

Report



Date: 9 February 2024

Security Level: ~~BUDGET – SENSITIVE~~

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

Budget 2024 and Fiscal Sustainability – savings plan and update

REP/24/1/068

Purpose

- 1 For the finalisation of the Budget 2024 package, this report seeks your feedback and/or decisions on:
 - a draft Budget 2024 Ministerial submission letter
 - a final savings plan for Budget 2024 to achieve the Baseline Reduction Target
 - Targeted Policy Savings
 - new spending initiatives, including the scope of new spending on Historic Claims
 - MSD’s reprioritisation plan.
- 2 This report also includes information on the full-time equivalent (FTE) levels of social development Crown entities, as previously requested.

Recommendations

It is recommended that you:

- 1 **note** that the final Budget 2024 package is due to be submitted on 16 February 2024
- 2 **provide feedback** on the draft Budget 2024 submission letter (as set out in Appendix 1)

3 **agree** that the Vote Social Development savings plan for \$119.4 million per year (as set out in Appendix 2) should include the following components:

Savings from Policy changes

- Including payments received from boarders and other residents in the property when housing subsidies are calculated to achieve savings of \$64 million per year

AGREE / DISAGREE / DISCUSS

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

- [Redacted]

- [Redacted]

- Ending the Community Innovation Fund to achieve savings of \$1 million per year

AGREE / DISAGREE / DISCUSS

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

4 **note** that you have previously agreed to stop the Minimum Wage Exemption Project, to achieve savings of between \$9.708 million and \$12.973 million per year

5 **note** that the Vote Social Development savings plan also includes \$38.663 million per annum in Departmental savings

6 **agree** that the Targeted Policy Savings for Vote Social Development (as set out in Appendix 1) should include the following components:

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

- changes to gateway for Emergency Housing Special Needs Grants (EH SNGs) and continuing supports to achieve overall reduction in households

AGREE / DISAGREE / DISCUSS

7 **note** that costings for the three policy savings initiatives are still being revised, and we will provide your office with updates in the lead up to the 16 February submission deadline

8 **note** that performance against the proposed Emergency Housing target will depend on the level of investment in services funded through the EH SNG invest to save initiative

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

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

| [Redacted]

| [Redacted]

| [Redacted]

| [Redacted]

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

12 **note** we have also provided your office with indications of potential changes to how MSD works with young jobseeker, to achieve the intent of every young jobseekers having a needs assessment and individual plan

13 **agree** to seek funding for Historic Claims of Abuse in Care (Time Limited Funding) for a period of two years

AGREE / DISAGREE / DISCUSS

14 **provide feedback** on the ranking of savings and spending proposals for Budget 2024 (as set out in Appendix 1)

- 15 **provide feedback** on the Ministry of Social Development’s reprioritisation plan (as set out in Appendix 1)
- 16 **agree** to discuss this briefing at your meeting with officials on 12 February 2024.

AGREE / DISAGREE / DISCUSS

Sacha O’Dea
Deputy Chief Executive Strategy and Insights

Date

Hon Louise Upston
Minister for Social Development and Employment

Date

Some decisions are needed to finalise MSD's Budget 2024 package

Context

- 3 In her letter of 21 December 2023, the Minister of Finance asked you to work with the Ministry of Social Development (MSD) to:
 - develop Budget 2024 submissions by 16 February, including a submission letter, baseline savings reductions, Targeted Policy Savings and new initiative spending
 - provide a plan for reprioritisation post Budget 2024.
- 4 MSD has subsequently received guidance from the Treasury for these deliverables, including specific requirements that need to be met.
- 5 The Budget 2024 submission letter is a key component of the Budget 2024 package. Your office has responsibility for sending the Budget 2024 submission letter to the office of the Minister of Finance on 16 February. The Treasury requires a submission letter and supporting information including:
 - a prioritised ranking of savings and new spending proposals
 - MSD's reprioritisation plan
 - the name and CFISnet ID number of the savings and new spending proposals to be included in the Budget 2024 package for Vote Social Development.
- 6 We understand that before the final package can be submitted, some decisions are still needed on:
 - the Vote Social Development savings plan
 - Targeted Policy Savings
 - new spending initiatives.
- 7 We also require your feedback on MSD's reprioritisation plan, and on a proposed ranking of the savings and new spending proposals to be included in the Budget 2024 package.

Your feedback on the Budget 2024 submission letter

- 8 Consistent with the Treasury's guidance, a draft Budget 2024 submission letter is attached for your feedback (Appendix 1). We will incorporate your feedback post the officials' meeting on Monday 12 February 2024 and provide an updated version to your office by 14 February 2024.

Your approval of the Vote Social Development savings plan

- 9 MSD has continued to work with you to identify savings from policy changes, reduced spending in selected community programmes, and departmental expenditure (including a significant reduction in contractor and

consultant spend), consistent with the Government’s commitment to achieving greater fiscal efficiency while maintaining frontline services.

- 10 The latest draft savings plan A3 sheet is attached as Appendix 2. The overall plan to achieve the Baseline Reduction Target of \$119.4 million comprises four categories with \$60m per annum in savings from policy choices, \$20 million per annum in savings from community programmes, \$39.263 million per annum in savings from departmental expenditure and full-time equivalents (FTEs) s9(2)(f)(iv) [REDACTED].
- 11 This plan is based on the preferences you have previously indicated to officials.¹

Savings from policy choices

- 12 You have previously agreed to progress three initiatives to realise savings from policy changes. The savings plan requires your approval of one policy initiative to meet the \$119.4m Baseline Reduction Target.
- 13 We recommend that the *including income from all borders when calculating housing subsidies* initiative be included in the \$119.4m Baseline Reduction Target with a saving of approximately \$60m per annum.

Savings from community programmes

- 14 s9(2)(f)(iv) [REDACTED] \$9.708 million to \$12.973 million per annum in savings would be realised from stopping the Minimum Wage Exemption project. s9(2)(f)(iv) [REDACTED]
- 15 s9(2)(f)(iv) [REDACTED]

Savings from MSD departmental expenditure

- 16 The savings plan includes significant reductions in departmental expenditure, generating \$39.263 million in savings per annum. Of this, \$15.650 million per annum in savings would result from reductions in the use of contractors and consultants, alongside \$5.738 million per annum in savings from reductions in other operating expenditure.

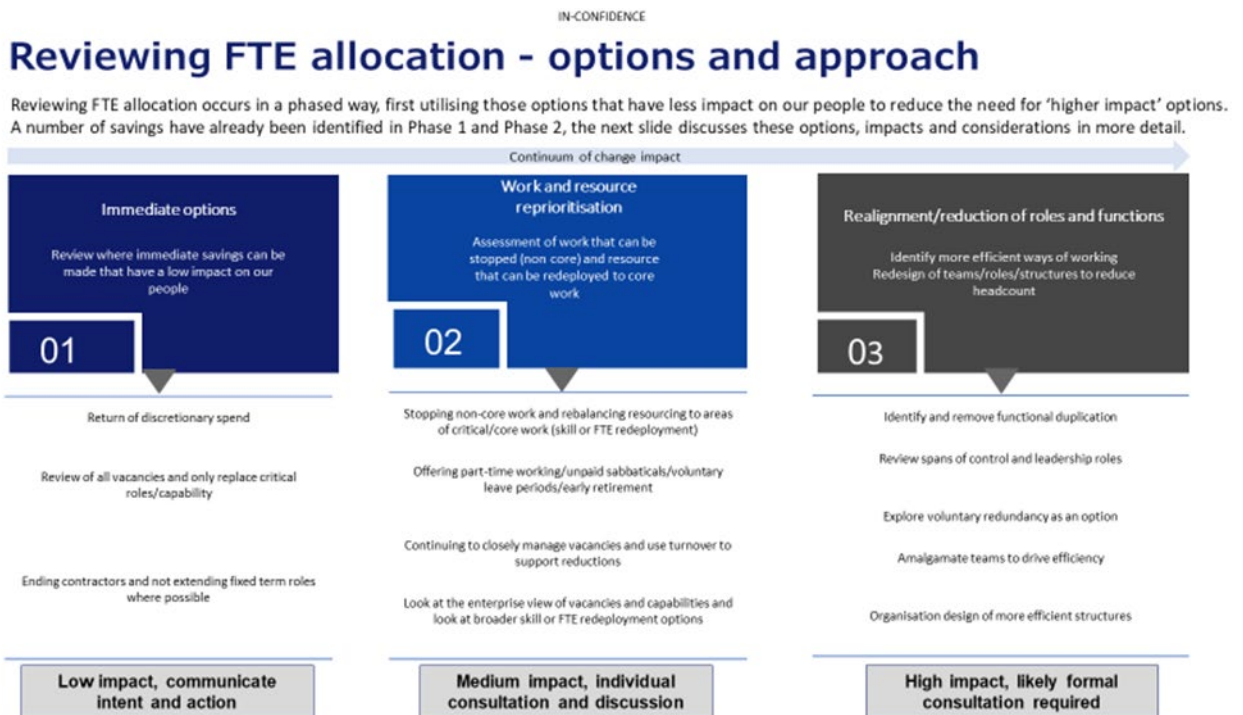
¹ REP/23/12/952, REP/23/12/976, REP/24/1/010, and REP/24/1/042 refer.

Savings from MSD departmental expenditure - FTEs

- 17 As part of the Initial Baseline Savings Exercise, we have been going through a line-by-line review of our departmental spending, with the goal of identifying \$40 million a year. We had always anticipated that we would need to find some of the \$40 million by reducing FTE. We have identified that we need to find an additional \$17.275 million (approximately 170-175 FTE) through FTE reductions.
- 18 In our initial briefing to you on 'Operating within fiscal constraints' [REP/23/11/897 refers], we advised that MSD's FTE has increased from 6,799 as at 30 June 2017 to 9,224 as at 30 September 2023. This was due to a mix of funding provided for:
- additional functions (for example, transfer of employment functions from MBIE)
 - time-limited projects or teams (for example, replacing our Corporate function and the establishment of Whaikaha)
 - COVID-19 Response and Recovery Fund packages
 - additional FTE to meet demand some baselined and some time-limited to respond to the forecast peak of benefit numbers in January 2025.
- 19 Appendix 3 provides further detail.
- 20 Given the time limited nature of COVID-19 funding and other initiatives, Service Delivery FTE will decrease by 1,368 by 2025. Based on this, the forecast numbers of FTE for Service Delivery are 6,809 FTE on 1 July 2024, 6,173 FTE on 1 July 2025, and 6,130 FTE on 1 July 2026.
- 21 Outside of Service Delivery, we are expecting to need to reduce the FTE in other functions by at least 250 FTE to fit within our smaller baseline for 2024/25. Based on our modelling to date, total FTEs are expected to be around 8,000 in September 2025, when time-limited funding ends. As previously advised, we are doing work on FTEs to:
- identify where to reduce FTEs for 2024/25 in fit within our baseline
 - understand the implications for our workforce for outyears when our baseline reduces further.
- 22 This process is still underway, with ongoing discussions across the Leadership team, with the need to make decisions and implement the first phase of changes by 30 June 2024.
- 23 On top of these reductions, we have identified that we need to make further reductions of 170 – 175 FTE through the Initial Baseline Savings Exercise. Initially, we thought we may be able to provide you advice on discrete functions and test your appetite to scale or stop the function for the 170-175 FTE. As we have tried to work through options, we have come to the

conclusion it would be better to consider the further reduction as part of the broader process to identify and reduce FTEs to fit within our baseline. While 170-175 FTE is a significant number, we are confident that we will be able to find these through the broader FTE process.

- 24 This process is being informed by our growing understanding of your priorities for the Social Development and Employment portfolio, and broader government work programme. As part of this process, our intent is to not include FTE that will be critical to delivering on your portfolio priorities as outlined in your letter to the Prime Minister, the proposed priority targets for reducing Jobseeker Support and children in emergency housing, and coalition commitments.
- 25 The diagram below shows the potential continuum of change impact from low impact to high impact. As part of the process, we are trying to identify where to reduce positions with the least impact on the frontline and performance, and the least disruptive process to achieve this, for example, managing through attrition where possible.



- 26 As we work through this process, we will keep you updated on decisions and the impact of these on MSD's ability to deliver on your portfolio priorities, priority targets, coalition agreements, service levels and performance before we make the changes.
- 27 You have also asked for greater visibility on departmental spend (breakdown by function and FTE) and alignment with your portfolio priorities. You referred to a Treasury definition of function. We will provide you with some advice on this in early March, including the impact of these further savings.

Savings from Crown Entities

28 The savings plan includes total savings of s9(2)(f)(iv) \$0.053 million from the Social Workers Registration Board.

29 s9(2)(f)(iv)

Your approval of Targeted Policy Savings

30 In addition to the Baseline Reduction Target of \$119.4 million, the Minister of Finance asked you to identify targeted policy savings.

31 As outlined above, we recommend that the *including income from all boarders when calculating housing subsidies* initiative be included in the \$119.4m Baseline Reduction Target.

32 We recommend that two savings from policy changes be included as part of the Targeted Policy Savings exercise:

- s9(2)(f)(iv)
- changes to gateway for Emergency Housing Special Needs Grants (EH SNGs) and continuing supports to achieve an overall reduction in households (saving approximately \$625.876 million over the forecast period, after accounting for invest-to-save of approximately \$99.688 million per annum).

33 Note that previous advice for the emergency housing cost-savings initiative was based on a 10 percent reduction in emergency housing households for the 2024/25 financial year, and has changed to a reduction of 26.8% emergency housing households for the 2024/25 financial year. This is due to the implementation of the Priority One Fast-Track, tightening the gateway settings for emergency housing, continuation of support services, and increase of supply of social housing.

34 Note that performance against the proposed Emergency Housing target will depend on the level of investment in services funded through the EH SNG invest to save initiative. Without sufficient investment, clients would experience longer durations of emergency housing need and/or return to emergency housing. This would be driven by:

- no longer having the same level of staff at the front line to support people to get ready for and find alternative accommodation (transitional housing, social housing and private rentals)

- additional pressure from the Priority One Fast Track which could incentivise people to stay in emergency housing for at least 12 weeks to gain priority status for social housing.

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

- [Redacted]
- [Redacted]
- [Redacted]

Decisions for new spending

36 Alongside the Baseline Reduction Target and Targeted Policy Savings proposals above, the Budget 2024 package will also include new spending proposals for s9(2)(f)(iv) [Redacted] Historic Claims of Abuse in Care (time-limited funding).

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

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

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[Redacted]

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[Redacted]

41 s9(2)(f)(iv) [Redacted text block]

Approving the funding period for Historic Claims of Abuse in Care

- 46 The Minister of Finance’s letter of 21 December 2023 invited a new spending initiative for Historic Claims of Abuse in Care (time-limited funding). A decision is required on the length of time to seek funding for in the Historic Claims budget: one year or two years.
- 47 MSD has a significant backlog of historic claims and MSD continues to receive new claims (average of 66 new claims per month). MSD expects to complete a total of 1,000 claims assessments this financial year, leaving an expected backlog of over 3,000 unfunded claims by 30 June 2024. Further claims (approximately 700-800 per annum) in addition to this number are expected to be received beyond this date.
- 48 In Budget 2023 the MSD received \$58.4 million in funding to resolve a further 1,000 claims of abuse in state care over a twelve-month period. MSD is on track to complete assessment of these claims. A key reason for reducing this funding to one year was an expectation that significant

progress would have been made in the development of a new independent redress system to replace existing redress processes, as recommended by the Royal Commission of Inquiry into Abuse in State Care. Development of a new system has taken longer than anticipated and it is too early to understand what a new redress system may look like, when it might be operating and when and how transition may occur if a new system is finalised.

- 49 Previously, uncertainty around the continuation of Historic Claims resulted in increased retention issues with the turnover rate in the Historic Claims team exceeding 30% at its highest. High turnover directly impacts on the number of claims that can be progressed as it can take three to six months for staff to build capability in some parts of the Historic Claims assessment processes. Funding over a two-year period is therefore recommended to enable stabilisation of the current workforce and retention of specialist staff to support claims progression, while any changes to the existing redress system are considered.
- 50 MSD recommends funding for a two-year period to enable decisions to be made.

Your approval of MSD's reprioritisation plan

- 51 Consistent with Treasury's guidance, MSD has developed a reprioritisation plan which sets out MSD's approach to prioritising funding while protecting Government priorities and managing risk. A copy of the reprioritisation plan has been included in the draft Budget 2024 submission letter (Appendix 1).
- 52 MSD's proposed reprioritisation plan focuses on three main stages for the internal management of cost pressures:
- identification of pressures as they arise
 - prioritising internal funding responses, engaging with Ministers on prioritisation decisions which exceed a \$10 million threshold or have significant policy implications, and/or to seek external funding
 - 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.
- 53 As per our previous advice, MSD has identified future cost pressures of approximately \$208m to \$295m per annum over the four-year forecast period. Cost pressures include:
- personnel and wage drivers, s9(2)(f)(iv)

- 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
- price pressures experienced in line with inflation (we are still working to better understand the specific impact across MSD's supports and services).

Your approval of the proposed ranking of savings and spending proposals

54 A simple ranking approach is proposed for Budget 2024 savings initiatives, using two broad groups, and prioritising departmental and Crown entity savings initiatives. s9(2)(f)(iv)

This is set out below, and in the draft Budget 2024 submission letter (Appendix 1), consistent with the Treasury's guidance.

s9(2)(g)(i)

Crown entities FTE information

55 You asked for information about FTE numbers for each Crown Entity in 2017 and 2023. We sought this information as part of the process to develop savings templates. Here is a summary:

Entity	FTE		Funding notes
	June 2017	June 2023	
Children and Young People's Commission ²	17.3	37.13	Primarily Crown funded. Increase due to monitoring function expanding.
Social Workers Registration Board	10.2	36.95	Primarily funded from social worker registrations. Increase due to growth in regulatory programme.
New Zealand Artificial Limb Service	53	124	Funded by commercial contracts held with ACC and DHBs. Increase due to increased demand.

- 57 Demand for the functions performed by the Office of the Children's Commissioner (OCC), particularly the monitoring function, changed significantly during this period.
- 58 For the year ending June 2017, the OCC conducted 6 monitoring visits to Oranga Tamariki residences. By June 2023, the coverage and depth of the OCC's monitoring programme had expanded to fulfil their legislative role,³ requiring more intensive monitoring across a broader range of facilities. As at June 2023, this included Oranga Tamariki secure residences (9 visits) and youth justice remand homes (3 visits), DHB child and adolescent mental health and youth forensic inpatient units (3 visits), and Corrections Mother and Baby Units (up to 1 visit per annum).
- 59 Unlike the other social development Crown entities, the OCC relied on the Crown for their baseline funding, which increased during this period from \$2.157m to \$3.157m per annum. Some time-limited funding was also received to address cost pressures and to support OCC's transition to the Children and Young People's Commission from July 2023.
- 60 The Social Workers Registration Board (SWRB) notes that in 2019, legislation was passed to make registration mandatory for all practising social workers in New Zealand from February 2021. The new mandatory environment resulted in a 50 percent increase in the number of registered

² Formerly the Office of the Children's Commissioner - the Children and Young People's Commission was established 1 July 2023.

³ OCC was designated as a National Preventive Mechanism (NPM) under the Crimes of Torture Act (COTA) 1989, which implemented NZ's ratification of the United Nations Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment (OPCAT).

social workers compared to the voluntary environment. The majority of the extra FTEs related to the growth in SWRB's regulatory work programme over this period, which was funded by the fees and levy charged to social workers and social work education institutions. These charges are in line with the legislative requirements of the Social Workers Registration Act 2003.

- 61 The New Zealand Artificial Limb Service (NZALS) notes it has increased its total FTE count to enable the provision of services to a significantly increased number of patients. Between 2017 and 2023, the NZALS were awarded competitive tenders for 8 new service contracts and 1 renewed service contract, leading to a 538 percent increase in the number of patients cared for, and a 150 percent increase in revenue growth. Servicing this demand increased NZALS' clinical and technical workforce by 180 percent, while its back-office administrative workforce increased by 35 percent.

Next steps

- 62 There will be an opportunity to discuss your feedback and decisions at your next meeting with officials on 12 February 2024. An updated version of the Budget 2024 Submission Letter and Summary Template for the Budget 2024 Initial Baseline Exercise will then be provided to your office on 14 February 2024 for submission to the Minister of Finance by 16 February 2024. The submission letter will include the final list of initiatives, including the name and CFISnet ID number for each initiative, consistent with Treasury guidance.

Appendices:

Appendix 1: Draft Budget 2024 submission letter

Appendix 2: Vote Social Development savings plan

Appendix 3: Historical information about MSD FTEs

Appendix 1: Draft Budget 2024 submission letter

Appendix 2: Vote Social Development savings plan

Appendix Two – Savings plan for the Baseline Reduction Target (\$119.4m per annum)

Savings from Policy changes

	Per year	Over Forecast Period
<p>Options to progress this year</p> <ul style="list-style-type: none"> *Including income from all boarders when calculating housing subsidies 		
	AS/TAS: approx. \$64m IRR: approx. \$9.1m (Vote Housing and Urban Development)	AS/TAS: approx. \$208.0m IRR: approx. \$36.4m (Vote Housing and Urban Development)

Savings from Community programmes

	Per year
*Stopping the Minimum Wage Exemption Project	\$9.708m – \$12.973m
s9(2)(f)(iv)	
s9(2)(f)(iv)	
Ending the Community Innovation Fund	\$1.000m
s9(2)(f)(iv)	

Departmental savings

	Per year
s9(2)(f)(iv)	
<i>Template 1 covers the following:</i>	
Contractors and Consultants	\$15.650m
<i>Template 2 covers the following:</i>	
Travel	\$1.580m
Accommodation National Office	\$0.700m
Stationery & Consumables	\$0.865m
Venue Catering & Equipment	\$0.668m
Devices and Peripherals	\$0.800m
Plant Hire and Cleaning Costs	\$0.925m
s9(2)(j)	
<i>Template 3 covers the following:</i>	
FTE	\$17.275m

Savings from Crown Entities

	Per year
s9(2)(f)(iv)	
s9(2)(f)(iv)	
Social Workers Registration Board	\$0.053m

* Initiatives denoted with an asterisk have savings which may vary per year.

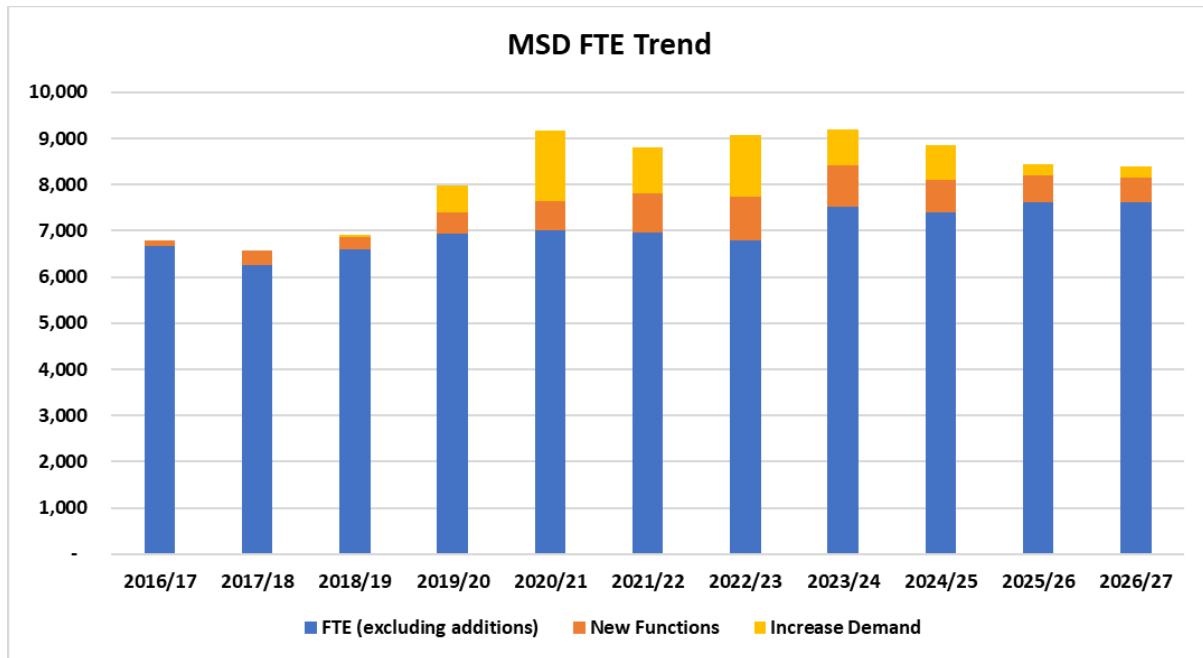
Appendix Two (continued) – Targeted Policy Savings

Targeted Policy Savings (2 templates)		
	Per year	Over Forecast Period
Options to progress this year		
<ul style="list-style-type: none"> • s9(2)(f)(iv) [Redacted] 	[Redacted]	[Redacted]
<ul style="list-style-type: none"> • *Changes to gateway for Emergency Housing Special Needs Grants (EH SNGs) and continuing supports to achieve overall reduction in households 	Approx. \$83m – \$218m net saving, based on: <ul style="list-style-type: none"> • \$13m saving in 24/25 (stopping HSP pilot – time-limited) • \$102m – \$241m from reduction in EH SNGs • investment of \$22 – \$32m for support services 	Approx. \$625.876m net saving Includes approx. investment of \$99.688m

* Initiatives denoted with an asterisk have savings which may vary per year.

SENSITIVE

Appendix 3: Historical information about MSD FTEs



Between 2016/17 and 2022/23 there has been a net increase of approximately 2,300 FTEs across the Ministry (please note that the 2016/17 and 2017/18 years do not include the Child, Youth and Family staff that transferred from the Ministry to Oranga Tamariki in November 2017).

The main factors that have led to a temporary increase (time limited funding) in FTEs over this period are:

- Temporary staffing increases of around 1,700 FTE through successive COVID-19 Response and Recovery Fund packages. Given the time limited nature of COVID-19 funding FTEs will decrease by 2025.
- Approximately 80 staff from 2019/20 to focus on resolving claims of historic abuse

The main factors that have led to a permanent increase in FTEs over this period are:

- Treasury's baseline review from 2019/20 resulted in an additional 237 roles
- Approximately 150 housing staff to meet emergency housing demand, social investment and purchasing model for social housing, homelessness and the public housing register
- Around 90 staff from 2022/23 to complete the child support pass on work
- Around 60 staff to support the extension of the youth service to 18- and 19-year-olds
- Around 60 staff the transfer of He Poutama Rangatahi, the Māori Trades and Training Fund, and the three Auckland-based Jobs and Skills Hubs from the Ministry of Business, Innovation and Employment from the 2021/22 year

- other smaller initiatives including family violence support, transfer of the contract and relationship management from Oranga Tamariki, social service accreditation work, Dental treatment, flexi wage expansion and training support.