

In Confidence

Office of the Minister of Social Development and Employment
Cabinet Social Wellbeing Committee

Ministry of Social Development's Policy Advice Appropriation

Proposal

- 1 This paper seeks agreement to permanently reset the Ministry of Social Development's Policy Advice appropriation through a fiscally neutral adjustment from within Vote Social Development.

Relation to government priorities

- 2 The Ministry of Social Development's social policy work programme is central to achieving the Government's priority of laying the foundations for the future. As part of this we are continuing to rollout our vision of a welfare system that ensures people have adequate income and standards of living, are treated with, and can live with dignity, and are able to participate meaningfully in their communities.

Executive Summary

- 3 The Ministry of Social Development's (MSD) Policy Advice appropriation (the appropriation) has been under pressure for several years. Pressure was placed on the appropriation when resources moved out of MSD and into the Social Wellbeing Agency, Oranga Tamariki, and the Ministry of Housing and Urban Development, though MSD was required to provide ongoing policy advice in these areas.
- 4 To date, this pressure has been managed via a series of one-off fiscally neutral adjustments (FNA) from with Vote Social Development. These FNAs have enabled MSD to deliver on the Government's expanding social policy work programme and address underlying baseline cost pressures.
- 5 The Minister of Finance and I have agreed to address the ongoing level of funding for MSD's policy advice to ensure a more sustainable option for the appropriation. We considered several options regarding the level of underlying permanent baseline and funding source for any such increase, and have agreed to bring this issue to Cabinet for visibility.
- 6 I seek agreement from Cabinet to an FNA from within Vote Social Development of \$5.635 million per annum to take the appropriation to \$21 million per annum from 2023/24 onwards. This option has no net cost to the Crown.

MSD’s Policy Advice appropriation has been under pressure for several years due to an increased demand on its work programme ...

- 7 In May 2019, the Treasury reported on a review that it undertook of MSD’s operating baseline (the baseline review). That review confirmed that, at that time, MSD’s policy work programme was under pressure. This was due to resources moving out of MSD and into the Social Wellbeing Agency, Oranga Tamariki, and the Ministry of Housing and Urban Development; though MSD was required to provide ongoing policy advice in these areas.
- 8 This baseline review identified resulting constraints in MSD’s ability to input into other agencies work and wider social and economic development work in support of the Government’s priorities. The report signalled that the proposed level of funding for the appropriation for 2019/20 was not sufficient to deliver the work programme. MSD’s work programme has continued to increase since the baseline review took place, placing ongoing cost pressures to MSD’s core baseline.
- 9 Recent years have seen significant increases in demand from Cabinet and Ministers across the work programme, in line with Government priorities and responses to key issues. There are also significant emerging demands relating to Kaupapa inquiries, cross-government work programmes and MSD’s legislative programme.
- 10 A series of one-off fiscally neutral adjustments (FNAs) have been made in the past to supplement the appropriation. The following table outlines the original baseline for MSD’s Policy Advice appropriation over the past six years and the additional funding that has been required to service its social policy work programme.

Table one: MSD’s Policy Advice appropriation original baseline and additional funding from 2016/17 to 2022/23

\$ millions	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Original baseline	19.395	14.393	15.987	14.635	15.051	15.008	15.365
Total of FNAs during the year	+0.772	+ 0.072	+ 0.049	+ 1.700	+ 4.150	+ 8.355	+ 5.635
Final baseline	20.167	14.465	16.036	16.335	19.201	23.363	21.0

- 11 Without the previous FNAs, particularly for the current and last financial years, the appropriation would not have been at a level that allowed it to respond to unanticipated or unfunded work such as:
 - 11.1 the COVID-19 response work, including the development of the Wage Subsidy and COVID Income Relief Payment;

- 11.2 New Zealand Income Insurance Scheme (which has required in-house policy work and secondments to the Ministry for Business, Innovation and Employment);
 - 11.3 Debt to Government work;
 - 11.4 Social cohesion;
 - 11.5 Emergency Housing System Review¹;
 - 11.6 Social sector commissioning work; and
 - 11.7 bringing forward the Working for Families Review ^{s 9(2)(f)(iv)}
- 12 MSD's social policy work programme continues to grow with leading roles in the response to youth crime and climate change². MSD also continues to be asked to undertake work in evolving and expanding issues, including:
- 12.1 Social cohesion and the evolution of this issue to include:
 - 12.1.1 foreign interference and mis/disinformation, and
 - 12.1.2 ongoing support to implement the recommendations of the Royal Commission of Inquiry into the Terrorist Attack on Christchurch Mosques on 15 March 2019.
 - 12.2 Community and whānau resilience and the medium-to long-term impacts of COVID-19; and
 - 12.3 Expanded scope of the Active Labour Market Programmes review in the context of the New Zealand Income Insurance Scheme.

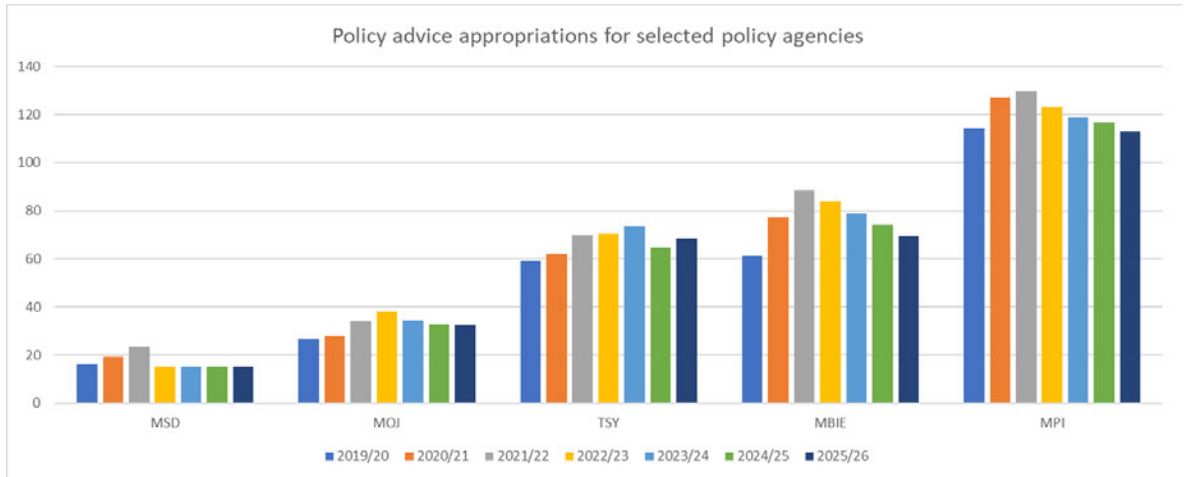
....and underlying cost pressures

- 13 Further to the demands on its work programme, the context MSD works in has presented challenges to the delivery of its work programme. Like many other agencies, MSD is operating in a tight labour market which continues to drive up average salary costs. MSD's salary bands also remain at the lower end of public service pay bands for policy.
- 14 MSD has a relatively modest appropriation for its policy advice when compared to other agencies that also have broad policy responsibilities. The following chart shows the policy appropriations of MSD and four other agencies for comparative purposes. The figures include new policy funding provided to agencies through Budget 2022 (\$23 million over the forecast period for the Ministry of Justice, \$63 million for the Treasury, and \$17 million for the Ministry for Primary Industries³).

¹ In working with Te Tūāpapa Kura Kāinga - Ministry of Housing and Urban Development on the Review commissioned in June 2021, and work in response to the Rotorua emergency housing pilot.

² Some additional funding is being provided for staff and engagement costs for the Equitable Transitions Strategy, but not for the policy work on the Emissions Reduction Plan or the National Adaptation Plan.

³ The policy advice appropriations for the Ministry for Primary Industries includes Ministerial Servicing and operational policy advice costs. While MSD's ministerial servicing is predominately covered under a separate appropriation, the policy group does undertake some ministerial servicing activities.



15 While the appropriation has been supported by FNAs to respond to the growing social policy work programme and sustained underlying costs pressures, it has remained at a prudent level.

Significant consideration has been given to addressing baseline pressures and finding a sustainable appropriation

16 Addressing the pressure on the policy advice appropriation via a series of one off FNAs during the year is not an optimal long-term approach. I believe there is a need to reset the underlying permanent baseline and provide certainty to the social policy work programme.

Level of funding

17 The Minister of Finance and I have considered the level of funding required for a sustainable policy advice baseline. We considered the following five options:

Table Two: Options for the ongoing level of baseline for the Policy Advice appropriation

Option	Increase (\$ millions)	Appropriation (\$ millions)	FTE (approx)	Implications on the social policy work programme
Option One	0	15.365	105	<ul style="list-style-type: none"> - Unable to deliver Government's full social policy work programme and significant re-prioritisation required - Formal HR process required to reduce staff levels
Option Two	5.0	20.365	129	<ul style="list-style-type: none"> - Significant impacts across the Government's social policy work programme - Re-prioritisation required
Option Three	5.635	21.0	133	<ul style="list-style-type: none"> - Significant trade-offs required to deliver on the current policy

				work programme - No new work unless additional funding provided, or additional trade-offs made
Option Four	7.0	22.365	143	- Some ongoing trade-offs may be required but able to deliver on current work programme - Ability to take on some new work
Option Five	7.845	23.21	149	- No significant impacts on social policy work programme

18 The Minister of Finance and I agree that Option 3 – an increase of \$5.635 to bring the appropriation to \$21 million for 2023/24 and outyears would be the most appropriate and sustainable option. It reduces the pressure on the policy advice appropriation whilst ensuring MSD continues to actively prioritise across the policy work programme.

Funding source

19 I considered the funding source for an increase to the appropriation from either a **fiscally neutral adjustment** from within Vote Social Development or from **new money**. The latter either being sought via a significant initiative in Budget 2023 or sought earlier from Cabinet, with the funding being met from the between-Budget contingency.

20 The Minister of Finance and I considered both options and determined that a FNA would be the best option as it has no net cost to the Crown. It is also an appropriate way for MSD to reprioritise its activities within the departmental baseline to direct funding towards a higher priority activity, which Ministers and agencies are encouraged to do.

21 I have determined that an FNA from the “Administering Income Support” category of the “Improved Employment and Social Outcomes Support” Multi-Category Appropriation (MCA) is the preferred option. This has been the source for all previous FNAs made to the Policy Advice appropriation in recent years, due in part to:

21.1 The overall “Improved Employment and Social Outcomes Support” MCA being much larger than any of the other departmental related appropriations in the Vote (for 2022/23 the MCA totals \$1.385 billion, and the Administering Income Support category of the MCA is \$492 million). The next largest MCA (“Community Support Services”) is much smaller (\$399 million in 2022/23) and predominately funds non-departmental activity like family violence and sexual violence services.

21.2 In practice, ebbs and flows and some short-term lags in incurring expenses means the MCA often has a small (as a proportion of the appropriation) underspend.

- 21.3 Transferring funding from the “Administering Income Support” category, which is departmental rather than non-departmental, means MSD does not anticipate this will affect frontline services.
- 21.4 Policy advice relating to income support and employment are and will remain key parts of the policy advice service that MSD provides to Ministers. MSD has a significant employment policy work programme including hosting the Employment Education and Training Secretariat and work on the New Zealand Income Insurance Scheme, Active Labour Market policies and the Long-Term Insights Briefing.
- 21.5 In practice the “Administering Income Support” category already pays for non-front line staff through its overhead allocation.
- 22 The Minister of Finance and I determined that new money to fund the appropriation increase would not be a preferred option as it would mean a net cost to the Crown and would not likely meet the requirements for additional funding in the current economic and fiscal context.

There are implications on the Government’s Social Policy work programme from a decision on the proposed option

- 23 MSD manages a dynamic social policy work programme that supports six Ministerial portfolios. It also regularly provides work that supports the priorities of other Ministers, for example the Minister for Child Poverty Reduction and the Minister for Children.
- 24 Officials actively manage this significant social policy work programme by making trade-off decisions internally, providing trade-off advice to myself and other Ministers, and re-directing resources internally where appropriate. Some policy teams do, however, have areas of specialisation which places some limitations on MSD’s ability to quickly resource up other areas.
- 25 While the proposed option provides resourcing of the appropriation at similar levels to the previous two financial years, there are implications to this level of funding going forward. Continued constraints on resources, as a result of the proposed level of funding, means that MSD will be unable to take on new work unless additional funding is provided, or additional trade-offs made.
- 26 I will continue to work with officials to identify where trade-off decisions within the work programme are required as additional priorities arise. I will consult with Ministers and Cabinet where appropriate, when re-prioritisation decisions are needed that may have an impact on their work programme priorities or portfolios.

Financial Implications

- 27 This proposal has no fiscal implications. The proposed \$5.635 million per annum increase in funding for the MSD Policy Advice appropriation from 2023/24 onwards would be met through an FNA from the “Administering Income Support” category of the “Improved Employment and Social Outcomes Support” Multi Category Appropriation in Vote Social Development.

Legislative Implications

28 There are no legislative implications arising directly from this proposal.

Impact Analysis

29 A Regulatory Impact Analysis (RIA) is not required at this time, as this proposal does not seek legislative change.

Population Implications

30 There are no direct implications to the various population groups as a result of this Cabinet paper.

31 Please note, however, that trade-offs to MSD's social policy work programme from the proposed Cabinet paper may result in de-prioritisation of some work programmes that support high quality work on improving outcomes for population groups including disabled people, older people, children and youth.

Human Rights

32 The proposal is consistent with the Human Rights Act 1993 and the New Zealand Bill of Rights Act 1990.

Consultation

33 The following departments were consulted on this Cabinet paper: The Treasury; Department of Prime Minister and Cabinet; Accident Compensation Corporation; Ministry of Business, Innovation and Employment; Inland Revenue; Ministry of Justice; Ministry of Housing and Urban Development; Ministry for Primary Industries; and the Ministry for the Environment.

Proactive Release

34 I intend to proactively release this Cabinet paper within standard timeframes, with redactions as appropriate.

Recommendations

The Minister for Social Development and Employment recommends that the Committee:

- 1 **note** that the Ministry of Social Development Policy Advice appropriation has been under pressure for several years due to increased demands on its social policy work programme and ongoing underlying cost pressures
- 2 **note** that the Minister of Finance and Minister for Social Development and Employment have considered suitable options to address level of funding for the Ministry of Social Development Policy Advice appropriation
- 3 **agree** to increase the Ministry of Social Development's Policy Advice appropriation by \$5.635 million per annum from the 2023/24 financial year and outyears

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- 4 **note** that the proposed option will have an impact on the Ministry of Social Development’s ability to take on any new work unless additional funding is provided, or trade-offs to the work programme are made
- 5 **note** that the Minister for Social Development and Employment will consult with Ministers, as required, when trade-offs to the Ministry of Social Development’s social policy work programme are being considered and where these may impact the work programme and priorities of other Ministers and Portfolios
- 6 **approve** the following fiscally neutral adjustments to give effect to the decision in recommendation 3 above, with no impact on the operating balance and/or net debt:

Vote Social Development Minister for Social Development and Employment	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears
Multi-Category Expenses and Capital Expenditure: Improved Employment and Social Outcomes Support MCA Departmental Output Expense: Administering Income Support (funded by revenue Crown)	-	(5.635)	(5.635)	(5.635)	(5.635)
Departmental Output Expense: Policy Advice (funded by revenue Crown)	-	5.635	5.635	5.635	5.635

Authorised for lodgement

Hon Carmel Sepuloni

Minister for Social Development and Employment