

This document was submitted to the Treasury in November 2024. Financials have since been updated to reflect Budget 2025 decisions.

1. Department overview: Ministry of Social Development

KEY ISSUES

More than a million people contact MSD each year. MSD is experiencing **increasing demand for MSD services**. Drivers for this demand include the economic environment, the increasing cost of living, the ageing population, and that MSD clients often have multiple needs and expect to interact with MSD in a range of ways. NZ Superannuation drives a continuous ongoing increase to the size of Vote Social Development.

The number of people requiring income support is increasing. As at the end of June 2024:

- 917,316 people were receiving New Zealand Superannuation or a Veteran's Pension, an increase of 3.3 percent from June 2023
- 364,131 people had received an Accommodation Supplement, an increase of 5 percent from June 2023
- 196,434 people were receiving Jobseeker Support, an increase of 13.5 percent compared to June 2023.

MSD is operating in a **constrained fiscal environment**. Most of MSD's baseline is made up of demand-driven appropriations, influenced by policy settings. Departmental expenditure is only 4 percent of MSD's baseline. Further to the \$710.551m of savings returned to the centre in Budget 24, MSD has a multi-year Budget savings strategy in place and is working closely with Treasury on delivering this. MSD has core heritage systems that are end of life making it expensive and cumbersome to deliver key services to clients.

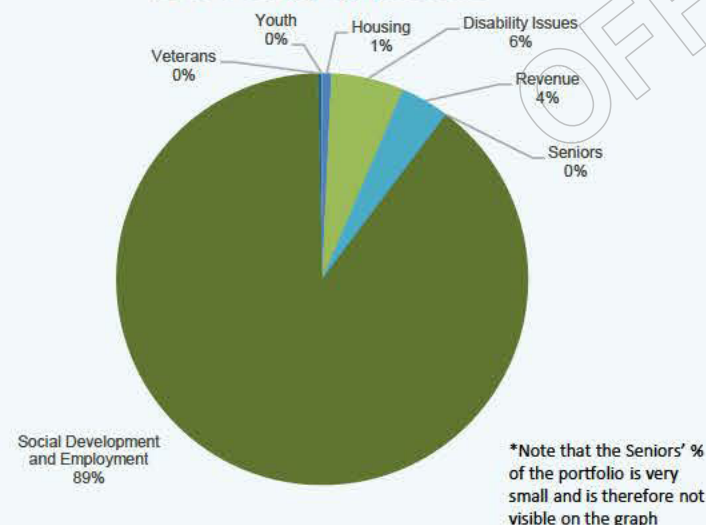
MSD – services for the future programme is MSD's **multi-year transformation** to create a more responsive, future-proof welfare system. This is an ambitious programme which MSD plans to deliver in stages – the first stage will take MSD through to 2026.

Disability Support Services (DSS) provides essential services and support to disabled people and their whānau. On 1 December 2024, DSS moved from Whaikaha – Ministry of Disabled People to MSD.

SPEND BY PORTFOLIO

1.1

% of Vote(s) by portfolio



TARGETS AND PRIORITIES

Government targets

MSD is responsible for one target and shares a second target with the Ministry of Housing and Urban Development. These two targets are:

- 50,000 fewer people on the Jobseeker Support benefit by 2030
- 75 percent fewer households in emergency housing by 2030.

Jobseeker numbers are forecast to increase and peak in January 2025. MSD is using its employment tools and services to support people into work, and positioning itself to maximise opportunities for Jobseekers when economic conditions improve. MSD's employment outcomes are remaining steady, despite current economic conditions.

The number of households in emergency housing has decreased. 1,959 households were in emergency housing as at the end of June 2024, a decrease of 44.2 percent from June 2023. As at 31 May 2025, there were 453 households in emergency housing.

Strategic priorities

MSD's Statement of Intent (SOI) reflects three outcomes that MSD wants to achieve:

- New Zealanders participate positively in society and reach their potential
- New Zealanders get the support they require
- New Zealanders are resilient and live in inclusive and supportive communities.

Focus areas help MSD to prioritise its work and deliver to its three outcomes. Focus areas cover 80 percent of what MSD does. They reflect MSD's role in contributing to Government priorities, including employment and emergency housing targets. Building on the work done to date with MSD's people and partners, focus areas drive MSD's work planning as it puts the three strategies into action. MSD's draft SOI focus areas are:

- Getting New Zealanders working (employment)
- Supporting people with their housing needs (housing)
- Providing the income support people need (income support)
- Partnering with others (communities/partnerships)
- Enabling MSD people to help New Zealanders – this is supported by MSD – services for the future programme.

Portfolio priorities

The Minister for Social Development and Employment is responsible for appropriations totalling \$40.794 billion or 89 percent of Vote Social Development. Across these appropriations, the portfolio priorities of the Minister for Social Development and Employment include:

- Getting people into employment and lifting economic outcomes
- Welfare that Works and Reducing Benefit Dependency
- Making work pay by ensuring appropriate incentives to work
- Reducing Child Poverty
- Fiscal Sustainability.

As Minister for Disability Issues, the Minister for Social Development and Employment is also responsible for appropriations totalling \$2.609 billion or 6% percent of Vote Social Development.

Other Ministers with responsibility for Vote Social Development appropriations include the Minister for Revenue (\$1.756b | 4%), the Minister of Housing (\$325.2m | 1%), and the Ministers for Youth, for Veterans and for Seniors (collectively \$159.7m | <1%).

Note that DSS becomes a separate Vote in 2025/26.

EXPENDITURE BY TYPE

1.2

Departmental, non-departmental, and Benefit or Related Expenditure (BoRE) (\$m)



Recent changes in expenditure

The biggest changes in expenditure over the past four years have been driven by:

- An increase in income support payments to New Zealanders, particularly NZ superannuation recipients (comprises around 50% of Vote Social Development).
- The economic environment – increasing cost of living; unemployment; hardship assistance; declining home ownership and COVID-19.
- Legislative changes to help New Zealanders in need of income support.
- The environment – severe weather events.
- Technology – future proofing our welfare system.
- Workforce costs – collective bargaining, pay progression.

Expected changes in expenditure

Expected changes in expenditure over the next four years will be driven by:

- An increase in income support payments to New Zealanders: most notably, the number of superannuants is expected to exceed 1 million people by 2027/28 which is a key driver of the increase in Vote Social Development over time. NZ Superannuation has increased by around 80 percent between 2017/18 and 2025/26, based on forecast expenditure for 2025/26.
- Client demand: including but not limited to; managing higher numbers of Jobseeker clients; and accommodation and hardship assistance (due to declining home ownership, and increased housing costs).
- Workforce costs: collective bargaining, pay progression.
- MSD – services for the future programme
- Technology: increasing cost of as a service arrangements; ongoing inflation on committed contracts and continuing to invest in data and digital initiatives.

Monitoring and funding of Crown companies or entities

MSD monitors three Crown entities:

- The Children and Young People's Commission (Independent Crown entity)
- New Zealand Artificial Limb Service (Autonomous Crown entity)
- Social Workers Registration Board (Crown Agent)

MSD administers Crown entity funding and submits funding requests on their behalf through Vote Social Development.

MSD will also become the monitor for the Independent Children's Monitor in mid-July 2025, once legislation establishing it as an independent Crown entity has been passed.

3. Value and Performance: Key impact areas

3.1 GETTING NEW ZEALANDERS WORKING

Current state

MSD successfully utilises the tools and services that we have to support people into work. MSD's Jobseeker exits are higher in the 2024 calendar year compared to last year. In the year to date MSD has been activating a range of activity: expanded intensive case management, increased engagement with clients through Kōrero Mahi seminars, and strengthening sanctions. The main driver of the rise in the number of people receiving a benefit is the increase in people coming onto benefit. MSD supports people to prepare for, find and stay in work. MSD intervenes as early as possible to get people into work or training and supports clients to understand their obligations to prepare for and find work.

The following Key Performance Indicators (KPIs), from the 2022-2026 SOI, measure our progress:

| KPIs | Desired direction | 2021/22 | 2022/23 | 2023/24 |
|--|--------------------|---------|---------|---------|
| Staying in work – percentage of clients who have exited a main benefit for reason of employment, following an employment intervention, and who did not access a main benefit again in the following six months. | No less than 55% | 63.1% | 62.7% | 62.5% |
| Estimated average future years on a main benefit – the average number of future years each working-age main benefit client is estimated to be supported by a main benefit. | Decrease | 12.8 | 13.6 | 13.4 |
| Effective employment programmes – percentage of Employment Assistance (EA) programmes rated 'effective' or 'promising' using MSD's evaluation model | No less than 90% | 86.7% | 94.5% | 94.4% |
| Benefit exits following work-readiness intervention – number of main benefit exits during the calendar year for reason of employment, following a work-readiness intervention. | No less than 2,500 | 3,525 | 2,919 | 2,880 |

MSD is successfully using its employment tools and services to support people into work. MSD's ability to help people into work remains steady, despite weak economic conditions driving an increase in the number of people needing Jobseeker Support. MSD has implemented the new traffic light system to ensure Jobseekers are aware of their job search obligations and the sanctions in place for those not fulfilling these requirements. The number of sanctions issued during the June 2024 quarter was 10,389, an increase of 53.7 percent from the June 2023 quarter. This largely reflects the application of graduated sanctions, rather than increasing non-compliance.

Desired state

MSD continues to work towards the Government target of 50,000 fewer people on Jobseeker Support by 2030. Helping people into work, improves short and long-term financial and social outcomes and helps lift families and children out of poverty. MSD aims to both:

- Improve sustainable employment outcomes, and
- Improve people's readiness for work, including through training and education.
- Improve our contribution to business and regional development

Constraints and opportunities

MSD's ability to deliver to the Jobseeker Support target is impacted by the economic outlook, labour market conditions, immigration, population growth, health and disability status of clients, staffing and income support pressures. MSD's current technological environment is complex, aging and slow-to-change, having evolved over many years. A number of critical systems have security vulnerabilities and performance issues and are at end-of-life with no future roadmap. There is uncertainty around future funding for MSD – services for the future programme. But without transformation, MSD will need to spend over \$1 billion on technology changes incrementally remediating, maintaining or replacing these at-risk and critical systems. As part of this, MSD would need to add 350 staff over nine years (at a cost of \$346 million) simply to maintain current service levels and to provide services for increasing numbers of seniors and hardship clients.

Improvement and learning

MSD has a strong foundation of evidence about what is effective to get people into work with 94.4 percent of rateable investment going towards interventions that were rated promising or effective in 2023/24. MSD also uses other forms of evidence to assess interventions that are 'not rated' or 'not feasible', including outcome focused evaluations, randomised control trials, evidence briefs and international evidence. MSD has work underway to increase the evidence base, understand what works for different cohorts, and use this information to inform investment and delivery decisions. A new employment investment framework for 2024/25 has been approved. It focuses on the overarching target and MSD's priority cohorts on Jobseeker Support: on benefit for less than one year, youth, with children, and on benefit for more than one year. MSD is currently working on the next strategy which will be informed by experience over the last four months. MSD – services for the future programme will help more people who can work, into work, through: self-service channels for clients to more easily access employment help; extra support, training and job-readiness for clients who have been searching without success; tools for staff to direct clients to employers, training and resources; and more visibility of clients' job seeking activities.

3.2 SUPPORTING PEOPLE WITH THEIR HOUSING NEEDS

Current state

MSD helps people with their housing costs, including paying special needs grants for emergency housing, assesses their housing needs for the housing register and refers them to providers, and supports people out of emergency housing.

The following KPIs, from the 2022-2026 SOI, measure our progress:

| KPIs | Desired direction | 2021/22 | 2022/23 | 2023/24 |
|---|------------------------------|---------|---------|---------|
| Housing support resolution – percentage of people who are not on the Housing Register or have not received an Emergency Housing Special Needs Grant, 90 calendar days after receipt of a Housing Support Product | No less than 70% | 78% | 88% | 90.3% |
| Time taken to be placed on the Public Housing Register – average working days to have a live application placed on the Public Housing Register from first requesting assistance with emergency housing | No more than 30 working days | 22 | 27 | 25 |

MSD Housing Register, Emergency Housing and benefit responsibilities are components of a maturing and more coherent private, public and social housing system. Continuation of housing supports and services through Budget 2024 funding has enabled MSD to continue a strong focus on moving people out of emergency housing. A priority one fast track and changes to the gateway have amplified the impact.

The number of households in emergency housing has significantly decreased over the past year, with a 44.2% decrease between June 2023 and June 2024. As at May 2025, there has been an 87% decrease in the number of households in emergency housing since June 2023.

Applicants on the Housing Register increased from 12,300 as at June 2019, to 24,700 as at June 2023. Since then, the Register has decreased by 7.3 percent to 22,900 as at June 2024 – reflecting a decrease in applications and increase in applicants housed. As at May 2025, there were 19,089 applicants on the Housing Register.

Desired state

MSD is the co-lead agency, alongside the Ministry of Housing and Urban Development (HUD), for the Government target of 75 percent fewer households in emergency housing by 2030.

Every person should have access to a safe and healthy place to live.

Constraints and opportunities

Demand for housing across New Zealand continues to grow and more people are experiencing severe and immediate need. This demand is amplified by immigration and a shortage in the supply of affordable housing which in turn is driving up house prices and rents. Emergency housing performance is impacted by staffing and income support pressures, the supply of suitable alternatives to emergency housing, the complexity of the needs of people in emergency housing and the private rental market. Of those remaining in emergency housing as at August 2024, 60 percent are without children and have high and complex needs, which will mean a different solution will be trialled. MSD has been working with HUD to trial social investment outcomes contracts for this cohort.

Improvement and learning

MSD has implemented a priority one fast track on the Housing Register for families with children who have been in emergency housing for 12 weeks or longer, and increased the verification process for clients entering emergency housing. MSD has changed the scope of its housing support products, which has allowed MSD to help more people out of emergency and transitional housing and into private rentals or public housing. An updated Public Housing Plan focuses on delivery across the regions compared to metropolitan centres. This supports regional placements from emergency housing to stable housing. Additional investment from Budget 2024 recognised the success of emergency housing support services in helping people to exit emergency housing into sustainable accommodation.

Note that MSD updated its strategic intentions and KPI framework in 2025. These will come into effect from 1 July 2025.

3. Value and Performance: Key impact areas

3.3 PROVIDING THE INCOME SUPPORT PEOPLE NEED

Current state

MSD provides a financial safety net, with much of this for those in significant need. This includes main benefit income support, supplementary assistance, Student Allowances and Superannuation. The following KPIs, from the 2022-2026 SOI, measure our progress:

| KPIs | Desired direction | 2021/22 | 2022/23 | 2023/24 |
|--|-------------------|---------|---------|---------|
| End-to-end time to receive a financial benefit – average number of working days taken to pay working-age main benefit clients, from the first date of contact to the first date of payment | Decrease | 13.4 | 14 | 14.1 |
| Accurate benefit entitlement assessments – percentage of working-age benefit entitlement assessments that are processed correctly based on a representative sample of completed applications. | No less than 95% | 85.9% | 82.7% | 77.6% |
| Average overpayment debt – the average amount of overpayment debt per client. | Decrease | \$2,732 | \$2,850 | \$2,948 |

MSD's accuracy in assessing student and senior entitlements remains high – and these cohorts make up the majority of the people MSD provides income support to each year. While MSD's accuracy in assessing main benefit entitlements is higher than supplementary benefits, both have decreased this year. Reasons for this include case complexity and staff having to navigate multiple frontline systems. Improving accuracy is a priority. MSD has implemented new or improved training resources and redeployed staff to focus on quality assurance, capability development and technical skills. MSD – services for the future programme will also support improvements in processing accuracy.

MSD continues to meet its benefit entitlement application processing timeframes.

The average amount of overpayment debt per client has been slowly increasing. Weakening economic conditions and the rising cost of living have impacted clients' ability to repay debt.

Desired state

People get the right financial help promptly and with low levels of debt caused by overpayments.

MSD aims to both:

- Improve awareness of and access to support, and
- Improve effectiveness of support.

Constraints and opportunities

A range of factors such as labour market conditions, population trends and immigration impact benefit numbers.

MSDs' current technological environment is complex, aging and slow-to-change, having evolved over time under successive governments. A number of critical systems have security vulnerabilities and performance issues and are at end-of-life with no future roadmap.

There is uncertainty around future funding for MSD – services for the future programme. But without transformation, MSD will need to spend over \$1 billion on technology changes incrementally remediating, maintaining or replacing these at-risk and critical systems. MSD also faces staffing and income support pressures – MSD would need to add 350 staff over nine years (at a cost of \$346 million) simply to maintain current service levels and to provide services for increasing numbers of seniors and hardship clients.

Operating in this environment within capped resources and funding constraints can negatively impact performance.

Growth in New Zealand Superannuation will continue to be driven by population demographics and legislative settings.

Supported Living Payment and Sole Parent Support numbers are largely driven by population growth, health status and fertility rates.

Improvement and learning

Over the coming years, MSD – services for the future programme will support improvements in processing time, accuracy, debt generation and collection. In the payment area, developments will include: integrating needs assessment with eligibility assessment; appropriate cross government information sharing to track change in circumstances; more self-service on a greater range of simple benefit transactions; and providing systems that make it easier to get payments right first time. In the short term, MSD is introducing new or improved training resources to support service delivery and obligations management.

MSD is working to ensure that less debt is generated by making it easier for clients to declare income through online channels and helping clients understand their obligations to inform MSD of any changes in their circumstances. This includes improving data-sharing arrangements with other government agencies to ensure MSD is informed when client information changes.

3.4 PARTNERING WITH OTHERS

Current state

MSD works in partnership with providers, communities, iwi, and other government agencies to make clients more resilient, improve their life outcomes and build supportive and safe communities. We fund programmes and interventions that support youth, seniors, and whānau by creating employment outcomes, increasing community participation, decreasing the prevalence of family violence and sexual violence, providing health and disability support, and working with refugees and migrants.

The following KPIs, from the 2022-2026 SOI, measure our progress:

| KPIs | Desired direction | 2021/22 | 2022/23 | 2023/24 |
|--|-------------------|---------|---------|---------|
| Partnering for youth development – percentage of providers who report that interacting with the Ministry of Youth Development (MYD) was a 'good' or 'very good' experience. | No less than 80% | 91% | 95% | 98.5% |
| Satisfaction with services addressing family violence | No less than 80% | 97.4% | 96.6% | 95.4% |
| Effectiveness of services addressing sexual violence | No less than 80% | 87% | 91.4% | 88.6% |

Desired state

MSD seeks to move investment to where it is most effective.

MSD aims to both:

- Improve how MSD connects and partners (with NGOs, employers and iwi), and
- Improve the safety and strength of people, whānau, families and communities.

Constraints and opportunities

MSD collaborates closely with other agencies, non-government organisations, hapū, iwi, employers, industry partners and community groups to achieve positive outcomes for our clients and communities. This means that we often rely on the existing capability and capacity of local organisations and communities. In some regions, our impact and ability to achieve outcomes is limited by a lack of suitable organisations to partner with. Where possible, we work with the affected communities to raise their capability and capacity to partner with us and others.

Improvement and learning

Social sector commissioning supports cross-government joined-up action. Aligning monitoring and reporting, funding models, compliance requirements, and information sharing will direct social sector investment towards action and outcomes. Outcomes-based contracts focus on impacts rather than outputs, creating a better picture of the return on investment.

MSD has a continuous work programme of service design and improvement to ensure Government investment is directed to where it is most effective. This work is supported by upgrades to our technology platform for funding and contracting. MSD is working to ensure the design and delivery of services is community-led and informed by national and international evidence. MSD reviews and evaluates programmes to assess the effectiveness of community investment.

MSD leverages national, regional and cross-agency relationships to deliver on Government social sector priorities. MSD works closely with Regional Public Service Commissioners – six of the 11 existing RPSCs are MSD Regional Commissioners. The RPSC model coordinates government, local-government and non-government social sector action to respond to regional events and to achieve Government priorities and targets.

3. Value and Performance: Key impact areas

3.5 ENABLING MSD PEOPLE TO HELP NEW ZEALANDERS

ADDITIONAL DRAFT KEY IMPACT AREAS

Current state

MSDs’ current technological environment is complex, slow to change, with a large number of core platforms, systems and applications, which have been built through changing governments (a number of which are over 30 years old). Several critical systems are end of life and have no future roadmap. They have security vulnerabilities, and performance issues. Without transformation, MSD will need to spend over \$1 billion on technology changes incrementally remediating, maintaining or replacing these at risk and critical systems. MSD – services for the future programme is MSD’s multi-year transformation to modernise the payments and public employment systems while future-proofing the welfare system and enabling a more strategic approach to commissioning. The programme will transform MSD’s underlying business processes and technology to enable a fit-for-purpose service model.

MSD is focused on three areas: work, partnering and payments. This means:

- giving the right level of support to help clients get work-ready, get into work, and stay in work
- working better with partners and reducing red tape so they can focus on helping people
- making sure people get the right financial help and reducing debt caused by overpayments.

MSD has two years of funding for the first stage (Horizon One). The initial focus is on establishing a new digital employment service, a new payment system and improved digital experience, and a modern contracting and commissioning system to support a new partnering model.

Desired state

MSD is focused on becoming a modern, digital and responsive organisation, delivering effective and accessible services that help people towards employment and support them to live better lives.

MSD’s transformation aims to:

- modernise the core government payments system and redesign how MSD delivers services, making processes more efficient and effective
- make transactional tasks easier so clients can do more themselves and MSD can focus on people who need extra help
- provide modern, stable technology to be able to implement government policy more easily.

Constraints and opportunities

Horizon One funding was secured for two years through Budget 2023 (\$100 million) and MSD baseline (\$83 million). Cabinet approved a Detailed Business Case (DBC) to continue funding MSD – services for the future programme in December 2024.

Improvement and learning

To help design the future of Ministry services and performance, the MSD – services for the future programme obtains alternative perspectives through regular engagement with external reference groups, including Māori and Pacific reference groups, the Risk and Audit Committee, and the Public Service Association. The programme also has external independent advisors who sit on programme governance groups.

Benefits reporting underpin the “golden thread” of benefits performance, and drive fact-based discussions which help foster a culture of continuous improvement, and the achievement of strategic objectives. MSD will start including benefit reporting as part of the MSD – services for the future programme’s regular reporting to government from July 2025.

MSD is taking a long-term approach to building the capability that MSD requires over the course of this multi-year change programme. Along the way, MSD also draws from the experience of seconded frontline staff to create real-time, ongoing opportunities for information exchange and learning. The programme also seeks out learning from other domestic and international transformation programmes.

Refer to the draft Disability Support Services additional performance plan slides for more information on its indicative key impact areas.

Note: MSD prepared additional draft information regarding Disability Support Services as part of this 2024/25 plan. The draft DSS appendix reflected a point in time (as at submission in November 2024) and was prepared as the DSS functions were still in the process of shifting from Whaikaha to MSD. MSD did not have all the information required to complete the template at the time and to update this post-Budget requires significant effort, so the draft is not included in this release. We will update the DSS appendix as part of the next performance plan in 2025/26.

4a. Managing within baselines

MSD BASELINE

| | Operating impact \$m increase / (decrease) | | | | | |
|--|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2017/18 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
| Total baseline* | 23,588.2 | 43,405.3 | 45,581.6 | 46,842.0 | 48,163.9 | 49,240.8 |
| Less Benefits or Related Expenses (BORE) | (21,230.2) | (38,277.2) | (40,419.7) | (41,811.7) | (43,208.7) | (44,305.2) |
| Operating baseline | 2,358.0 | 5,128.1 | 5,161.9 | 5,030.3 | 4,955.3 | 4,935.6 |
| Less: | | | | | | |
| Whaikaha departmental (pre-transfer) | | (18.3) | | | | |
| DSS departmental | | (35.1) | (53.1) | (51.9) | (57.1) | (57.1) |
| DSS non-departmental | | (2,540.0) | (2,713.6) | (2,704.0) | (2,713.5) | (2,713.5) |
| MSD non-departmental | (1,339.9) | (846.7) | (754.3) | (736.2) | (749.3) | (751.7) |
| MSD Departmental funding | 1,018.1 | 1,688.0 | 1,640.9 | 1,538.3 | 1,435.3 | 1,413.3 |

Explanatory notes:

Total baseline:

Includes all operating expenditure – including departmental, non-departmental, Benefits or Related Expenses, and revenue dependent appropriations. It includes Whaikaha and Disability Support Services. In 2028/29, Disability Support Services (DSS) expenditure is \$2.7b. On the total baseline increase from 2017/18 to 2028/29: note that 98% of this increase relates to non-departmental and benefit expenditure, particularly NZ Superannuation.

Total baseline does not include capital expenditure such as Student Loans, which is a Non-Departmental Capital Expenditure.

MSD's departmental funding only comprises 4% of the total baseline in 2024/25 and steadily declines to 3% by 2027/28.

Operating baseline:

Benefits or Related Expenses, and revenue dependent appropriations, are removed from total baseline to represent the operating baseline. The main components of MSD's operating funding are set out in the table above. The impact of DSS-related changes are yet to be confirmed.

INVESTMENT (\$200M+)

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SUMMARY OF WORKFORCE

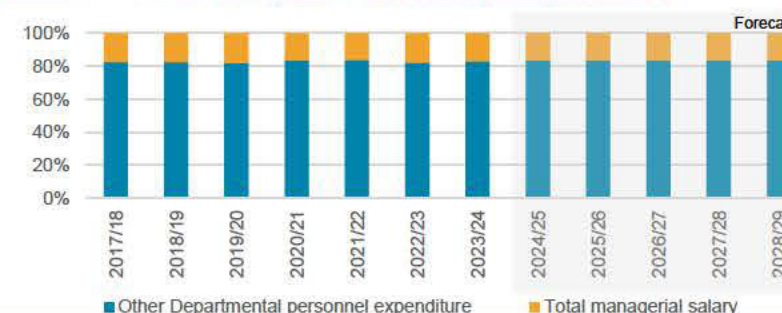


Note that MSD's FTE affordability model assumes personnel costs are 50% of MSD's baseline, which is based on prior trends. This graph demonstrates that into the outyears. Note that since 2016/17 the Public Service Commission has identified MSD's average annual salary as one of the three lowest in the public service: refer [Workforce Data - Wage trends - Te Kawa Mataaho Public Service Commission](#)



This graph compares MSD's annual personnel % movement to the total public sector. The increase in 2020/21 is the COVID-19 resources and the decline in the outyears reflects the gradual reduction in MSD's baseline (including the loss of 490 FTE). MSD's average personnel spend is expected to decline at a faster rate than total public sector average. The proportion of MSD's departmental costs increases in 2027/28 due to the expiry of time-limited Budget 2023 savings initiatives, which offset the cost of the MSD – services for the future programme along with other Budget 2023 initiatives.

5.3 Managers salary as a % of departmental personnel expenditure



This graph assumes that the percentage of managers salary in 2023/24 will remain consistent in the outyears. Note that MSD's managers include people leaders with direct reports, as well as functional managers who do not have direct reports. Most groups have seen a decrease in people leaders with direct reports from 30 June 2023 to 21 August 2024, particularly in the People and Capability group (-4.6%) and Maori and Community Partnerships group (-3.5%). Note that MSD's manager:staff ratio tends to be lower than the wider public service.

4b. Managing within baselines: Current and future drivers

DRIVERS OF COST PRESSURES AND INITIATIVES FOR MANAGING WITHIN BASELINES

| | Operating impact \$m increase, (decrease) | | | | | |
|--|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2017/18 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
| Total baseline | 23,588.2 | 43,495.5 | 44,876.1 | 46,252.7 | 47,939.6 | 49,557.8 |
| Operating baseline* | 2,358.0 | 5,130.2 | 4,605.1 | 4,473.3 | 4,517.4 | 4,519.9 |
| <i>Total volume pressures</i> | - | 11.06 | 15.70 | 19.52 | 18.25 | 22.55 |
| <i>Total price pressures</i> | - | 50.60 | 63.38 | 67.52 | 73.58 | 75.81 |
| <i>Total wage pressures</i> | - | 7.43 | 21.11 | 50.06 | 89.75 | 122.21 |
| <i>Total other pressures</i> | - | 2.50 | 57.06 | 77.35 | 109.73 | 176.06 |
| Total cost pressures | - | 71.58 | 157.25 | 214.45 | 291.31 | 396.63 |
| Total reprioritisation/ savings | - | (71.58) | (157.25) | (214.45) | (291.31) | (396.63) |
| Net impact on baseline | - | - | - | - | - | - |

Summary of cost pressures:

*See previous page for breakdown of the operating baseline and explanatory notes.
Note that the table above and graph 4.2 on the right exclude DSS-related cost pressures.

Volume Pressures

- Demand – increasing income support payments to New Zealanders (such as NZ Superannuation, due to population growth, and Job Seekers). If this pressure is not managed, service delivery levels such as increased backlogs and wait times will be impacted.

Price Pressures (inflationary pressures)

- Accommodation – inflation on committed leases and increased occupancy costs. If this pressure is not managed, MSD's physical presence in the regions and communities will be impacted.
- Technology – inflationary consumption-based contracts; increasing cost of shifting to cloud base solutions; and essential digital and data investments. If this pressure is not managed, service levels, security and the stability of MSD's systems will be impacted.

Wage Pressures (collective bargaining and remuneration)

- Workforce – collective bargaining commitments and pay progression for managers and staff. If this pressure is not managed, it will be difficult to attract and retain staff; continue to support the reduction of pay gaps; and pay equity for frontline staff.

Other Pressures (non-discretionary decisions e.g. extending current services or programmes)

- MSD – services for the future programme – status quo, deliver existing services within the constraints of existing systems and processes. If this pressure is not managed, services levels, security and the stability of MSD's systems will be impacted. Note that maintaining the status quo will cost MSD \$1.15b over nine years.

FUTURE DRIVERS

Looking ahead 10-20 years, MSD has the following three long-term cost pressures:

- Demand – increasing income support payments to New Zealanders (particularly New Zealand Superannuation)
- Technology – maintaining current systems and MSD – services for the future programme.
- Workforce – collective bargaining commitments and pay progression for managers and staff.

The forecast fiscal costs of future drivers over the next 20 years



Choices to mitigate/manage long term pressures

| Policy that causes demand or demand driver | Options to manage this? | Lead time required to make changes? |
|--|------------------------------------|---|
| Policy changes | Policy changes | At least a year but implementation and impact may be longer depending on design choices. |
| | Operating model and system changes | MSD – services for the future programme will modernise the core government payment system and leverage the business process and operating model changes that could be achieved through new technology to support less staff process driven integration and enable allocation of resources and investment to target the right services to the right people in an efficient and effective way. Transformation would take place over nine years. |

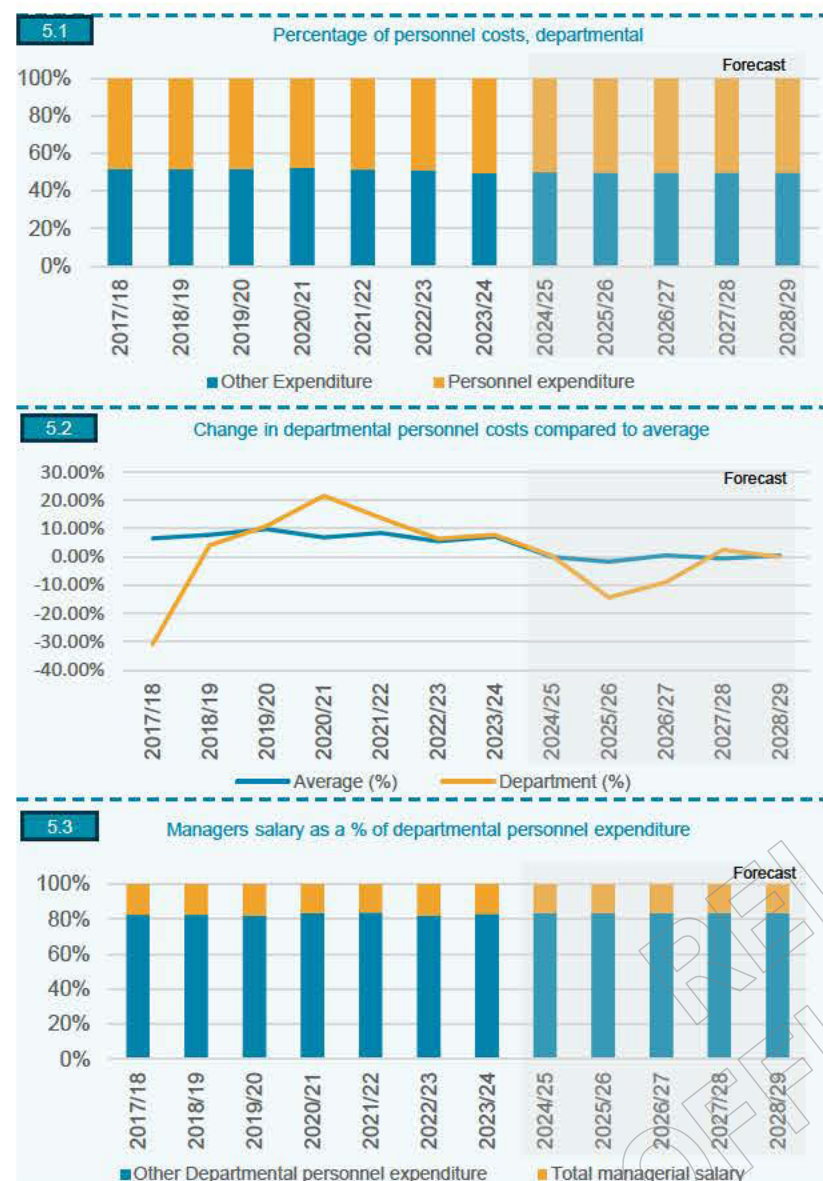
Plan for managing within baselines (excluding Vote DSS and Response to Abuse in Care Inquiry)

| Area | Impact (\$m) | | | | | Description |
|------------------------|---------------|---------------|---------------|---------------|---------------|--|
| | 24/25 | 25/26 | 26/27 | 27/28 | 28/29 | |
| Reprioritised spending | - | 84.38 3 | 2.584 | 7.182 | 7.875 | MSD's reprioritisation plan is to manage cost pressures or new spending, wherever possible, through internal reprioritisation. MSD has agreed to engage with Ministers if the cost pressure exceeds a financial threshold of \$10 million per annum. |
| Savings | (240.0 55) | (121.8 24) | (174.0 79) | (511.6 71) | (909.5 99) | MSD has developed a savings strategy for Budget 2025 and beyond. This includes options for utilising the invest to save framework that MSD have developed jointly with Treasury and potential policy choices. s9(2)(f)(iv) |
| Reduced services | - | - | - | - | - | If cost pressures cannot be managed from either of the first two options, it will require reductions in staffing and service levels. |

5a. Managing within baselines: Workforce and capability

As at November 2024 when this document was submitted to the Treasury.

SUMMARY OF WORKFORCE



Please refer to [slide 4a](#) for explanatory notes on the graphs above.

Contractor and consultant spend

The main pressure on MSD's contractors and consultant spend is for the MSD – services for the future programme. MSD requires strong specialist capability across integration, design, implementation, change management and specialist technical skills to support its transformation programme and key technology projects.

There is a risk that the MSD will not be able to build internal capacity to better meet demand from within its own workforce. This could affect the quality and timeliness of key deliverables across MSD's projects and transformation programme, as well as MSD's corporate resilience

Impact of workforce

| | 3.1 Getting Nzers working 3.2 Supporting people with housing needs 3.3 Providing income support to people in need | 3.4 Partnering with others | 3.5 Enabling MSD to help NZers |
|---|---|--|---|
| Total FTE supporting Impact | 6687 FTE (6745 FTE less 58 FTE from Service Delivery enabling Impact Area 3.5) | 241 FTE (251 FTE less 10 FTE from MCP enabling Impact Area 3.5) | 225 FTE |
| Breakdown of FTE by role/function (e.g. description of role such as social worker, or inspector etc). | FTE primarily sit in Client Service Support (3,215 FTE) and Client Service Delivery (2,800 FTE) teams. MSD's core heritage systems are end of life. Old information technology systems mean it is extremely expensive, cumbersome and complex for MSD staff to deliver their roles. With end-of-life technology, MSD's workforce has a heavy focus on processing transactions. This work is undertaken by the Client Service Support function where MSD has a number of centralised processing teams. MSD's client service delivery function provides face to face and phone-based support to clients. This includes approximately 2,300 Case Managers. | Partnering FTE comprises units focused on Maori and Pacific Communities, Safe Strong Families and the associated services and contract management. | 180 FTE work across the core transformation workstreams. This includes Digital Employment, Future Service Model, Kotahitanga and Service Experience. This includes approximately 45 FTE from MSD's Improvement Systems and Technology team working on the programme. Within the 225 FTE, 68 (58 Service Delivery, 10 Maori, Community and Partnerships) is managed within MSD BAU. |

Explanation of workforce breakdown (if required)

Supporting of all the impact areas is our Policy and Corporate Clusters (functions) which equate to 1441.2 FTE (this does not include the 45 FTE from enabling Impact area 3.5). These are made up of People and Capability, Organisation Assurance and Communication, Strategy and Insights, Office of the Chief Executive, Improvement Systems, and Technology, and Policy.

Note, since June 2017 MSD has acquired a number of additional business functions resulting in an increase of approximately 1,000 FTE, including Disability Support Services.

Data is as at 30 September 2024.

5b. Managing within baselines: Workforce and capability

Strategy for workforce costs, including remuneration

MSD's core focus is on managing workforce costs and remuneration within existing baselines while maintaining efficiency, productivity, and employee experience. As part of MSD's BAU and transformation activities they will continue to look at how MSD can leverage automation, digital tools and processes to reduce manual, repetitive tasks, allowing for staff to focus on value add, critical areas.

MSD continues to focus on internal recruitment, promotions and internal talent mobility to reduce costs related to external hiring, which also boosts engagement and career pathways. External recruitment or contract resource will still be required where specialist or short-term skills and capabilities are required.

Collective bargaining commitments and pay progression for managers and staff will result in an increase in workforce costs. Maintaining remuneration relativities is critical for the attraction and retention of staff; as well as continuing to support the reduction of pay gaps; and pay equity for frontline staff.

MSD continues to monitor overtime levels and limit non-essential overtime. Overtime management needs to be balanced with client response times which may increase if volumes increase without a corresponding increase in FTE or utilisation of overtime.

To maintain service levels given the increasing demand over time, MSD will continue to review and monitor employee morale, wellbeing and productivity, and mitigate staff burnout and turnover.

Capability – non-workforce (e.g. organisational systems, processes, governance, technology and data)

Operational delivery - Streamlining processes to improve efficiency, reduce costs and ensure resources are used optimally.

Ability to manage programmes of work effectively through planning, execution, monitoring to ensure priorities are delivered on time and on budget.

Technology and innovation - leveraging modern technologies to optimise operations, enhance client experience and increase productivity. Continue to invest in systems to enable MSD's workforce and create capacity to focus on client needs and outcomes.

Workforce changes required to ensure delivery in the key areas of impact

| Change required (including targeted workforce segment) | Current state (% of the target workforce) | Ideal state within the time horizon | Plan to achieve the change | Risks, challenges, and barriers |
|--|---|--|---|---|
| 3.1 670 FTE have time limited funding ending in June 2025, which includes 490 frontline FTE and 39 RPSC staff. 3.2 Investment in transformation will result in a shift to more efficient systems and processes, reducing 3.3 administration burden and enabling MSD's workforce to deliver even better client focused solutions. | | There will be a shift in the workforce from less process focused tasks, to client assessment and better client outcomes. | MSD – services for the future programme – target operating model and new systems. | Without funding continuing there will be an impact to delivering services for clients, which will impact achieving targets. Transformation funding critical to update and modernise systems and support targets. |
| 3.4 Approach is to manage within baseline. No formal change is currently planned for the MCP group | | Continue to manage within baseline. | Managed through attrition and fixed-term contracts coming to an end. | Existing resources are fully allocated across the work programme. Any new work requires trade-off decisions. |
| 3.5 Resource capabilities will be adjusted to support the different phases of the transformation programme. | | Continue to manage within funding allocation. | | |
| 3.6 Transfer of functions from Whaikaha to MSD utilising section 86 of the Public Service Act and establishment of the Taskforce function and teams. | | | Change processes currently being planned or underway. | Loss of knowledge Union relationships Decrease in productivity |

6. Managing with baselines: Investment and monitoring

INVESTMENT (\$200M+)

Investments in the planning stage (departmental and non-departmental)

The table below outlines departmental or non-departmental investments over \$200m in the planning stage.

| Project | Total Cost | Forecast business case approval | Forecast delivery start | Forecast completion | CBA |
|--|------------|---------------------------------|-------------------------|---------------------|--------------|
| (AGENCIES MAY NEED TO POPULATE) | | | | | |
| MSD – services for the future programme Case Horizon 1 | s9(2)(i) | N/A | Sep 2023 | Jun 2025 | s9(2)(f)(iv) |

6.1

CAPEX Actuals and Outyears (\$m)

Assurance on delivery of investments

MSD had a Gateway 0 conducted in June 2024 on the implementation of MSD's payroll system as part of the Corporate Platform work. The Treasury's Review Team is of the view that MSD – services for the future programme is already demonstrating significant efficiencies and uplift in performance that should be acknowledged and celebrated. The successful completion of the Corporate Platform Programme, together with the necessary ongoing support forms a crucial springboard to progress MSD's Future Service Model.

Part of the identified learnings taken from this Gateway that can be taken forward to other projects includes:

- making sure that the Ministry maintains strong leadership and oversight of initiatives when working with a strategic partner
- maturing the use of a Benefits Realisation Plan to give assurance to decision makers and governance that MSD is delivering to the agreed outcomes.

Implementation of \$200m+ projects in the next five years:

| Total no. of projects | No. assessed | Met or expected benefits | On time | On Budget | To scope |
|-----------------------|--------------|--------------------------|---------|-----------|----------|
| [X] | [X] | Not applicable | [X] | [X] | [X] |

6.2

Investment Intentions by type (\$m)

MONITORING STATEMENT (IF APPLICABLE)

MSD monitors three Crown entities:

- The Children and Young People's Commission (CYPC - Independent Crown entity)
- New Zealand Artificial Limb Service (NZALS – Autonomous Crown entity)
- Social Workers Registration Board (Crown Agent).

MSD will also become the monitor for the Independent Children's Monitor from 1 July 2025, once legislation establishing it as an independent Crown entity has been passed.

MSD provides monitoring advice to the Minister based on key accountability documents including quarterly performance reports, Annual Reports, Statements of Intent and Statements of Performance Expectations from the entities. Monitoring advice covers finances, service performance and organisational health, as well as any other relevant risks or issues that the Minister should be aware of. In addition, MSD engages with each entity regularly and provides support for issues management and other ad hoc requests as required.

| Crown funding for Crown entities \$000 | | | | |
|---|--------------|--------------|--------------|--------------|
| | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
| Children and Young People's Commission | | | | |
| Baseline funding | 3,157 | 3,157 | 3,157 | 3,157 |
| Draw down from tagged contingency | 2,093 | 5,059 | 5,059 | 5,059 |
| Total operating | 5,250 | 8,216 | 8,216 | 8,216 |
| CYPC tagged contingency remaining (1) | 4,615 | - | - | - |
| Social Workers Registration Board | | | | |
| Baseline funding and workforce planning (2) | 795 | 937 | 937 | 937 |
| Total operating | 795 | 937 | 937 | 937 |
| New Zealand Artificial Limb Service | | | | |
| Total operating | 0 | 0 | 0 | 0 |

(1) The CYPC tagged contingency fund expires on 30 June 2025
(2) Includes \$114k for the costs of being a Crown entity and \$652k for workforce planning

Fiscal/performance risks:

- s9(2)(b)(ii)
-