

The Treasury

Budget 2024 Information Release

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Budget 2024 Multilateral: Vote Social Development

You are scheduled to meet with Hon Louise Upston (Minister for Social Development and Employment) and Hon Penny Simmonds (Minister for Disability Issues) on Wednesday, 20 March to discuss Budget 2024 decisions that affect those portfolios.

This report provides an overview of the initiatives submitted by the Ministry of Social Development and Whaikaha respectively, as well as our recommendations for each initiative.

We recommend the discussion with Minister Upston covers:

1. MSD's savings initiatives

- **Departmental savings and savings from community initiatives**, which we expect will be uncontroversial. In our view, MSD has submitted reasonable proposals in these areas, which are aligned closely to Government priorities.
- **Housing support savings**,^[33] that require further work to confirm the quantum of savings, and one Emergency Housing savings initiative that is too uncertain to proceed in its current form (but Minister Upston may raise the possibility of new spending in this area instead).
- **Further savings**, including time-limited savings to help meet MSD's baseline savings target, additional policy savings,^[33]

2. MSD's new spending initiatives

- **Welfare that Works and Historic Claims of Abuse in Care**. This topic may also cover opportunities to reprioritise funding for employment support to help support Jobseekers (especially young Jobseekers) into work.

We recommend the discussion with Minister Simmonds covers:

3. Whaikaha – Ministry of Disabled People initiatives

- **Longer term issues around fiscal sustainability**. We suggest using some of your discussion to set expectations around work over the next 2-3 years to address these issues.
- **Immediate cost pressures, including in the current financial year**.

Budget 2024 Package – General Information

1. Following agency submissions for Budget 2024, both operating and capital demands are significantly higher than the funding available.
2. It is clear that ambition for new spending will not be achievable from both a fiscal and delivery perspective. The Government will need to balance its policy objectives with its fiscal objectives. In doing so, we need to acknowledge that we have three Budgets across this term – and therefore think carefully about what we do now versus what we do in future Budgets.
3. We also need all Ministers to continue to push hard where they consider their agencies have not provided sufficient savings options or there are further savings available, particularly with regards to stopping funds and programmes not aligned with our priorities or addressing back office and contractor and consultant growth.
4. As we exit the 100-day period, I am also taking a stricter approach to out-of-cycle requests for funding ahead of Budget 2024. This will help ensure that we can assess the relative benefits of proposals across the full Budget package.

Ministry of Social Development (Hon Louise Upston)

Ministry of Social Development Summary

Table 1. MSD Budget 2024 Initiatives by theme

Theme	Draft Package (\$m)		Treasury recommendation
	Total Operating	Total Capital	
Departmental Savings	(154.9)	-	Support in full.
Communities Savings	(93.8)	(10.0)	Support in full.
Housing Support Savings	(326.1)	-	Support two initiatives, although further work required on costings. [34]
Time Limited Savings	TBC	-	Most of these savings are likely to be achievable, although further work is required to finalise the list.
Further Savings	TBC	-	[33] Savings from forecast changes may not be achievable at Budget 2024.
New Spending	81.9	-	Support scaled 'Historic Claims'. Do not support 'Welfare that Works' initiative.
Total	(492.9)	(10.0)	

5. The overall level of savings proposed by MSD is expected to exceed the baseline savings target over the forecast period, after taking into account additional savings options that have been suggested to the Treasury (but which have not been formally submitted).

6. These additional savings will need to be finalised, as will the costings of ^[33]
(including income from boarders when calculating eligibility for housing support and ^[33]

7. Officials propose to provide further advice on these initiatives by way of a Joint Report (with MSD) following your meeting with Minister Upston. This advice could then be considered at BM 3 on Monday, 25 March.

8. With regards to new spending, we consider the youth-focused employment support is not achievable at Budget 2024, given the government's fiscal constraints and the Treasury's concerns about the design of this initiative. Minister Upston should meet the cost of any new 'Welfare that Works' initiatives from within existing funding, and should ensure that employment programmes broadly are targeted, tested and transparent.

9. New spending on resolving Historic Claims of Abuse in Care can be scaled slightly, and funding to continue emergency housing support services should be considered (even if the related savings initiative does not proceed).

Departmental Savings and Savings from Community Initiatives

10. MSD submitted nine baseline savings initiatives from departmental and community funding, totalling approximately \$250 million over the forecast period. In our view, these savings are achievable and strongly aligned to the government's priorities. We consider that the departmental savings will encourage MSD to operate more efficiently.

Table 2. Departmental Savings

Title	Draft Package (\$m)		Treasury Recommendation
	Total Operating	Total Capital	
Workforce savings	(67.8)	-	Support. MSD is also likely to experience significant workforce reductions due to time-limited funding coming to an end.
Contractors and consultants	(62.6)	-	Support.
Operational savings	(24.3)	-	Support.
Social Workers Registration Board	(0.2)	-	Support. The Social Workers Registration Board may raise concerns about using fee revenue to meet costs associated with Ministerial servicing.
Total	(154.9)	-	

11. We do not currently recommend any further savings at Budget 2024 from departmental funding because we expect there will be a significant workforce reduction over the forecast period as time-limited funding comes to an end. ^[27]
12. Unless changes are made to reduce demand for MSD's services or to improve MSD's efficiency (for instance, through Te Pae Tawhiti), we are concerned that service quality could deteriorate as a result, with adverse impacts for low-income New Zealanders. For this reason, we support MSD's efforts at this Budget to identify savings from lower-value programmes or policy changes that do not impact those who are least well-off, in preference to cuts that impact frontline services.

Table 3. Savings from Community Initiatives

Title	Draft Package		Treasury Recommendation
	Total Operating	Total Capital	
[38]			
Community Innovation Fund	(4.0)	-	Support.
Stopping Wage Subsidy Project	(48.9)	(10.0)	Support. This would mean that employers would continue to be permitted to pay some disabled workers less than the minimum wage.
[38]			
Total	(93.8)	(10.0)	

13. It is unlikely that substantial further savings from community initiatives could be realised at Budget 2024,¹ although there are opportunities to improve the effectiveness of community funding over the medium term. We are not aware of any other contestable funds that could be considered for further savings.

¹ Especially because some of the time-limited savings discussed at paragraph 20 below would also return funding from community initiatives.

Housing Support Savings

14. MSD also submitted three initiatives that relate to housing supports. ^[34]

Table 4. Housing Support Savings

Title	Draft Package		Treasury Recommendation
	Total Operating	Total Capital	
Including income from boarders when assessing eligibility for housing supports	(151.0) ²	-	Support. We previously raised concerns about the credibility of the costings and are still investigating the effects of reducing the incentive to take on one or more boarders.
[33]			
Tightening emergency housing gateway and scaling support services	-	-	Do not support, although you may wish to consider continued investment in MSD's housing support services. MSD estimated this initiative would save approximately \$618 million.
Total	[33]		

15. Including income from boarders when calculating eligibility for housing support ^[33] are both reasonable changes, but the fiscal impact of these initiatives is inherently challenging to estimate. With some further work, we consider that these savings can likely be recognised at Budget 2024, although the estimated savings from these initiatives may be lower than originally submitted.

[33]

² Note that this includes \$21.4 in Vote Housing and Urban Development from tenants paying Income-Related Rent. Additionally, the Treasury's package does not currently include approximately \$6 million in capital expenditure than MSD advises would be required to implement this change.

Tightening emergency housing gateway and scaling support services

17. The third initiative in this category presents a mix of changes relating to emergency housing (including additional investment and restricting access to support). ^[34]

18. Minister Upston may suggest a new spending alternative to what was included in this savings bid, seeking to continue MSD's services for people in emergency housing (which would likely cost approximately \$100 million over the forecast period). We have heard from MSD that there is likely to be a significant increase in demand for Emergency Housing Special Needs Grants (EH SNGs) if this funding does not continue but have not seen evidence to support this and would need to better understand the value these services are providing before recommending new funding.

19. We recommend you ask Minister Upston whether she has seen evidence that would justify continuing these services if the related savings initiative did not proceed. If you and Minister Upston wish to continue funding these programmes, you should invite Minister Upston to submit a new spending initiative. We suggest implementation of any continued spending be designed in such a way that enables an impact evaluation of the underlying programmes.

Further Time-Limited Savings

20. We note that MSD's baseline savings submissions currently fall short of the target by \$63.5 million in 2024/25 and \$46.3 million in 2025/26. However, as noted in Minister Upston's Budget submission letter, other savings from time-limited funding could make up the difference in these years.

21. MSD has subsequently shared limited information with us on these further time-limited savings opportunities, ^[33]

The indicative list comprises:

- Approximately \$60 million departmental funding that was agreed during the COVID-19 pandemic,

 - ^[38]

 - Approximately \$20 million from ending a range of initiatives, largely for community programmes, that were funded at Budget 2023.
22. In each case, we expect it will be relatively straightforward to end the associated work and correctly identify the funding that can be returned. However, ending some of the Budget 2023 programmes ^[33] would reduce the support currently available to low-income New Zealanders.

 23. ^[38]

[38]

24. Minister Upston may also raise the possibility that funding of \$5 million (a mix of capital and operating) set aside to support New Zealanders who are unable to access their Russian pensions could be returned, and the savings included within this category. You will soon receive a separate report from MSD on this topic. ^[34]
- so we recommend you express support for ending it and returning the savings.

Further Policy and Forecast Savings

25. As we reported in advice on further savings for Budget Ministers 1.5, there may be opportunities to realise further savings at Budget 2024 within Vote Social Development. We propose to provide further advice by way of a joint report with MSD ahead of Budget Ministers 3, which will cover:
- Savings opportunities from policy changes (such as those that were not progressed at earlier stages of the Budget process). ^[33]

 - Savings from further investment, policy or operational changes that are likely to reduce forecast spending on benefits or other MSD supports, and
 - The agreed quantum of savings from other initiatives, such as housing support savings and time-limited savings, as discussed above.

[33]

MSD New Spending Initiatives

Table 5. MSD New Spending Initiatives

Title	Draft Package		Treasury Recommendation
	Total Operating	Total Capital	
Welfare that Works	-	-	Defer , noting that further work should be completed beyond Budget 2024 on employment supports. [33]
Historic Claims	81.9	-	Support scaled . We also recommend transferring unspent funding forward from the current financial year. [33]
Total	81.9	-	

Welfare that Works

31. As discussed in the 'Budget Background Briefing,' MSD has submitted an initiative seeking to expand youth-focused supports as a first step towards implementing the Government's 'Welfare that Works' manifesto commitment.
32. We recommend deferring this initiative. Although there is considerable merit to supporting young people into employment, the cost of this proposal is significant. It mostly comes from expanding an existing employment programme, He Poutama Rangatahi, which is delivered by community providers. We have now received more information on the programme, which shows limited effectiveness: beyond twelve months, programme participants are not statistically more likely to be in employment, education, or training than comparable young people. Further, we remain concerned that providers' capacity to take on more young jobseekers is untested.
33. In our view, there are opportunities to improve the effectiveness of MSD's employment supports. Existing funding could also be utilised to fund interventions that support Jobseekers into employment. However, we do not recommend any short-term changes in this area, as reorienting approximately \$1 billion in annual spending will take time.
34. Instead, we recommend that you instruct officials to report back after Budget 2024 on steps to ensure that employment programmes generally should be targeted, tested and transparent. You may wish to express an expectation that the Treasury will be involved in this work, especially given the links to wider social investment efforts.

- *Targeted* – as investment for employment assistance has increased, several programmes have expanded to support those merely at risk of poor labour-market outcomes and not on benefit. This increases the risk of supporting people who would likely have entered (or re-entered) the labour market without the support, or with less expensive support.
- *Tested* – approximately half of MSD’s employment assistance spending can be evaluated (with Childcare Assistance making up much of the remainder), and 79% of spending that can be evaluated goes towards programmes rated as ‘promising’ or ‘effective.’ However, there are opportunities to improve the quality of evaluations, such as by randomising participant selection.
- *Transparent* – MSD maintains an ‘employment assistance catalogue,’ which provides a record of evaluation evidence for employment programmes. ^[34]

There are also opportunities to better link employment assistance evidence to MSD’s Social Outcomes Model and to report on the implications.

Historic Claims of Abuse in Care

35. Finally, MSD has also sought funding to continue resolving historic claims of abuse in care. We support this initiative, although some scaling is possible.
36. Claimants have typically experienced abuse while in the state’s care, and so it is appropriate that the government takes steps to address this harm. Moreover, failing to fund this initiative would mean the service would cease, and some claimants would likely begin litigation against the government (although how many, and how expensive this would be, is unclear).
37. Time-limited funding was previously agreed to continue MSD’s service, because the Royal Commission into Abuse in Care was expected to recommend a new redress system. However, the Royal Commission’s final report is not expected until later this year, so we anticipate it will be at least two years before a new redress system is established (if Ministers agree to the Royal Commission’s recommendation).
38. ^[33]

Scaling the initiative will mean that fewer claims can be processed, but it appears unlikely to unduly increase the risk of litigation, because there will still be a process in place for resolving these claims. We also do not recommend funding two policy positions to support the design of the new redress system, as MSD can use baseline funding to meet this cost (which reduces the initiative by a further \$200,000 a year).

Whaikaha – Ministry of Disabled People (Hon Penny Simmonds)

39. In Budget 2024, Whaikaha sought ^[33] in cost pressure funding and met its savings target of \$20.8 million. ^[33]

40. We recommend using your meeting with Minister Simmonds to discuss:
- your expectations around longer-term work on fiscal sustainability. While the high-cost growth in this area is ongoing, Budget 2024 is an opportunity to set clear expectations, and
 - immediate cost pressures facing Disability Support Services (DSS).

41. As signalled in our recent advice [T2024/426 refers] DSS is an area of high-cost growth with a demand-driven and devolved operating model. This makes quick changes more challenging. While Budget 2024 is an initial opportunity to signal the need for a greater focus on fiscal sustainability, reducing the cost trajectory will likely require broader changes to how the system operates over the next 2-3 years. There will be lessons to learn also from the Australian experience with NDIS.

42. The following table presents a potential sequencing over the next 2-3 years.

Timeframe	Recommendation	Comment
Budget 2024	Endorse Whaikaha continuing work on the feasibility of introducing new cost control measures. ^{4 [33]}	[33]
[33]		
Budget 2026	Consider a broader review of the fiscal sustainability of disability supports over the next 2-3 years.	DSS is on a high cost-trajectory with limited discretion within the current policy parameters. Investment of a similar scale will continue to be needed each Budget. The focus needs to be on engaging with the broader system settings as these will be the main levers to influence cost growth.

[33]

43. We therefore recommend asking Minister Simmonds about her:

- plans to ensure a strong focus on fiscal sustainability across this portfolio over the next 2-3 years, and
- [33]

Budget 2024 Cost Pressures & Savings

Title	Draft package	Treasury recommendation
Whaikaha – supporting tāngata whaikaha Māori and disabled people – cost pressures	[33]	<p>Support scaled. [33]</p> <p>We recommend reviewing the fiscal sustainability of Disability Support Services over the next 2-3 years, with a specific focus on flexible funding.</p>
Whaikaha - supporting tangata whaikaha Māori and disabled people – baseline savings.	<p>(\$20.8m) operating (total)</p> <p>(\$5.4m p.a.)</p>	<p>Support. We support this initiative, which will generate savings from efficiencies in Whaikaha’s departmental spending, and by cancelling and/or not renewing low value contracts with providers. While Whaikaha cannot yet identify where savings will be found at a granular level (e.g., identify which contracts will not be renewed), we are confident the agency has implemented processes that will enable it to do so ahead of the 2024/25 financial year.</p>

44. The majority of the cost pressure bid is focused on addressing anticipated volume and price pressures in 2024/25. [33]

45. You may however wish to raise the current year issue with Minister Simmonds, specifically:

- her views on the current year funding issue, and
- whether any further measures are feasible for Whaikaha to introduce to reduce spending in 2023/24, and what the consequences would be for disabled people of these measures.

Current year issue.

46. As a more immediate issue, Whaikaha is currently forecast to overspend its appropriation in 2023/24 by around \$40 to \$60 million. This is symptomatic of the lack of effective levers to control spending and the challenges around accurate forecasting (e.g., timing of invoicing creates uncertainty). If there is no additional funding for 2023/24, Whaikaha will likely go unappropriated. The cost pressure bid seeks \$70 million in 2023/24 to mitigate this risk. We support this funding.
47. We understand Minister Simmonds has recently agreed to two immediate changes to control current year spend, including waitlisting for Equipment Modification Services ⁶ and making immediate changes to Individualised Funding to restrict sensitive expenditure. However, our understanding is these measures are unlikely to further reduce the forecast overspend.
48. Whaikaha has limited options remaining to significantly reduce its forecast overspend in 2023/24. Our view is that any further changes would be challenging to implement, and largely involve delaying access to support until the new financial year. While the draft package includes funding for 2023/24, we recommend providing a clear steer to Minister Simmonds as soon as possible if further changes will be required.

⁶ Note there has been media coverage of the EMS changes as it will result in delays for people to access wheelchairs. <https://www.stuff.co.nz/politics/350205198/disability-ministry-reduces-wheelchair-services-due-cost>