



**MINISTRY OF SOCIAL  
DEVELOPMENT**

TE MANATŪ WHAKAHIATO ORA

12 AUG 2016



On 27 June 2016 you emailed the Ministry requesting, under the Official Information Act 1982, a copy of the Cabinet paper titled '*Next Steps Toward Reducing Long Term Welfare Dependence*'.

You will find enclosed a copy of the above mentioned paper. The paper sought Cabinet's agreement to a programme of work designed to assist the Ministry in delivering on its Better Public Services target of reducing benefit dependence. The paper also examined further policy and operational work in order to build on existing developments in this area.

Some information is withheld under section 9(2)(f)(iv) of the Official Information Act as it is under active consideration. The release of this information is likely to prejudice the ability of government to consider advice and the wider public interest of effective government would not be served.

You may also find information on the State Services Commission website helpful, date on reducing long-term welfare dependence can be found at the following link: <http://www.ssc.govt.nz/bps-reducing-dependence>

I hope you find this information helpful. You have the right to seek an investigation and review of my response by the Ombudsman, whose address for contact purposes is:

The Ombudsman  
Office of the Ombudsman  
PO Box 10-152  
Wellington 6143

Yours sincerely

Ruth Bound  
**Deputy Chief Executive, Service Delivery**

Chair  
Cabinet Social Policy Committee

## **NEXT STEPS TOWARD REDUCING LONG-TERM WELFARE DEPENDENCE**

### **Proposal**

- 1 I seek Cabinet's agreement to a programme of work designed to assist us to deliver on our Better Public Services target to reduce benefit dependence (BPS 1). This programme of work would build on the already considerable effort in this area, and would examine further policy and operational reform.
- 2 I also seek agreement to disestablish the Work and Income Board (the Board). The Board has served us well in establishing, embedding and consolidating the investment approach we have taken to welfare. The next steps we are taking relate to taking a social investment approach across the social sector, and the Board is not the right entity to lead that change. We will continue to have the improved oversight and transparency provided by other elements of the investment approach.

### **Executive summary**

- 3 As a Government, we understand the damage that the low income and other factors associated with long-term benefit receipt can do to families and communities, as well as the opportunities that sustainable paid employment can bring.
- 4 Since June 2011, as a result of our welfare reforms and the investment approach we have taken to welfare, we have reduced the Government's future welfare liability by \$10.6 billion. We have already been hugely successful in reducing long-term welfare dependence, and now we have set higher targets for reducing long-term welfare dependence as part of the Better Public Services initiative.
- 5 Achieving the 25% reduction in benefit numbers and an accumulated actuarial release of \$13 billion by June 2018 is an ambitious target. We have made progress already, with a \$2.5 billion reduction in liability, and we have a cross-sector action plan in place, but more is needed if we are to achieve our goal.

6 **s 9(2)(f)(iv) Active Consideration**

- 7 The Board has played an important advisory role in the establishment and consolidation of the investment approach to welfare. However, now that the investment approach has matured, is embedded in day-to-day Work and Income

practices, and we have achieved a high level of transparency and oversight, there are better ways of achieving the contestability of advice that the Board has provided to date.

- 8 The next step in our drive to get more value for the Government's social spending is to now take a much broader social investment approach. The Social Sector Board already has a role in overseeing BPS 1, and we are already working to extend some of the disciplines and principles that have worked well in welfare to other parts of the wider social sector such as social housing, vulnerable children and justice, where that is appropriate.
- 9 I therefore propose to disestablish the Board now, with immediate effect, and have officials provide advice on other mechanisms for providing ongoing contestability of advice and ideas.
- 10 The disestablishment of the Board will not affect the additional performance expectations and measures that we have previously put in place to improve the management and transparency of the benefit system.

## Background

- 11 As a government we have set ambitious targets for reducing long-term welfare dependence. The revised target of a 25% reduction in numbers of beneficiaries and an accumulated actuarial release of \$13 billion by June 2018 goes much further than our previous target and will require significant success to achieve.
- 12 But we are ambitious for New Zealanders. We understand the damage that the low income and other factors associated with long-term benefit receipt can do to families and communities, and the opportunities that sustainable paid employment can bring.

## What welfare reform and the investment approach have achieved so far

- 13 Since June 2011, as a result of our welfare reforms, policy and operational changes, the total estimated decrease in the Government's future welfare liability is \$10.6 billion. The current estimate of the total lifetime benefit liability of current recipients is \$69.2 billion. These reductions are over-and-above the impacts of the economy and changes to discount rates, and they mean that New Zealand taxpayers will have to put less funding toward future benefit payments.
- 14 The table below shows the reductions in welfare liability attributable to welfare reforms, policy and operational changes achieved each year, split out by changes that are due to reducing beneficiary numbers, and other changes.

| Year Ended   | Change due to reduced beneficiary numbers | Changes due to other factors |
|--------------|---|------------------------------|
| 30 June 2012 | -\$3.0bn                                  | -\$0.4bn                     |
| 30 June 2013 | -\$1.8bn                                  | -\$2.6bn                     |
| 30 June 2014 | -\$1.5bn                                  | -\$0.8bn                     |
| 30 June 2015 | -\$0.5bn                                  | TBD                          |
| <b>Total</b> | <b>-\$6.8bn</b>                           | <b>-\$3.8bn</b>              |

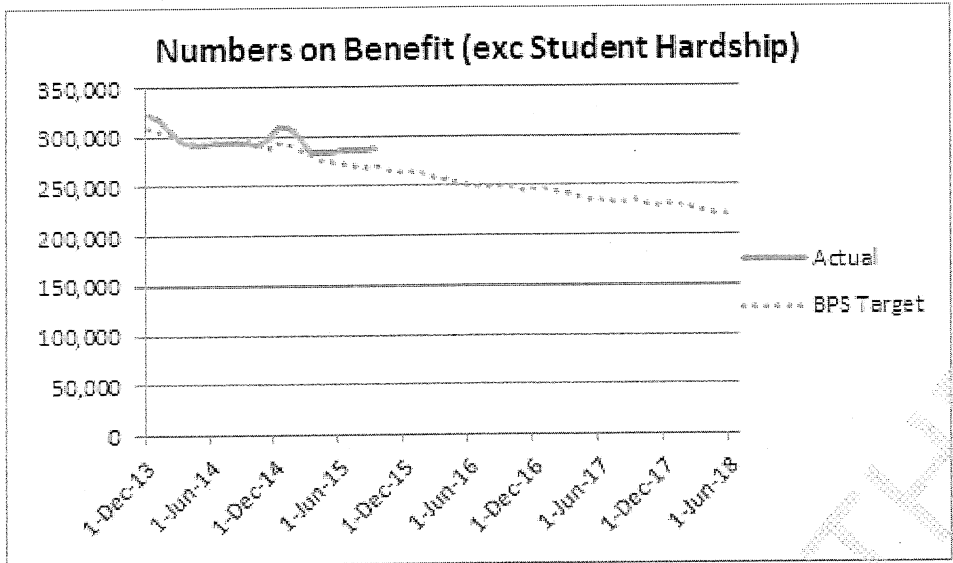
- 15 This is an incredible achievement over a period of just over four years. These savings in future liability are underpinned by significant reductions in the number of benefit recipients, many of whom are going into employment with the associated benefits in terms of improved earnings and other benefits.
- 16 These results are due to a combination of factors. The changes we have made to policy settings through our welfare reform programme has been critical. These policy changes have been supported by the investment approach we have introduced to welfare, with its focus on understanding the drivers of longer-term benefit receipt and refocusing resources on tackling those groups of beneficiaries most at risk of long-term benefit receipt and high forward liability. The focus on the forward liability, and the flexibility to move resources to support that focus has been a key driver of this success.

### **Progress toward the Better Public Services target**

- 17 Achieving BPS 1 will be a challenging target, but we have already made considerable progress toward it.
- 18 As at September 2015 the number of main benefit recipients decreased by 7,245, or 2.8 percent from 294,184 to 286,939 compared to a year earlier. This decrease was largely driven by decreases in Sole Parent Support (falling by 4,702 or 6.5 per cent) and Jobseeker Support numbers.
- 19 Numbers in all age cohorts reduced over the year except for the 60-64 years cohort. Importantly the key 18-24 age cohort, which has been a focus due to their high long-term liability, reduced by 1,557 or 9.8 percent.
- 20 As a result of this progress, it is estimated that \$2.5 billion of the \$13 billion actuarial release target has been achieved. Of the \$2.5 billion, almost half relates to Sole Parent Support recipients. This mirrors the fall in Sole Parent Support numbers to levels not seen since the 1980s. A further 30% of the \$2.5 billion release relates to the Jobseeker Support category with the health condition and disability cohort contributing slightly more than the Work Ready category.
- 21 The graph below shows the actual numbers of beneficiaries to September 2015, compared with the forecast track required to achieve the target. It shows that despite this success, as at September 2015 we are around 17,000 behind the target track and when the slowing economy is factored in,<sup>1</sup> if we do nothing else, the variance to the target is expected to widen.

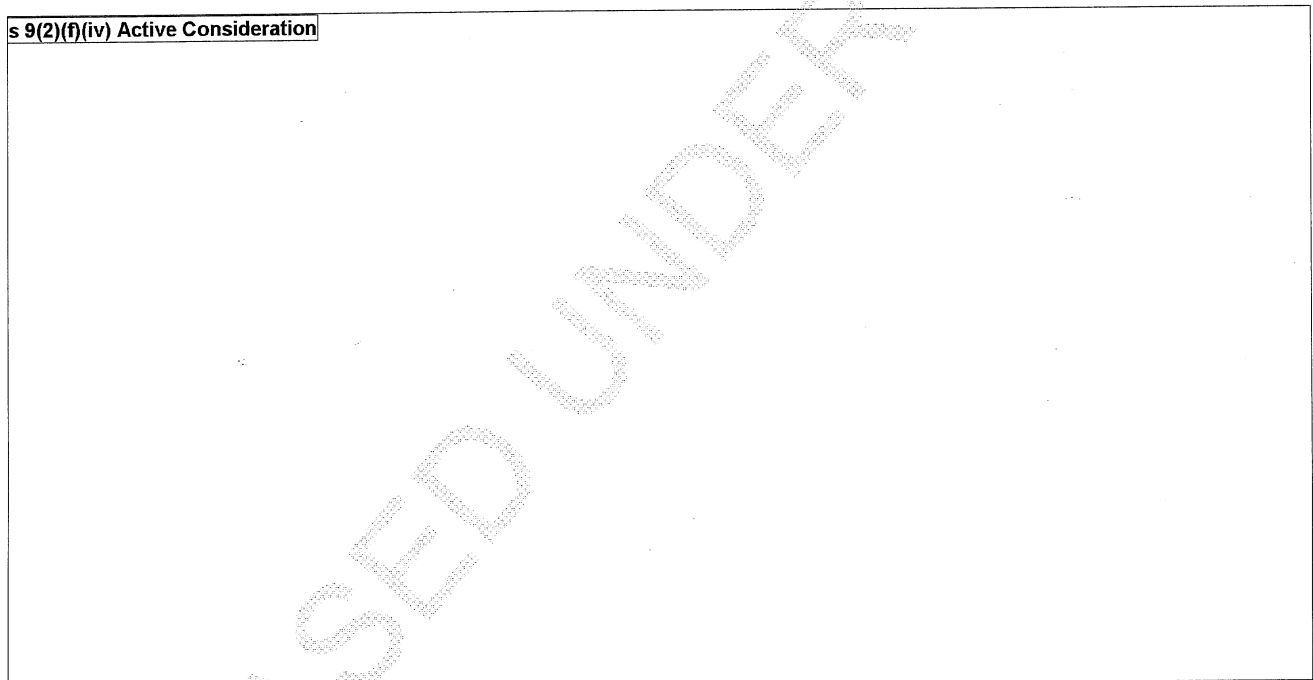
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<sup>1</sup> When BPS 1 was refreshed, economic growth was forecast to average 2.8% over 2016. The economy is now expected to slow with economic growth falling to around 2% in 2016, which in the absence of other intervention would cause working age beneficiary numbers to increase



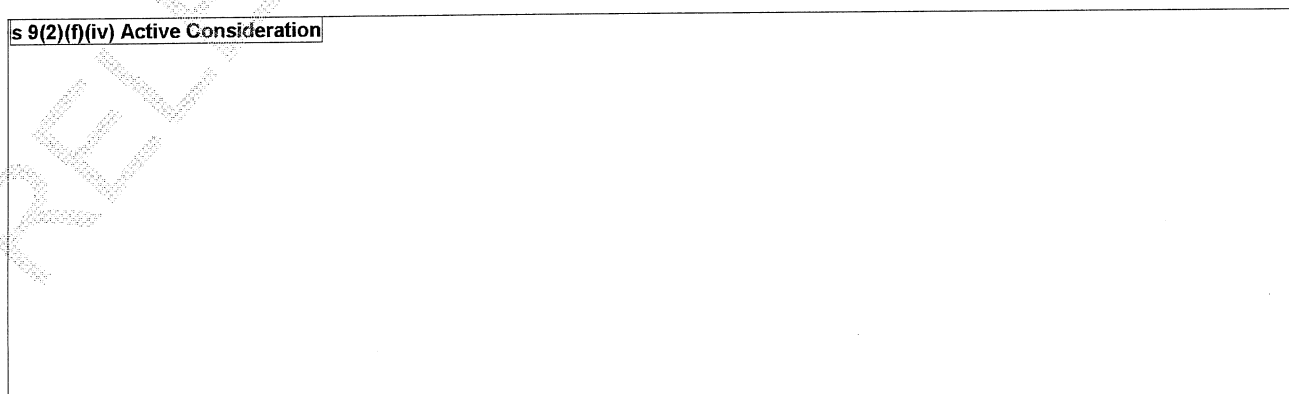
22 We need to take further action if we are to achieve our targets.

s 9(2)(f)(iv) Active Consideration



3 The cross-agency work programme sits alongside MSD's existing efforts aimed at achieving BPS 1.

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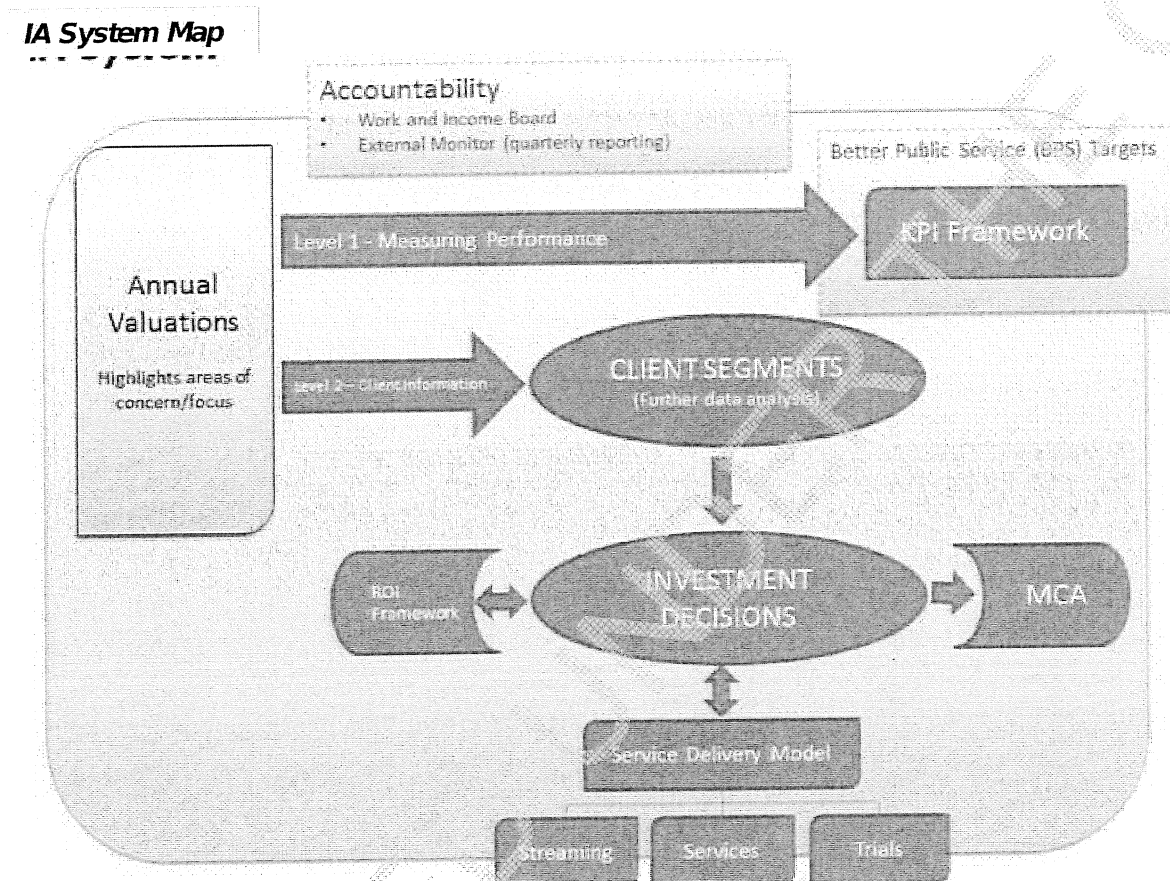
### **Governance reform and contestability**

#### **The role of the Work and Income Board in the investment approach to welfare**

28 The investment approach as it has been applied to welfare is a system designed to provide increased accountability and transparency over the benefit system, along with sophisticated tools to improve investment decisions. A multi-category

appropriation provides improved operational flexibility to deploy resources toward where they will have the greatest long-term impact on welfare receipt.

- 29 The diagram below illustrates the role that the Work and Income Board has had as part of this investment approach framework. It has functioned alongside the External Monitor and the Actuarial Valuation of the future liability for welfare, to provide increased accountability and contestability of advice and ideas.



- 30 The Board is constituted as an advisory board within a Public Service department. The Board's Terms of Reference state that the "expected starting point for the Chief Executive (CE) of the Ministry of Social Development (MSD) will be to accept the advice of the Board and implement it, subject to Ministerial consideration and approval". This meant the Board has had influence through its advice, while under Section 32 of the State Sector Act 1988, the Chief Executive is responsible to the Minister for the performance of the department.

- 31 The Board has been involved in a range of investment approach issues (such as the recently completed setting of Work and Income's investment decisions for the year), but its primary role has been to:
- provide independent advice to the Minister for Social Development, and other Ministers as required, on the implementation and ongoing delivery of the investment approach
  - provide expert advice and support to the Chief Executive to help ensure that investments in getting people back to work align with their long term liability.

32 The dedicated External Monitor function is performed by the Treasury and monitors the performance of MSD against future welfare liability.

### **The next steps in social investment**

33 The investment approach to welfare has now matured, and been successfully implemented within Work and Income.

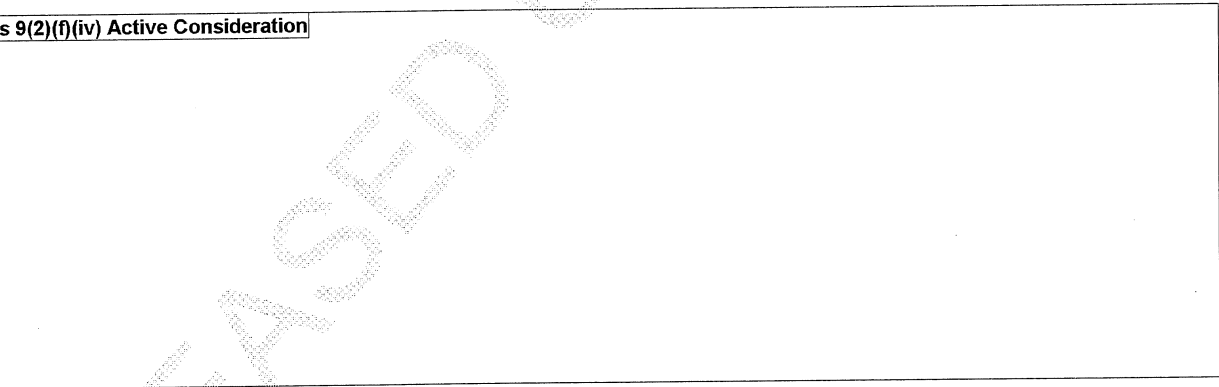
34 The next step in our drive to get more value for the Government's social spending is to now take a much broader social investment approach, including a cross-sector view of the drivers of welfare liability and investing to reduce cost and improve social outcomes in other sectors.

35 Social investment is about improving the lives of New Zealanders by applying rigorous and evidence-based investment practices to social services. It means using information and technology to better understand the people who need public services and what works, and then adjusting services accordingly.

36 Some of the disciplines and principles that have worked well in welfare will inform the wider social investment approach, where this is appropriate. An example of this includes the work we are doing to undertake an actuarial valuation in the social housing sector, which will extend the actuarial performance framework to include social housing. It also includes similar work in the justice sector and for vulnerable children, commissioned as a result of the review of Child Youth and Family conducted by the Expert Review Panel.

37 The Work and Income Board is not well placed to support this broader work programme. At present the social investment work is being successfully progressed by the Social Sector Board and the Social Sector Investment Change Programme, and these are the appropriate vehicles for the time being.

s 9(2)(f)(iv) Active Consideration



### **Disestablishing the Work and Income Board**

40 I recommend that Cabinet agree to disestablish the Board now, with immediate effect as many of their functions have now been incorporated within MSD and going forward a more integrated leadership will be required to address long standing challenges in the social sector.

41 When the Board was created, we needed a body to provide independent advice on the implementation and ongoing delivery of the investment approach. Our reforms were world-leading, and Cabinet agreed that the Board was required to



provide a second stream of advice to Ministers and support the Chief Executive of the MSD in the execution of the investment approach.

- 42 The investment approach is now very much embedded as “business as usual” within Work and Income’s day-to-day operations, and the MSD has in-house expertise including actuarial capability to support it.
- 43 Alongside ensuring that this process of embedding the investment approach has succeeded, the Board’s primary role has been in providing contestability in the provision of advice and ideas within the welfare sector. It has served us well in the initial phase of work, but we now need more structured and broad-based ways of bringing in ideas. There are a number of different mechanisms (possibly including the Social Sector Board) that we can use to achieve this.
- 44 The key element that has driven increased transparency and management oversight of the benefit system is the rich data and external reporting provided by external and MSD actuaries. This reporting results in recommendations for action to reduce benefit liability that are independent of MSD. This, along with the other improvements in management and oversight has enabled increasing confidence in the administration of the benefit system and the results achieved by it. This reporting will remain a high priority and continue to be reported publically where appropriate and made available to the external monitor and to Ministers of Finance and Social Development.
- 45 This and the other elements of additional governance and oversight that we put in place across Work and Income would remain in place. This includes the existing mechanisms of the external monitor, Social Sector Board and Social Sector Priorities Ministers, government and private sector actuaries, and could also include greater use of private sector expertise.
- 46 The Social Sector Board already has a role in overseeing BPS 1 and will have an interest as work on increasing contestability develops.

s 9(2)(f)(iv) Active Consideration

### **Financial implications**

- 49 There are no immediate financial implications arising from this paper. Any costs associated with individual proposals arising from the proposed work programme will be progressed as part of Budget 2016 or Budget 2017.

### **Human rights implications**

- 50 There are no human rights implications arising from this paper.

## Legislative implications

51 There are no legislative implications associated with this paper.

## Regulatory impact and compliance cost statement

52 This paper does not require a regulatory impact and compliance cost statement.

## Gender implications

53 There are no immediate gender implications in this paper. Gender implications of individual parts of the proposed work programme will be worked through in detail as options are developed.

s 9(2)(f)(iv) Active Consideration

## Publicity

55 I propose to issue a press release announcing the disestablishment of the board, and thanking the members and chair for their service.

## Recommendations

56 It is recommended that the Committee:

- 1 **note** that the Government has committed, through its Better Public Services programme, to aim to reduce beneficiary numbers by 25% and achieve an accumulated actuarial release of \$13 billion by June 2018;
- 2 **note** that while progress toward this target is being made, including a \$2.5 billion reduction in the forward liability, without further intervention we are not currently on track to reach the target;

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5 **note** that the Work and Income Board was created to:

5.1 provide independent advice to the Minister for Social Development, and other Ministers as required, on the implementation and ongoing delivery of the investment approach;

5.2 provide expert advice and support to the Chief Executive to help ensure that investments in getting people back to work align with their long term liability;

6 **agree** that the Work and Income Board now be disestablished because the investment approach has matured, been successfully implemented and is now consolidated within Work and Income;

s 9(2)(f)(iv) Active Consideration

Hon Anne Tolley  
Minister for Social Development

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RELEASED UNDER THE OIA