

Report



MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Date: 14 February 2024

Security Level: ~~BUDGET SENSITIVE~~

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

Reference: REP/24/2/123

Budget 2024 and Fiscal Sustainability – Ministerial Submission Letter

Purpose

- 1 This report provides you with a revised Budget 2024 and fiscal sustainability Ministerial submission letter. Subject to your approval, your office will submit this to the Minister of Finance by 1pm Friday 16 February 2024.

Recommendations

It is recommended that you:

- 1 **note** that the attached Ministerial submission letter has been updated to respond to your feedback on the Vote Social Development Budget 2024 and savings package, following your meeting with Ministry of Social Development (MSD) officials on Monday 12 February 2024
- 2 **note** that you have previously agreed to discontinue the Wage Supplement to replace Minimum Wage Exemption permits (savings of \$9.708m to \$12.973m per annum) (REP/23/12/928 refers)

- 3 **s9(2)(f)(iv)** [Redacted]

- 4 **agree** for the remaining required savings from Community programmes to be made up of **s9(2)(f)(iv)**

[Redacted]

[Redacted]

[Redacted]

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

[redacted]

[redacted]

[redacted]

[redacted] \$1m per annum from ending the Community Innovation Fund, s9(2)(f)(iv) [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

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

6 **note** the following additional changes have been made to the submission letter to reflect your feedback:

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

6.2 departmental savings of 6.5 percent from the Promoting Positive Outcomes for Seniors and Partnering for Youth Development appropriations have been included in the FTE savings initiative

7 **sign** the attached Ministerial Submission letter, for your office to provide to the Minister of Finance by 1pm on 16 February 2024.

Sacha O'Dea
Deputy Chief Executive, Strategy and Insights

Date

Hon Louise Upston
Minister for Social Development and Employment

Date

Context

- 2 The Treasury and the Minister of Finance both require a copy of your Budget 2024 and savings Ministerial submission letter by 1pm on 16 February 2024. Your office is responsible for sending the final Budget 2024 submission letter to the office of the Minister of Finance, while Treasury has asked for agencies to also upload a copy of the final submission letter to CFISnet.

Final Ministerial Submission letter

- 3 At your meeting with MSD officials on Monday 12 February 2024 , you discussed your feedback and decisions on the Vote Social Development Budget 2024 and savings package (REP/24/1/068 refers). s9(2)(g)(i)

s9(2)(g)(i)

- 4 You have previously agreed to discontinue the Wage Supplement to replace Minimum Wage Exemption permits (savings of \$9.708m to \$12.973m per annum) (REP/23/12/928 refers).

5 s9(2)(g)(i)

5.1 s9(2)(f)(iv)

[Redacted content]

7

s9(2)(g)(i)

8

s9(2)(f)(iv)

Youth and Seniors

11 To reflect your feedback, Departmental savings of 6.5 percent from the Promoting Positive Outcomes for Seniors and Partnering for Youth Development appropriations have been included in the FTE savings initiative.

Other changes

12 In addition to the changes to directly address your feedback on the Vote Social Development Budget 2024 and savings package, we have also made the following changes to the submission letter:

- initiative titles have been updated to align with the requirements set out in the Treasury's guidance (and included CFISnet IDs)
- the following numbers have changed:
 - Operational savings increased by \$0.332m per annum (and FTE savings therefore decreased by the same amount) – based on additional operational savings that can be realised
 - savings were updated for *including boarders' contribution in the calculation of subsidies for private and social housing and tightening the gateway and scaled down support services for people in emergency housing* – based on revised costings
 - the total expenditure impact table was updated to reflect all changes
- a reference to the separate process for MSD's Te Pae Tawhiti Transformation Programme has been included
- numbers have been added to the cost pressures section.

Next steps

- 13 It is recommended that you provide any feedback and/or sign the Ministerial submission letter, for your office to submit to the Minister of Finance by 1pm 16 February 2024.
- 14 The Treasury has also requested that MSD upload your Ministerial submission letter into CFISnet alongside the individual initiative templates. Subject to your approval, we would appreciate it if your office is able to provide us with a copy of the final signed letter to be uploaded.

Appendix

Appendix One – Draft Budget 2024 Submission letter.

Hon Louise Upston

Minister for the Community and Voluntary Sector
Minister for Social Development and Employment
Minister for Child Poverty Reduction



16 February 2024

~~BUDGET SENSITIVE~~

Hon Nicola Willis
Minister of Finance
Parliament Buildings
WELLINGTON

Dear Nicola,

Thank you for the opportunity to participate in Budget 2024.

I am committed to supporting the Government's fiscal sustainability objectives, and the package of savings and new spending initiatives I am submitting today strongly aligns with the principle of ensuring that our resources are directed towards the highest value investments.

In considering and developing this package, I have given strong consideration to the feasibility and implementation of options. I am confident that the initiatives I am submitting today will be delivered efficiently and effectively.

I have attached the full list of my Baseline Reduction Target initiatives, Targeted Policy Savings, and New Spending initiatives in Annex One.

Social Development and Employment priorities

My top priority is getting people into employment and lifting employment outcomes. Everyone who can work, should work – both full-time and part-time work as appropriate. We can also deliver better outcomes when we power up our communities, supporting regional partners who are working directly with communities and clients.

Together, my priorities will make an intergenerational difference for New Zealanders.

- Priority One: Lifting economic outcomes – including implementing a cohesive cross-agency plan to meet the skills needs of employers and work with business to create opportunities for New Zealanders.
- Priority Two: Welfare that Works and Reducing Benefit Dependency – focusing on getting young people off welfare and into work, as well as providing enhanced support for jobseekers (and clear consequences when they do not fulfil their obligations to prepare for or find work).

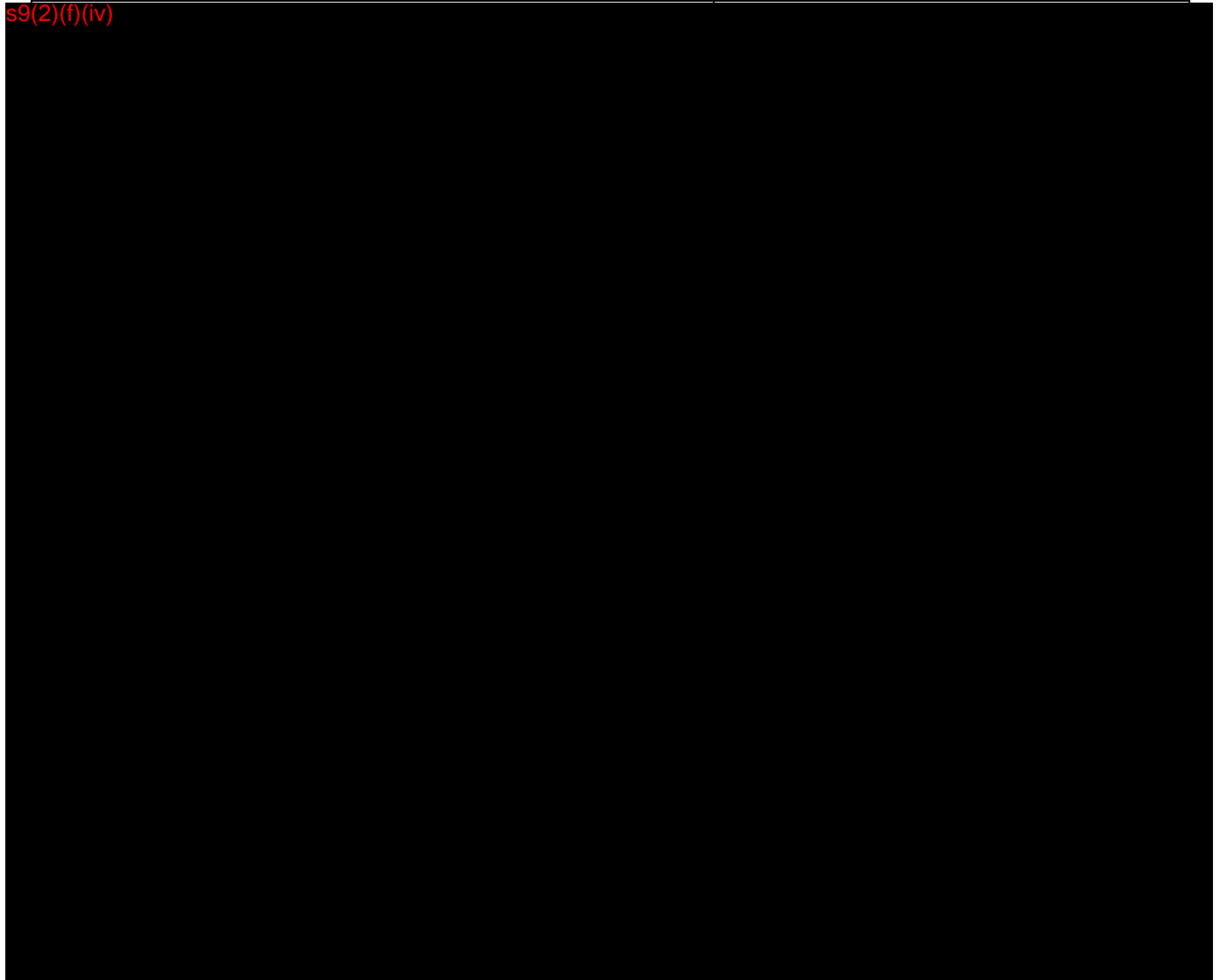
- s9(2)(f)(iv)

- Priority Four: Reducing child poverty – including a focus on reducing the number of children in benefit dependent households.
- Priority Five: Fiscal sustainability – which is a focus in and of itself, but I also expect my other priorities to support this.

Ranking of Budget 2024 priorities

I have assigned the following rankings to my Initial Baseline Exercise and new spending proposals.

s9(2)(f)(iv)



Savings

I have worked through a process with the Ministry of Social Development (MSD) to identify credible savings options to achieve my Baseline Reduction Target of \$119.4 million per annum, as well as additional Targeted Policy Savings options. I have been advised that the Chief Executive has provided opportunities for staff to suggest savings while we have developed options, and this opportunity will remain open to staff.

I think that people can lift themselves up out of difficult circumstances or when impacted by significant external events and get a job if the right support is

provided at the right time. As my top priority is getting people into employment and lifting economic outcomes, I am not proposing any savings from the employment-related programmes funded under Vote Social Development.

I am also conscious that a strong focus on employment outcomes aligns with this Government’s fiscal sustainability objectives, given that supporting people to enter and remain in employment can reduce benefit expenditure in the long-term. My priorities are to intervene early, help people get into work quickly, and prioritise people who need the support the most. I will use an evidence-based approach to understanding what works for whom.

Baseline Reduction Target

I am not proposing to make any savings from employment-related programmes because I want to position MSD to be able to achieve the proposed priority target to reduce the number of people receiving Jobseeker Support.

In developing options to achieve my Baseline Reduction Target, I have worked with MSD to maintain a strong focus on the following criteria:

- alignment with Government priorities
- evidence of effectiveness and value for money
- risks/impacts of stopping the programme/initiative.

These criteria align with the key principles of the Initial Baseline Exercise – particularly to focus on low value programmes and programmes that do not align with the Government’s priorities. I have also focused on non-essential back-office functions, including contractor and consultant savings.

I am proposing that the Vote Social Development Baseline Reduction Target can be met from a combination of savings from:

- Policy savings of at least \$60m from Vote Social Development per annum (\$129.54m over the forecast period) from including boarders’ contribution in the calculation of subsidies for private and social housing. ^{1 2}
- Programme savings s9(2)(f)(iv) from stopping the Wage Supplement to replace Minimum Wage Exemptions, ending the Community Innovation Fund, s9(2)(f)(iv)

¹ Note this initiative also has additional potential savings from Vote Housing and Urban Development

² Some of the policy savings will be implemented after 1 July 2024, and not all savings will be fully realised immediately. However, there will be other savings from time-limited funding that could make up the difference in these years.

³ Savings from stopping the Wage Supplement to replace Minimum Wage Exemptions include a \$2.405m saving in 2023/24, which will be used to offset 2024/25 savings.

- Departmental savings of \$21.720m per annum (\$86.880m over the forecast period) from reducing expenditure on contractors and consultants, plus savings from MSD accommodation and discretionary expenditure
- Departmental savings of \$16.943m per annum (\$67.772m over the forecast period) from reducing MSD FTE
- Crown Entity savings of \$0.053m per annum (\$0.213m over the forecast period) from a reduction in funding for the Social Workers Registration Board.

I am confident that reductions in MSD's FTE expenditure will not negatively impact MSD's ability to deliver on the Government's priorities, and my priorities for the Social Development and Employment portfolio.

Targeted Policy Savings

I am submitting two Targeted Policy Savings options in addition to my Baseline Reduction Target:

- Emergency Housing: tightening the gateway and scaled down support services for people in emergency housing (\$68.942m to \$218.507m per annum, and \$624.612m over the forecast period – requires investment in order to achieve a saving)

- s9(2)(f)(iv) [Redacted]

At this stage, priority targets are still being developed and will be considered in Cabinet in the next month. An Emergency Housing target is part of the potential set of targets. Performance against this proposed target will depend on the level of investment in services funded through the Emergency Housing Special Needs Grant invest to save initiative.

I look forward to the opportunity to discuss these savings options with you. I will also work with MSD to continue to review policy settings, to identify future opportunities to realise savings.

As these options would impact the housing system, I have discussed these with the Minister of Housing.

New initiatives

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

[Redacted]

Historic Claims of Abuse in Care

I also welcome your invitation to seek funding to continue resolving claims of historic abuse of people in state care beyond June 2024. MSD's historic claims process helps survivors of abuse in state care have a sense of justice, validation and empowerment; and helps them access the support they need through the claims process.

A new redress system is being established in response to recommendations on redress from the Royal Commission on Abuse in Care, however in the interim it is critical that MSD is able to continue resolving claims.

Apprenticeship Boost and Family Boost

You have also invited new spending on two other initiatives – Apprenticeship Boost and Family Boost. I understand that the Ministry of Education has worked with MSD to prepare the Apprenticeship Boost initiative, and that Inland Revenue has consulted MSD in the development of the Family Boost initiative.

Plan for reprioritisation beyond Budget 2024

I am conscious that fiscal sustainability is an ongoing priority for this Government, and is not just limited to Budget 2024. As such, I have been working closely with MSD on the development of a Reprioritisation Plan – to ensure we are able to manage within a smaller Vote Social Development baseline going forward.

MSD's Reprioritisation Plan focuses on three main stages for the internal management of cost pressures.

- Identification of pressures as they arise.
- Assessment of the financial and policy implications of each cost pressure, with particular consideration given to:
 - alignment with Government priorities
 - value for money and effectiveness, and
 - impacts on service delivery.
- MSD will prioritise internal funding responses. MSD will engage with Ministers if the cost pressure exceeds a financial threshold of \$10 million per annum. MSD will still engage with Ministers if the costs cannot be managed internally without significant policy implications, or significant trade-offs across critical services.

I have attached more detail as Annex Two.

Te Pae Tawhiti Programme

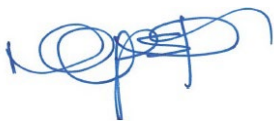
You have indicated that MSD's Te Pae Tawhiti Programme will be considered through a separate process. The first step will involve MSD providing us with advice in April about the future of the Programme – including benefits, costs and future scope of the Programme. This could then inform an update to Cabinet about my intentions for the Programme. I expect MSD to continue working with the Treasury as this advice is developed. I look forward to discussing the Te Pae Tawhiti Programme with you further in the near future.

While it is a separate process, we are undertaking work to align it with our Government's priorities, including identifying the risk to the core benefit payment system New Zealanders rely on. As part of the exploration to date, I have ruled out stopping the programme entirely. Doing nothing is not an option. Scope of work, risks, costs and benefits and time frames is being considered, including how it aligns with the priorities of our Government.

Next Steps

I am conscious that fiscal sustainability will be an ongoing priority, and I have asked MSD to maintain a focus on efficiency after the Budget 2024 process. I look forward to discussing my Budget 2024 submissions with you.

Yours sincerely



Hon Louise Upston
Minister for Social Development and Employment

Annex One – Overview of Vote Social Development package

Expenditure impact

	Impact \$m increase/(decrease)					Total
	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyears	
Total submitted for baseline reduction target	-	(119.4)	(119.4)	(119.4)	(119.4)	(477.600)
If required: total amount of targeted policy savings	(6.489)	(65.752)	(132.868)	(246.158)	(341.842)	(793.109)
Total amount of revenue options	-	-	-	-	-	-
Total savings/revenue proposed	(6.489)	(185.152)	(252.268)	(365.558)	(461.242)	(1,270.709)
If invited: cost pressure funding sought	-	-	-	-	-	-
If invited: new spending sought		75.771	98.868	46.342	46.099	267.081
Total new funding sought		75.771	98.868	46.342	46.099	267.081
Net impact of all Budget 2024 proposals	(6.489)	(109.381)	(153.400)	(319.216)	(415.143)	(1,003.629)

Some of the policy savings will be implemented after 1 July 2024, and not all savings will be fully realised immediately. However, there will be other savings from time-limited funding that could make up the difference in these years.

List of initiatives

Initiative title	CFISnet ID
<i>Baseline Reduction Target initiatives</i>	
Contractor and Consultant Savings	15518
Operational Savings	15519
MSD Departmental Savings – FTE	15520
Social Workers Registration Board - Crown funding reduction	15482
Housing Subsidies: including boarders’ contribution in the calculation of subsidies for private and social housing	15564
Minimum Wage Exemption – discontinuation of the wage supplement	15521
s9(2)(f)(iv) [REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
Community Innovation Fund – return of funding	TBC
<i>Targeted Policy Savings</i>	
Emergency Housing: tightening the gateway and scaled down support services for people in emergency housing	15522
s9(2)(f)(iv) [REDACTED]	[REDACTED]
<i>New initiatives</i>	
s9(2)(f)(iv) [REDACTED]	[REDACTED]
Historic Claims of Abuse in Care (time-limited funding)	15524

Expiry of time-limited funding

I have worked with MSD to identify all time-limited funding that is due to expire, and you are already aware of any key risks. Historic Claims has been invited to be considered as a new spending initiative through Budget 2024, and I have informed you about Te Pae Tawhiti (MSD's Transformation Programme).

Recent trends for FTEs

MSD's FTE increased from 6,799 as at 30 June 2017 to 9,224 as at 30 September 2023. This includes a number of new functions that MSD has taken on as a result of government policy decisions to deliver additional services and/or functions as an interim measure or an ongoing basis.

Over this period, there were also staffing increases as a result of the successive COVID-19 Response and Recovery Fund packages, which provided funding to respond to the effects of the COVID-19 pandemic. Given the time limited nature of COVID-19 funding and other initiatives, MSD's Service Delivery FTE will decrease by 1,368 by 2025.

I am committed to reducing the number of MSD's FTEs in line with this Government's workforce priorities, and I have submitted a savings initiative to further reduce expenditure in this area.

Annex Two – Reprioritisation Plan

In considering and developing this reprioritisation plan, I have worked closely with MSD to align the methodology with the Government priority of getting Government expenditure under control. I have given strong consideration to directing our resources towards the highest value investments, while maintaining frontline services.

In line with this Government priority, you have established a requirement for Vote Social Development to manage cost pressures through internal reprioritisation or by taking active choices to stop or scale programmes.

Criteria for Ministerial engagement

This reprioritisation plan supports the principle that, wherever possible, MSD should manage cost pressures through internal reprioritisation. MSD will engage with Ministers if the cost pressure exceeds a financial threshold of \$10 million per annum. MSD will also engage with Ministers if the costs cannot be managed internally without significant policy implications, or significant trade-offs across critical services.

The financial and policy implications of each cost pressure will be assessed against three main assessment criteria, to ensure cost pressures receive an appropriate funding response and level of engagement:

- does this align with government direction and portfolio priorities?
- is this value for money and is there evidence of effectiveness?
- what are the impacts on service delivery and the risks and costs of stopping?

These criteria provide a basis for identifying policy choices to support reprioritisation, as well as areas where expenditure could potentially be scaled back or stopped.

I will work with MSD and will engage with Ministers and/or Cabinet where cost pressures cannot be managed internally or there is an external funding process. This includes the annual Budget process, unplanned cost pressures⁴, the out-of-cycle funding process and baseline update process. This avenue will only be employed in exceptional circumstances, such as when:

- stopping or scaling an initiative is not aligned with the Government priorities
- there is a risk of significant and irreversible negative impact on clients
- there is a risk of substantial sunk cost if the cost pressure is not addressed.

Cost pressures

Based on initial analysis, MSD has estimated total cost pressures of approximately \$208m to \$295m per annum over the four-year forecast period

⁴ It is worth noting that unplanned cost pressures can arise when MSD must free up capacity for emergency responses or to address emerging portfolio priorities.

(not including the Te Pae Tawhiti Programme, which is referenced in the body of this paper). These cost pressures include:

- personnel and wage drivers, including remuneration s9(2)(f)(v) (approximately \$56.307m over the forecast period)
- volume pressures, with the number of people receiving a working age benefit and the number of New Zealand Superannuation recipients forecast to increase, which will create pressures across a range of MSD's supports and services (approximately \$131.534m over the forecast period)
- other pressures – noting further work will continue over the coming months to better understand the specific impact across MSD's supports and services (approximately \$68.317m over the forecast period (noting \$53.406m relates to MSD self-funding of TPT)).