

Aide-mémoire



**MINISTRY OF SOCIAL
DEVELOPMENT**
TE MANATŪ WHAKAHIATO ORA

Meeting

Date: 28 February 2025 **Security Level:** BUDGET SENSITIVE
For: Hon Louise Upston, Minister for Social Development and Employment
File Reference: REP/25/2/105

Budget 2025 – Social Development and Employment bilateral

Meeting details

Wednesday 5 March, 3:15pm – 4:00pm, EW 7.2

You are attending two other bilateral meetings held on Wednesday 5 March, regarding:

- housing initiatives (REP/25/2/100 refers), and
- Working for Families (REP/25/2/113 refers).

Expected attendees

Ministers

- Hon Nicola Willis – Minister of Finance (MoF)

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
- Tracy Voice – Deputy Chief Executive, Transformation
- Brad Young – Chief Financial Officer

Purpose of meeting

This meeting is to discuss your proposed Budget 2025 package with the Minister of Finance.

Summary

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

- Proposed annotated agenda provided by the Minister of Finance's office (Appendix One)
- Talking points to support your discussion (Appendix Two)
- Back pocket talking points and supporting material (Appendix Three)
- Back pocket optimal savings package (Appendix Four).

Priorities for discussion

The proposed annotated agenda received from MoF's office is (attached as Appendix One), and includes the following priorities for discussion:

- Agenda Item 1 – savings initiatives
- Agenda Item 2 – reprioritisation options
- Agenda Item 3 – Disability Support Services (DSS) cost pressures
- Agenda Item 4 – Te Pae Tawhiti transformation programme
- Agenda Item 5 – Employment invest-to-save initiative.

The priority for the discussion is on items 1 – 3, and the agenda notes that items 4 and 5 are for discussion "if time permits".

Talking points in the appendices to this aide memoire are structured in line with this agenda.

'Per annum' figures listed in the annotated agenda received from MoF's office have been calculated by dividing the total over the forecast period (as submitted to the Treasury December 2024), by four. They do not reflect the actual year-by-year breakdown (figures vary year-to-year for many initiatives).

Context

While we understand you may still receive a letter from MoF asking you to find additional savings on top of those you have submitted into the Budget 2025 process, this was not sent by the end of Thursday. As discussed with officials on Wednesday 26 February, MSD's advice on the optimal savings package that you could present includes the following initiatives:

- ADM remediation (submitted in Budget 25 but with phasing to prioritise changes with highest savings)
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- Jobseeker Support – tightening eligibility for 18-19-year-olds (submitted in Budget 25)
 - Income charging (submitted in Baseline Savings Programme with initial savings in 2028/29)
 - s9(2)(f)(iv) Accommodation Supplement (AS) – adjusting boundaries (submitted in Baseline Savings Programme)
 - AS – increasing entry threshold for homeowners and adjusting boundaries (submitted in Budget 25 but delayed implementation until April 2027)
 - Employment invest-to-save (submitted in Budget 25)
 - Phase 1 of Income Charging: Additional integrity checks of MSD payments (ahead of income charging).

Whilst you indicated that you do not wish to table this optimal package until the letter from MoF is received, MSD recommends that if additional savings are needed for Budget 25, it may be better to defer two proposals s9(2)(f)(iv)

to a later date and free up the resource for alternative proposals. This is because these will result in relatively modest savings but will divert some valuable and limited MSD resources to implement.

You may also want to advise her that you have been considering proposing a new invest-to-save initiative as an alternative. This new proposal:

- can be implemented immediately by scaling up an existing MSD function and will realise savings from 2025/26, s9(2)(f)(iv)
- does not require legislative change, s9(2)(f)(iv)
- is estimated to deliver savings earlier.

The talking points included in the appendices reflect our recommended approach outlined above.

In the course of your conversation, MoF may ask you to find additional savings in Vote Social Development. We have included some relevant talking points in Appendix Three and the overview of the optimal savings package as Appendix Four if required.

¹ Withdrawing these two smaller initiatives also opens up MSD capacity for other work – for example, undertaking policy development and design for income charging as part of Te Pae Tawhiti Transformation Programme.

We have not attached the Social Development and Employment Budget Strategy A3 (this was last provided in REP/25/2/122). However we can update this to reflect your latest preferred package before the bilateral if required.

Appendices

Appendix One – Proposed annotated agenda provided by the Minister of Finance’s office

Appendix Two – Talking points to support your discussion

Appendix Three – Back pocket talking points and supporting material

Appendix Four – Back pocket optimal savings package

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

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Appendix One – Proposed annotated agenda provided by the Minister of Finance's office

Agenda

The proposed agenda for this meeting is set out below. Further details on each agenda item are set out in the tables below.

1. **Agenda Item 1 and 2: Social Development Savings and Reprioritisation Initiatives**
2. **Agenda Item 3: Disability Support Services (DSS) cost pressures**
3. **Agenda Item 4 and 5: Te Pae Tawhiti transformation programme and Employment 'invest-to-save' initiative (if time permits)**

Agenda Item 1 – Social Development Savings Initiatives

Description of key issue	Overview of Savings Initiatives In her Budget 2025 submission letter, Hon Upston outlined five policy savings initiatives. According to the Ministry of Social Development (MSD), these would generate approximately \$500 million in total over the forecast period:		
	<table border="1"> <tr> <td>Changes to Automated Decision-Making (ADM)</td><td>(\$54.0 million)</td></tr> </table>	Changes to Automated Decision-Making (ADM)	(\$54.0 million)
Changes to Automated Decision-Making (ADM)	(\$54.0 million)		
	<table border="1"> <tr> <td>Restricting Jobseeker Support eligibility for 18-19-year-olds</td><td>(\$43.3 million*)</td></tr> </table>	Restricting Jobseeker Support eligibility for 18-19-year-olds	(\$43.3 million*)
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	<table border="1"> <tr> <td>Raising the Accommodation Supplement entry threshold for homeowners</td><td>(\$11.6 million)</td></tr> </table>	Raising the Accommodation Supplement entry threshold for homeowners	(\$11.6 million)
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s9(2)(f)(iv)			
	<table border="1"> <tr> <td>Total</td><td>(\$125.7 million p.a.)</td></tr> </table>	Total	(\$125.7 million p.a.)
Total	(\$125.7 million p.a.)		
MSD has also developed an 'invest-to-save' initiative that would generate savings by investing in MSD's frontline resources and contracted employment programmes. Officials are still refining this initiative.			
Three further savings options are also being considered through the Budget 2025 Baseline Savings Process (which Hon Seymour is leading): s9(2)(f)(iv) , Income Charging, and savings from s9(2)(f)(iv)			

Agenda Item 2 – Social Development Reprioritisation

Description of key issue	<p>Overview of reprioritisation options</p> <p>MSD submitted the four new spending initiatives in the table below (excluding Te Pae Tawhiti and the employment ‘invest-to-save’ initiative discussed at Agenda Items 4 and 5 below), and Hon Upston proposed to meet the cost of these initiatives from the Budget 2025 savings initiatives. Of these, only the Akonga Fund initiative was invited (although Hon Upston indicated at your earlier bilateral meeting that the other initiatives would be submitted).</p> <table border="1" data-bbox="523 618 1437 1043"> <tr> <td>Implementing the Child & Youth Strategy (Kickstart, KidsCan and parenting programmes)</td><td>\$10 million p.a. (\$2 million over two years for Kickstart and KidsCan, and \$38 million over the forecast period for parenting programmes)</td></tr> <tr> <td>Adjusting Accommodation Supplement (AS) Area Boundaries</td><td>\$5.7 million p.a.</td></tr> <tr> <td>Extending the Ākonga Fund</td><td>\$5.6 million p.a.</td></tr> <tr> <td>Continuing the Food Secure Communities programme</td><td>\$15 million in 2024/25 only (\$3.8 million p.a.)</td></tr> <tr> <td>Total</td><td>\$25.1 million p.a.</td></tr> </table> <p>Implementing the Child and Youth Strategy</p> <p>This initiative would continue the government’s contribution to two child hardship programmes, KickStart Breakfast and KidsCan jackets (\$2 million over two years), as well as setting aside \$38 million over the forecast period for parenting programmes.</p> <p>Adjusting Accommodation Supplement (AS) Area Boundaries</p> <p>This initiative seeks to adjust AS area boundaries to account for urban development and residential expansion (which would result in some applicants receiving higher AS payments), as well as introduce a legal requirement for MSD to review the boundaries every five years. AS area boundaries have not been updated since 2018, and subsequent urban development has led to inequities between AS recipients.</p> <p>Extending the Ākonga Community Fund (Youth portfolio)</p> <p>This initiative provides funding (\$5.6 million) for the continuation of youth development programmes delivered by local providers which currently support 2,750 young people with moderate needs (aged 12-21 years) annually. This initiative falls within the Youth portfolio.</p> <p>Continuing the Food Secure Communities programme</p> <p>The Food Secure Communities (FSC) programme was initially established with time-limited funding from Budget 2020, with additional funding provided in subsequent years. However, the programme’s funding is set to expire on 30 June 2025. This initiative seeks \$15 million to extend the programme for an additional year in response to sustained demand for food support services, which remains high due to current economic conditions.</p>	Implementing the Child & Youth Strategy (Kickstart, KidsCan and parenting programmes)	\$10 million p.a. (\$2 million over two years for Kickstart and KidsCan, and \$38 million over the forecast period for parenting programmes)	Adjusting Accommodation Supplement (AS) Area Boundaries	\$5.7 million p.a.	Extending the Ākonga Fund	\$5.6 million p.a.	Continuing the Food Secure Communities programme	\$15 million in 2024/25 only (\$3.8 million p.a.)	Total	\$25.1 million p.a.
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Total	\$25.1 million p.a.										

Agenda Item 3 – Disability Support Services (DSS) cost pressures

Description of key issue	<p>Following the Independent Review and the establishment of the DSS taskforce, work is progressing on strengthening the long-term sustainability of DSS. While plans to implement the review recommendations are underway, it will take time for them to be implemented and to see the full impact.</p> <p>The Minister has submitted a DSS cost pressure initiative of \$255 million per year. This is less than the \$275 million average per year provided in Budget 2024 that was set as an upper limit for this initiative. That Budget 2024 funding included \$92 million that was time-limited for 2024/25.</p> <p>s9(2)(f)(iv)</p> <p>The DSS appropriation for 2024/25 is \$2.6 billion. The amount of funding needed to address cost pressures in 2025/26 is driven by price pressures, volume pressures, and how much is spent in 2024/25 (in other words, the bigger the underspend in 2024/25, the less funding is needed for a given level of volume and price growth in 2025/26). As such, there is uncertainty over the funding needed.</p> <p>As at 31 January, spending is tracking slightly under budget for Needs Assessment and Service Coordination providers and Enabling Good Lives demonstration sites, and MSD has not used any of the risk pool of \$133 million set aside in the 2024/25 appropriation. MSD has indicated that it expects it will need to use some of the risk pool by year-end.</p> <p>Assuming an underspend of \$50 million (1.9%) in 2024/25, funding of \$250 million per year would pay for:</p> <ul style="list-style-type: none"> • average price growth of 3.5% (a new pricing model for residential care with an average revenue increase of around 5.2% for providers, which is scheduled to be discussed at the 5 March Cabinet Social Outcomes Committee meeting, and 2% for other components); and • average volume growth of 4.3%, which is well below volume growth in recent years (8-10%). <p>Funding could be reduced below \$250 million by assuming a larger 2024/25 underspend will eventuate (e.g. an underspend of \$100 million would mean funding of \$200 million would fund the same price and volume growth set out above), or by providing for lower price and/or volume growth.</p>
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Agenda Item 4 – Te Pae Tawhiti transformation programme

Description of key issue	<p>MSD has submitted a Budget 2025 initiative that seeks operating funding for its business transformation programme, Te Pae Tawhiti (TPT).</p> <p>s9(2)(f)(iv)</p> <p>s9(2)(f)(iv)</p> <p>Cabinet considered and approved a Detailed Business Case for TPT in December 2024 and directed MSD to implement its preferred option (a re-sequenced transformation), subject to future funding decisions, which are to be taken through Budget 2025 (i.e. this initiative) [EXP-24-MIN-0079 refers].</p> <p>Ahead of the Detailed Business Case, the programme underwent a Gateway review in November 2024. The review was positive: it found that the programme was “well placed to progress,” with a “rock-solid case for change,” and delivery “tracking well” to date.</p> <p>s9(2)(i)</p>
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Agenda Item 5 – Employment ‘invest-to-save’ initiative

Description of key issue	<p>MSD has submitted a Budget 2025 initiative that requests new funding to invest in employment services, leading to savings over time (‘invest-to-save’). The investment in additional FTE and employment programmes, including Welfare that Works, are forecast to lead to savings over the forecast period.</p> <p>When calculating savings, a discount rate is applied to account for non-participant impacts. The discount rate is based on evaluations of employment programmes, including case management. MSD applied a 30% discount rate to the initiative.</p> <p>MSD is still finalising its model for calculating the savings from this initiative, and will provide updated costings to be considered ahead of Budget Ministers 3 in late March.</p>
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Appendix Two – Talking points to support your discussion

- I am committed to working with you to support the Government's fiscal sustainability objectives and to ensuring that our resources are directed towards the highest value investments. My officials have been working with Treasury to refine my Vote Social Development proposals for Budget 25.
- As discussed previously, I have been working with MSD to develop a multi-year Budget Strategy. Given the need to find savings for Budget 25, I have asked MSD to provide advice to enable more savings proposals to be agreed and recognised through Budget 25.
- As you are aware, I have a challenging Jobseeker target which is my focus for the portfolio and will result in significant savings if we can beat the current forecast. This is my highest priority, alongside the Te Pae Tawhiti transformation which will provide us with a modern system and more options for reducing costs in the future.
- In addition to the savings initiatives I am proposing for Budget 2025, during this financial year we recognised a \$703.639m reduction in the Emergency Housing appropriation at the Half Year Economic and Fiscal Updated (HYEFU) 2024, which is on top of net savings of \$350.545m recognised through Budget 2024 for the Emergency Housing invest-to-save initiative.

Agenda Item 1 – savings initiatives

Proposals submitted in December 2024

- My savings proposals as submitted in December 2024 include:
 - Automated Decision-Making changes (estimated net savings of \$220m over the forecast period).
 - Tightening eligibility to Jobseeker Support Benefit and Emergency Benefit for people aged 18 and 19 years (estimated net savings of \$173.4m over the forecast period).
 - Increasing Accommodation Supplement (AS) entry threshold for homeowners (estimated net savings of \$46.4m over the forecast period).
 - 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).

◦ s9(2)(f)(iv)

◦ s9(2)(f)(iv)

Prioritisation of savings initiatives


- As discussed in our bilateral in December 2024, there is a limit on MSD's capacity to implement policy savings initiatives through Budget 2025.
- MSD have advised me that they can implement all the initiatives, but a staggered approach is required. This will:
 - take more time than was initially indicated
 - reduce the total savings over the forecast period (though the savings per annum remain the same), and
 - impact our ability to implement any new savings initiatives through Budget 2026.
- I am also aware that implementing all of the initiatives will put pressure on my portfolio, and my ability to do more to achieve the Jobseeker target.
- Decisions about Working for Families and other initiatives that MSD needs to implement will create other delivery pressures and may lead to further changes in the implementation timeline.

Potential alternative savings proposal

Introducing a new savings proposal

- As part of my Budget Strategy, I have included two proposals ^{s9(2)(f)}_(iv) that will result in relatively modest savings, but will divert some valuable and limited MSD resources to implement. If we need to find more savings for Budget 25, it may be better to defer these to a later date and free up the resource for alternative proposals.
- MSD officials have identified a potential new time-limited proposal to increase the number of integrity checks on MSD payments.
 - This proposal is consistent with our Government's direction on ensuring only those who need help are receiving this, and brings forward some savings using a manual approach ahead of implementing more efficient and elegant technical solutions. This is phase one of a longer work programme on income charging that will ensure MSD is paying people the right entitlements based on their income in real time.
 - I am aware of the significant Legislation Programme for 2025, and I am conscious of the impact of further legislative changes on this already full Programme. This new proposal does not require legislative change, ^{s9(2)(f)}_(iv)
 - As discussed in December 2024 – MSD has limited capacity to implement savings initiatives. This new proposal can be implemented immediately by scaling up an existing MSD function and will realise savings from 2025/26, ^{s9(2)(f)}_(iv)

s9(2)(f)(iv)



- This new proposal will deliver earlier savings and these may be at the same level as the two smaller policy initiatives combined.

MSD manually checks declared income against Inland Revenue information

- MSD currently carries out integrity checks on a small proportion of payments each week. This is a manual process using matched records from the Inland Revenue Information Share.
- There is a challenge with people incorrectly or not declaring income from wages and salary to MSD. This manifests as overpayments or underpayments which have negative impacts for clients and the Government.
- MSD's integrity checks therefore help to improve efficiency in the system and generate savings by reducing client debt and overpayments, as well as removing people who are not entitled to the assistance they are receiving.

I am proposing a time-limited initiative for additional FTE, to increase the number of matched records that are reviewed each week

- Given this is an existing function within MSD, this is a low-complexity initiative. It can be scaled up quickly, with savings realised from 2025/26. No legislative changes are required.
- This is designed as a time-limited initiative to boost MSD capacity while automated income charging capability is developed as part of Te Pae Tawhiti Transformation Programme.
- This time-limited initiative will enable MSD to increase the overall volume of integrity checking, using a targeted approach (based on risk).
- I expect that this work will contribute to my Jobseeker target, as increased checking is likely to identify more clients who are not eligible to receive Jobseeker Support.
- This initiative will improve efficiency in the welfare payment system, helping to ensure the right people receive the right payment at the right time.
- MSD has other significant work programmes underway to improve efficiency across the welfare system, including Automated Decision Making and the wider Te Pae Tawhiti Programme.

Agenda Item 2 – reprioritisation options

Implementing the Child and Youth Strategy

General points about the Budget 2025 proposal

- 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. As lead Minister for the Child and Youth Strategy, ^{s9(2)(f)(iv)} [REDACTED]
- Given this will require collaborative work across Ministerial portfolios and agencies, ^{s9(2)(f)(iv)} [REDACTED]
- 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 the 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 – but am proposing to use savings from Automated Decision-Making to:
 - Continue the KickStart Breakfast programme for a further year to provide daily free breakfasts to more than 42,000 students in over 1,400 schools (\$1.23m in 2025/26)
 - Continue to provide 17,500 waterproof jackets to schools over the next two years through KidsCan (\$750,000 across two years)
 - Establish a contingency to fund evidence-based parenting programmes and resources that support positive parenting practices (\$38m across four years).

Evidence from SIA's work on the first 2,000 days about what parenting programmes have the best outcomes

- I'm aware that in October/ November the Social Investment Agency undertook an impact review of government spending in the First 2000 days.
- Of the 113 programmes that SIA looked at, about a dozen are programmes aimed at building parental confidence, positive parent-child relationships, and parenting practices that support child development and address behavioural challenges.
- As was its intended purpose, the impact review provides a useful source of evidence to inform our investments.

- The SIA identified three existing parenting programmes as having the most evidence of positive impact, and potential opportunities for further investment: Triple P; Incredible Years; and Hoki Ki Te Rito | Mellow Parenting.
 - Triple P (and the kaupapa Māori adaption, Te Whānau Pou Toru): As noted in my Budget template, the positive impact and value for money of the Triple P programme is supported by strong evidence (including randomised control trials, or RCTs), both in New Zealand and internationally. A small amount of funding is currently provided from Vote Health for provider coordination and training to support programme delivery in four locations.
 - Incredible Years (Parent): There is strong evidence this intervention improves outcomes, including large improvements in child behaviours (including for children with ADHD), moderate to large improvement in parenting practices, and moderate reductions in parental conflict. Evidence suggests it is more effective for families with higher distress and number of issues. Incredible Years is an internationally developed programme that has been delivered in New Zealand since at least 2010 and is currently funded through Vote Education.
 - Hoki Ki Te Rito (kaupapa Māori adaption of internationally developed Mellow Parenting): Overseas RCT evidence and kaupapa Māori evaluation indicate that programme participation is associated with improvements in maternal wellbeing and a reduction in child behaviour problems. This is a small-scale initiative, that currently receives a small amount of funding from Vote Education.
- All these parenting programmes are brief interventions that are delivered at low cost per capita, but with significant benefits for both parents and children across a range of outcome areas (children's cognitive and behaviour development, maternal mental health, family stress and risk factors for family violence).
- If Vote Social Development funding is reprioritised as proposed, the next step is to work with agencies to confirm the specifics for expanding access to evidence-based parenting programmes.

Adjusting Accommodation Supplement (AS) Area Boundaries

- 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).
- Updating AS area boundaries 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.
- This would involve updating AS boundaries to reflect urban expansion and introduce a mechanism for MSD to make five-yearly updates to the

AS boundaries, which would align with StatsNZ updates and reflect future urban growth.

- This initiative would:
 - address some of the inequities in places like Queenstown (where outdated AS boundaries currently do not reflect urban expansion)
 - futureproof settings by making regular updates to reduce inequities as they arise in the future, and
 - improve equity in the provision of housing subsidies and income adequacy outcomes for approximately 3,500 clients.
- When considering this new spending proposal alongside the savings from increasing the entry threshold for homeowners, the net savings from these two AS initiatives are \$23.6m over the forecast period.

Extending the Ākonga Community Fund (Youth portfolio)

- This initiative is led by the Minister of Youth – I am supportive of reprioritising funding within Vote Social Development to continue this initiative.

Continuing the Food Secure Communities programme

- I intend to reprioritise funding to invest up to \$15m in 2025/26 to continue the Food Secure Communities programme for one more year (at 2024/25 levels) 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.

Agenda Item 3 – Disability Support Services (DSS) cost pressures

- You invited me to submit cost-pressure bids for Disability Support Services (DSS) and the High-Complex Framework, the total to be no more than what was previously provided in Budget 2024 (\$1.2b).
- DSS is committed to manage price and volume pressures within existing funding. They are currently managing to budget (latest forecasts to 31 January 2025 show a 0.1 percent underspend) but there's still uncertainty around costs to year-end and outyears.
- The two broad types of pressures facing DSS are:

- price pressures - driven by inflation and the need for credible residential pricing, and
- volume pressures - driven by the number of people and the mix of supports required.
- The work DSS has progressed on a new pricing model proposes using six banded rates for residential care in community group homes in each of four regions. Implementing this model will require a funding increase of \$60m per annum. This is within the funding envelope agreed by Cabinet in December 2024. Moving to this new model will support improved fiscal management as any future increases can be considered on an annual basis and remove the increasing incidence of ad hoc individual rates.
- In addition, our modelling provides for 2 percent price uplift in community-based services, which is in the middle of the 1-3 percent of the RBNZ target inflationary range.
- Volume growth has largely been driven by:
 - Residential care volumes – growing at around 1 percent per annum, though the number of support hours allocated has grown by around 3 percent per annum
 - Community care volumes – which have grown at around 10 percent per annum and with greater support packages (this is where the majority of all DSS volume growth is)
 - Equipment and modification services – which have grown at around 2 percent
 - Additional people entering the system placing greater volume pressure on other support lines such as NASC services, and specialist services supporting diagnoses (e.g. Child Development Services).
- We estimate future volume growth to be around 5 percent. This is still above general population growth but reflects better control over new entries to services, the packages allocated, and regular review of packages against disability needs.
- The funding sought for DSS through Budget 25 is \$1.02b over the forecast period. I also seek that any 2024/25 underspends are retained to meet cost pressures and costs associated with stabilising and strengthening DSS.
- The DSS bid also provides for the expected changes in volume and mix of services and a modest price increase of around 2 percent for non-residential volume pressures across the whole of DSS.
- I'm also seeking \$5m in 2025/26 and in 2026/27 only for High and Complex Framework (HCF) – Service Improvement, to address some short-term critical need while longer-term investment planning is underway. There is a critical need to upgrade some facilities to ensure people referred to them by Court Orders under the HCF can be appropriately placed in secure locations. Without additional funding

there is both a risk to public safety and to the people referred to the HCF.

- The current intention is to progress the strengthening work through 25/26 to inform Cabinet decisions to realise a DSS that is fair, consistent, transparent and sustainable.
- s9(2)(f)(iv) [REDACTED]
- The expectation to manage the outlined pressures excludes the following items:
 - HCF – capital investment for secure services
 - Future investment is planned in response to significant and ongoing challenges raised by the sector and in the Ombudsman's Oversight report.
 - A Programme Business Case (PBC) approach is being taken to explore investment options for capital investment in facilities for people living under the Forensic Intellectual Disability HCF.
 - Businesses cases are planned to be developed for capital builds with Kainga Ora (for Non-Government Organisations' services) and Health New Zealand (for forensic hospital costs), and for the operating costs necessary to support the capital investment.
 - A staged approach is being taken with upgrades to the most urgent facilities. The PBC is expected to be completed by July 2025, but this timing is subject to variables and dependencies.
 - Pay Equity Negotiations
 - DSS has been working closely with the Lead Funder: Health New Zealand – Te Whatu Ora to support analysis for the progression of the Pay Equity Claim for Care and Support Workers (CSW).
 - Should the pay equity claim be settled, and it resulted in an increase in pay for CSW, DSS would be unable to meet these increased settlement costs without further increased funding.

Agenda Item 4 – Te Pae Tawhiti transformation programme

We understand that the Treasury has provided advice to the Minister of Finance regarding how the costs and benefits of the Te Pae Tawhiti Programme could be recognised. The Minister of Finance may provide you with an update on this.

- In December, Cabinet supported continuing with the Ministry of Social Development's business transformation – Te Pae Tawhiti – and approved its Detailed Business Case for the remainder of the programme.

- Transformation will create sizeable efficiencies and improve the effectiveness of services provided by MSD to New Zealanders. This will be achieved by transforming MSD's underlying service model, business processes and technology, which are critical to delivering a sustainable welfare system that is responsive to Government priorities and direction.
- I have been able to identify savings to offset the short-term costs of this programme, ahead of reaping the benefits in the longer term.

Agenda Item 5 – Employment invest-to-save initiative

- 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.
- My officials have worked closely with Treasury to thoroughly kick the tyres on this proposal. This has led me to make the changes to the proposal to optimise the savings profile, deliver on my Welfare that Works commitment, and reduce the number of people on Jobseeker Support in line with our target.
- The key components of this proposal now include:
 - \$128.818m for 490 employment facing staff (the majority of which will be case managers) over 2 years to deliver face to face and phone-based case management as well as Kōrero Mahi seminars and the Early Response service.
 - \$72.019m for Welfare that Works and Bonus Payments over 2 years.
 - \$138.463m for Employment Programmes over 2 years which includes:
 - Flexi-wage
 - Regional Employment Placement Programmes
 - Oranga Mahi IPS and Here Toitū
- The proposal is estimated to deliver net savings of approximately \$194.191m over the forecast period.
- This initiative is critical for me to:
 - make progress on my Jobseeker Support target
 - deliver on My Welfare that Works manifesto commitment
 - ensure that we can continue to manage the demand for support from Work and Income, without long call wait times and delays in processing applications.
- My officials have provided more material to the Treasury in the last week and will continue to work with them, so that ministers can have confidence in forecast savings when making final budget decisions.

Appendix Three – Back pocket talking points and supporting material

This Appendix provides back pocket talking points and supporting material regarding initiatives that are on the agenda.

Agenda Item 1 – savings initiatives

Automated Decision-Making changes (estimated net savings of \$220m over the forecast period)

- MSD uses ADM in a number of processes which supports MSD to have 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 updated estimated future BoRE savings from the remediation proposals being a total of \$220 million over the forecast period.
- We have prioritised changes related to mandatory reviews which generates significant savings and enables the Borders Contribution from Budget 2024.
- I propose to offset any IT costs and FTE impacts with the BoRE savings associated with 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.

Tightening eligibility to Jobseeker Support Benefit and Emergency Benefit for people aged 18 and 19 years (estimated net savings of \$173.4m over the forecast period)

- 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.

Increasing Accommodation Supplement (AS) entry threshold for homeowners (estimated net savings of \$46.4m over the forecast period)

- 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.

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Agenda Item 2 – reprioritisation options

Implementing the Child and Youth Strategy

Three components of the Budget 2025 proposal

- The three components of the Budget 2025 initiative are as follows.
 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.

Background information about SIA impact review, including findings about parenting programmes

- In September / October 2024, the SIA, supported by the Child Wellbeing and Poverty Reduction Group in MSD, undertook an impact review of social sector spend in the first 2,000 days. The review covered over 100 programmes and initiatives in health, housing, education, income support, and other services. SIA found that First 2000 Days spending is hard to define or quantify as most of the relevant investment is in 'core' services (e.g. health, education, taxes and transfers etc), with limited specific investment targeted to First 2,000 Days outcomes, and to specific cohorts within this.
- SIA's impact review of First 2000 Days programmes looked at four factors: (1) NZ evidence of impact; (2) alignment with international evidence; (3) quality of the evidence against the SIA evidence standards; and (4) alignment of the programme with the First 2000 Days focus areas in the Strategy (maternal mental health, parenting support, child cognitive development). SIA then gave programmes an overall 'evidence of impact' score (High/Medium/Low) and categorised them as either: a Mature Investment (e.g. core service or policy); Opportunity for Investment; Strategic Priority; Speculative Prospect (i.e. good alignment with Strategy but little or no existing evaluative evidence); or Low Impact.
- The following table presents the SIA findings for evidence of impact, overall evidence score, and categorisation.

Programme name	Impact (based on NZ and international evidence)	Evidence of impact (size of impact + quality of evidence)	Categorisation
Incredible years (parent)	Positive	High	Opportunity for investment
Incredible Years Autism	Slightly positive	Medium	Opportunity for investment
Hoki Ki Te Rito Mellow Parenting Programme	Very positive	High	Opportunity for investment
Triple P and Te Whānau Pou Toru (culturally adapted variant of Triple P)	Positive	High	Opportunity for investment
HIPPY (rescoped "Whānau at home") <i>Programme that empowers parents to prepare their 2–5-year-old children for success at early childhood education (ECE) and school by fostering parents' skills and confidence as educators.</i>	Slightly positive	Low-medium	Opportunity for investment
Triple P - Parenting through separation		No information	Mature investment
Skip Local Initiatives and National Parent Support and Education Programmes Takai		No information	Strategic priority
Family Start	Slightly positive	Medium	Mature investment
Toolbox Parenting Programme	Positive	High	Mature investment
Watch Wait and Wonder		No information	Speculative prospect
Whānau Toko I Te Ora- Whānau-Centred Support Services <i>Parenting support and development programmes run by Māori Women's Welfare League</i>	Positive	Low	Speculative prospect
Brainwave Trust parenting programme (Growing Great Brains and Tiakina te Taimait)	Slightly positive	Low	Low impact

Adjusting Accommodation Supplement (AS) Area Boundaries

No additional material – see Appendix Two.

Extending the Ākonga Community Fund (Youth portfolio)

Background

- The Ākonga Community Fund provides funding for local providers delivering high value youth development programmes for young people with moderate needs. Outcomes sought include improvements in education, training, employment, and positive community connections.
- This initiative uses an early intervention and prevention model to support at-risk learners aged 12 to 21 years to stay engaged in education.

- It will support the achievement of several Government Targets including increasing student attendance, reducing child and youth offending, and having fewer people on the Jobseeker Support Benefit.
- Minister Meager is seeking a total of \$22.340m over the forecast period for this initiative, and has recently written to you indicating that he is keen to discuss this initiative with you (as well as your Child and Youth Strategy initiative).

Continuing the Food Secure Communities programme

- The reprioritisation of funding to invest up to \$15m in 2025/26 to continue the Food Secure Communities programme for one more year (at 2024/25 levels) 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 ecosystem to enable the development of more self-sustaining pathways for food security.
- 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.

Agenda Item 3 – Disability Support Services (DSS) cost pressures

Background

- Disability Support Services (DSS) 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.
- Historically, growth hasn't been well managed or forecasted and with a capped appropriation, DSS expenditure has breached its appropriation in 9 out of the last 10 years, requiring additional funding to continue providing services. Funding for DSS has grown from \$1.2b in 2015/16 to \$2.6b in 2024/25.
- In September 2024, DSS moved from Whaikaha – Ministry of Disabled People to MSD. Since DSS was moved to MSD, a taskforce has been established to lead work on stabilising and strengthening the disability support system. Actions taken so far include introducing budgets for Needs Assessment and Service Coordination Agencies (NASCs), not increasing prices to providers and progressing a detailed review of residential contract and pricing models.

Agenda Item 4 – Te Pae Tawhiti transformation programme

No additional material – see Appendix Two.

Agenda Item 5 – Employment invest-to-save initiative

Why is this needed?

- In December 2023, 190,000 people were receiving Jobseeker Support, this Government set an ambitious target to reduce this number to 140,000 by 2030.
- New Zealand has been experiencing weak economic conditions which has driven an increase in the number of people receiving Jobseeker Support - Work Ready.
- Jobseeker Support - Health Condition or Disability also increased mainly due to a higher number of people transferring from Jobseeker Support - Work Ready.
- At HYEPU 2024 we had forecast that the number of people receiving Jobseeker Support would peak at around 215,900 people in January 2025 and remain elevated throughout 2025.
- Recent modelling shows that young people currently on a main benefit who are under 25 are estimated to spend on average 20.4 future years supported by a main benefit. For those on Jobseeker Support – Health Condition and Disability, they are estimated to spend on average 12.3 future years supported by a main benefit.

What are we already doing?

- MSD has been focused on increased activation with Jobseekers to increase JS exits against the economic challenges driving the increase in new grants.
- As part of the Jobseeker target delivery plan, MSD already has a range of increased activation activities under way, such as Kōrero Mahi 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.
- MSD has been exploring approaches to support clients receiving JS-HCD, through Phone Based Case Management. Alongside this, a trial in Nelson region will be assigning three targeted caseloads for dedicated employment case management, with a focus on JS-HCD clients.

Why are we proposing this invest to save package?

- The proposal utilises MSD's joint invest-to-save framework with the Treasury. This draws on MSD's robust employment programme evidence base, investing in effective employment services to achieve the Jobseeker Reduction Target and gain welfare savings.

Maintaining current levels of Case Management

- Extending current levels of Case Management for a further two years would allow MSD to maintain current levels of clients in case management as well change the composition. Retaining these staff levels will be crucial given the increase in the number of people receiving Jobseeker Support over the past year and the forecast that these levels will remain higher for longer. Alongside this it would enable MSD to continue Korero Mahi Seminars, which are delivered by Case Managers and a key part of MSD's client activation strategy.
- Case Management is one of MSD's most effective tools to deliver outcomes for clients. Case managers provide valuable support to help people into work. Maintaining this engagement with as many job seekers as possible as is important as our welfare system responds to the current economic climate.
- Included in the 490 frontline staff in this invest to save package, are the 35 staff required to maintain the Early Response Redeployment Service, a prevention service that links people affected by closures with other jobs and hiring businesses.

Delivering on my Welfare that Works manifesto commitment

- This package would secure funding for two years of Community Coaches, as part of my Welfare that Works manifesto commitment, giving Jobseekers on benefit for 3 months or more coaching, an assessment of their needs, an individual plan and being held accountable for achieving that plan.
- Community Job Coaching will help a greater number of clients be prepared to find and retain employment, more of these clients are people who would previously have experienced significant barriers.
- The addition of the bonus payment for those who have remained off benefit for 12 months can lead to marginal improvement in motivation for job coach participants to find employment.
- Funding for Welfare that Works – Community Job Coaches assumes 4,000 participants in the first year, 6,000 in the second. It assumes a mix of low-high intensity clients including Jobseeker – Health Condition or Disability clients. Also included is the delivery of bonus payments to participants in Job Coaching who remain in employment for 12 months.

Continuing employment programmes

- The proposal would enable MSD to continue delivering key employment programmes that have time-limited funding set to expire as there is currently a \$117m reduction in employment programme funding from the 2024/25 to the 2025/26 financial year.
- The programmes being funded are programmes that have been evaluated to be effective for employment outcomes and include Flexi-Wage, Regional Employment Placement Programmes, Skills for Industry and Oranga Mahi. These will primarily support those receiving the Jobseeker Benefit. Oranga Mahi is focused on people with health conditions including disabilities.

- Flexi-Wage is an employment programme that is paid to employers to take on new employees who do not meet the entry level requirements, are at risk of long-term benefit receipt or are disadvantaged in the labour market. It subsidises new employee's wages while they gain the necessary skills for that job.
- Regional Employment Placement Programmes are delivered by local providers, procured at a regional level to meet the needs of local clients.
- Skills for Industry programmes provide short-term job-focussed training to prepare clients who require up-skilling for specific requirements, identified by industry. Training can be offered as pre-employment or in-work training and is delivered by contracted providers or directly by employers.
- This invest to save package will fund the Oranga Mahi services Individual Placement Services (IPS) and Here Toitu.
 - IPS is an evidence-based service that integrates employment and mental health services to support people with severe mental health conditions to find an stay in work.
 - Here Toitu is a collaboration with primary health organisations, providing a 12 month service to support people with health and disability conditions to find, and maintain meaningful work, study or volunteering experiences.

If MoF asks for further savings

Refer to Appendix Four for more information to support this discussion.

- In addition to the integrity checking proposal I've discussed with you today, we could also consider initiatives that I have submitted to Minister Seymour as part of his Baseline Savings Programme: s9(2)(f)(iv) (, and bringing income charging forward.
- MSD has undertaken initial work to develop an alternative savings package including these initiatives s9(2)(f)(iv) – with the aim of optimising savings. I will continue to work with MSD on this alternative package if further savings are required.
- To optimise savings, we will need to make deliberate choices to phase implementation of the savings to prioritise the initiatives with the highest ongoing savings. I have already started to consider this, which is why I am proposing to work on Phase 1 of Income charging, as a possible alternative to two smaller policy savings which require legislative change and are more complex to implement.

Budget 25 Package – lines for other initiatives

Additional savings as part of the Social Development multi-year Budget Strategy

- In addition, I am also proposing savings from:
 - the 26-week reapplication changes (estimated net savings of \$43.2m)

- Growing Up in New Zealand (GUiNZ) study (estimated net savings of \$6.8m)
- Children and Young Peoples Commission tagged contingency (estimated net savings of \$8m).

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Appendix Four – Back pocket optimal savings package

Refer to attached back pocket optimal savings package table.

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