Jobseeker Support target.
- 16 The revised proposal includes:
 - 16.1 changing the Welfare that Works package from four years to two years. This allows us to recognise the savings in years three and four

for the investment made in years one and two. The original four-year option meant that participants starting in year four would realise the majority of their savings outside the constraints of the Treasury model and was therefore negating savings in the bid. It also allows us to complete a formal evaluation before submitting a future bid for the funding for years three and four.

- 16.2 including funding for the Skills for Industry programme of \$10m per year across two years. MSD plans to be more targeted towards Jobseeker cohorts and in particular increased investment for Jobseeker-HCD clients who have a high return on investment for the programme. By introducing this additional funding of \$20m across two years, it produces net savings of \$18.5m.

- 17 MSD is still working on revised modelling to try to improve the savings profile and will provide an update when we meet next week. As at 21 February, the estimated savings across the forecast period are set out in the table below:

Components	Costs (\$m)	Gross savings with no substitution replacement effects (\$m)	Gross savings based on 30% substitution replacement effects (\$m)	Gross savings based on 50%/30% substitution replacement effects (\$m)
Employment Related Case Management	\$128.818m	(\$371.571m)	(\$260.100m)	(\$260.100m)
Welfare that Works (2 years)	\$72.019m	(\$94.428m)	(\$66.100m)	(\$66.100m)
Testing for JS-HCD	\$4.000m	Unable to Forecast Savings		
Employment programmes	\$138.463m	(\$344.146m)	(\$240.902m)	(\$189.306m)
Total	\$343.301m	(\$810.145m)	(\$567.102m)	(\$515.506m)
Costs	\$343.301m			
Total savings less costs	N/A	(\$466.845m)	(\$223.801m)	(\$172.205m)

- 18 We will update the talking points for your bilateral meeting following our pre-meet with you next week.

Disability Support Services

- 19 As part of the Budget 2025 letter, MoF invited MSD to provide information to the Treasury by 19 February 2025, regarding the following for Disability Support Services (DSS):
 - 19.1 current year spending
 - 19.2 the implications of current year spend for 2025/26.
- 20 We provided a report to the Treasury on 19 February, which advised them on:
 - 20.1 the year-to-date spend on service provision, up to 31 January 2025
 - 20.2 the projected expenditure for the remainder of the financial year
 - 20.3 any implications of the current year spend on the next financial year (2025/26).
- 21 We understand that the Treasury will be including DSS information in their advice for the bilateral, and MoF will likely want to discuss this with you. We have provided talking points to support this discussion in the draft aide memoire attached as Annex 1.

Other Budget 2025 updates

Performance Plan update

- 22 MSD submitted the MSD Performance Plan and draft DSS Performance Plan to Treasury in November 2024.
- 23 Treasury shared Performance Plans with MoF and Minister Seymour in December 2024, along with central agencies' insights on the Plans. The Minister has commissioned a report to EXP in March on these insights, as part of the committee's assigned role of scrutinising the Plans.
- 24 Treasury have informed us that it expects the report will reinforce expectations about turning plans into actions. MoF has reiterated a desire for Ministers to use the Plans to ensure that departments can manage within baselines and deliver value over the medium term.
- 25 The report will also present a summary of the Plans with a RAG rating. Treasury will assign RAG ratings to Plans and discuss these with departments. We will keep you updated and engage with you ahead of the report being discussed at EXP.

Baseline Savings Programme

- 26 On 17 February, you received a letter from Minister Seymour inviting you to submit three savings initiatives as part of the Baseline Savings Programme: s9(2)(f)(iv) income charging, and s9(2)(f)(iv) MSD provided a

response letter for you to send to Minister Seymour and submitted the savings templates to Treasury today.

s9(2)(f)(iv)

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s9(2)(f)(iv)

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Explaining the \$273m increase in Minister Seymour's letter

- 31 Minister Seymour's 17 February letter quoted a \$273 million increase in annual expenditure within the Social Development and Employment portfolio gross base since 2018/19.

- 32 At this week's Officials' meeting, we told you we were looking into what this number comprised. We found that this number is calculated on a comparison between an inflation-adjusted baseline (discretionary expenditure) in 2018/19 compared to the average (discretionary expenditure) 2024 HYEPU baseline.
- 33 There are several exclusions to get to a discretionary expenditure base. This includes removing benefit spend, non-departmental capital expenditure, non-departmental other expenditure and departmental other expenditure. The only Ministerial portfolio included was Social Development and Employment.
- 34 The most significant drivers of this increase are:
- 34.1 the Community Support Services MCA increased by \$140.427m, with most of that increase from Supporting Victims and Perpetrators of Family and Sexual Violence (\$115.565m)
 - 34.2 the Improved Employment and Social Outcomes Support MCA increased by \$97.343m, mainly from increases in employment programmes – this included He Poutama Rangatahi and Jobs and Skills Hubs, which were transferred to MSD from MBIE in 2021/22.
- 35 The table below sets out the drivers of this increase:

Appropriation/category	Average spend increase (\$m)
Community Support Services MCA, includes:	140.427
Supporting Victims and Perpetrators of Family and Sexual Violence	115.565
Place-based approaches	6.691
Participation and Support Services for Seniors	11.171
Community Support and Advice	7.000
Improved Employment and Social Outcomes Support MCA, includes:	97.343
Administering Income Support	13.735
Improving Employment Outcomes	44.358
He Poutama Rangatahi	33.000
Jobs and Skills Hubs	6.250
Other appropriations	35.230
Drivers licence support	19.800
Community Participation Services	14.350
Other	1.080
Total	273.000

Next steps

- 36 You are scheduled to meet with officials next week to discuss your three bilateral meetings and the associated aides memoire. The three bilateral meetings are currently scheduled for the first week of March.
- 37 MoF has agreed that she will seek Cabinet approval for the Budget 2025 package on 14 April, at which point the Budget moratorium will begin and run until Budget Day (22 May).

Annexes

Annex 1: Draft aide memoire for Social Development bilateral

Annex 2: Proposed agenda for discussion at pre-meet

Annex 3: Proposed sequencing and phasing of initiatives

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