MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

11 September 2025

Tēnā koe

Official Information Act request

Thank you for your email of 26 May 2025, requesting information about the Budget 2025 decision regarding Jobseeker Support and Emergency Benefit access for 18 and 19-year-olds not in work or training.

I have considered your request under the Official Information Act 1982 (the Act).

Please find attached **Appendix One** outlining the reports released to you in scope of your request. This appendix outlines the applicable withholding grounds for each document.

- *All Cabinet papers, Regulatory Impact Statements, and policy advice documents prepared by or for the Ministry regarding this policy between 1 July 2024 and 25 May 2025.*
- *Any modelling or estimates showing how many young people would be affected by this policy annually from 2027 onward.*
- *Any documents that define or discuss the proposed "parental assistance test".*

Please find attached Appendix One outlining the reports released to you in scope of your request. This appendix outlines the applicable withholding grounds for each document.

Some information is withheld under the following grounds of the Act:

- section 9(2)(f)(iv) - to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials.
- section 9(2)(g)(i) - to protect the effective conduct of public affairs through the free and frank expression of opinions.
- section 9(2)(h) - in order to maintain legal professional privilege.
- section 9(2)(j) - to enable any public service agency or organisation holding the information to carry on, without prejudice or disadvantage, negotiations.
- section 6(a) – where release would prejudice the security or defence of New Zealand or the international relations of the Government of New Zealand.

In all instances, I believe that the need to withhold outweighs any public interest in this information for the following reasons:

- 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.
- The greater public interest is in the ability of individuals to express opinions in the course of their duty.
- The greater public interest is in ensuring that government agencies can continue to obtain confidential legal advice.
- The greater public interest is in ensuring that government agencies can continue negotiations without prejudice.

You will note that one document, REP/24/11/1089 – *Appendix Four – Budget 2025 Vote Social Development invitation letter*, is refused under section 18(d) of the Act as this information will soon be made publicly available as part of The Treasury's Budget 2025 proactive release. I refer you to their proactive release at the following link, here: www.treasury.govt.nz/publications/budgets/budget-2025

Please note, several of the documents in scope of your request are early versions of advice. To meet the public interest in this information, where drafts are withheld, you are provided with the final version of this advice if it is available. These drafts are all withheld under 9(2)(g)(i) of the Act. I believe that the greater public interest lies in officials creating iterative draft information without prejudice and believe the public interest is met by the final version.

I also refer you to the Budget 2025 Summary of Initiatives published on the Treasury's website, here: www.treasury.govt.nz/sites/default/files/2025-05/b25-sum-initiatives.pdf. This document provides an overview of the final package agreed by Cabinet.

I will be publishing this decision letter, with your personal details deleted, on the Ministry's website in due course.

If you wish to discuss this response with us, please feel free to contact OIA_Requests@msd.govt.nz.

If you are not satisfied with my decision on your request, you have the right to seek an investigation and review by the Ombudsman. Information about how to make a complaint is available at www.ombudsman.parliament.nz or 0800 802 602.

Ngā mihi nui

Anna Graham
General Manager
Ministerial and Executive Services

Appendix One – documents released to you under the Act and applicable withholding grounds

Document number	REP number	Title	Decision	Grounds under OIA
01.	REP/24/9/906	Report - Draft MSD Performance Plan and policy savings – dated 30 September 2024	Release in part	6(a), 9(2)(f)(iv)
01.1.	REP/24/9/906	Appendix 1 – Draft MSD Performance Plan	Withhold in full	9(2)(g)(i)
02.	REP/24/10/983	Budget 2025 – potential policy cost savings options in the benefit system	Release in part	9(2)(f)(iv)
02.1.	REP/24/10/983	Appendix 1 – Options analysis for policy cost savings options, and assumptions and caveats	Release in part	9(2)(f)(iv)
02.2.	REP/24/10/983	Appendix 2 – Further analysis of [9(2)(f)(iv)]	Release in part	9(2)(f)(iv), 9(2)(j)
03.	REP/24/11/1089	Aide memoire – Budget 2025 update and bilateral advice	Release in part	9(2)(f)(iv), 9(2)(h)
03.1.	REP/24/11/1089	Appendix Two – Draft summary of the Budget 2025 invited initiatives	Withhold in full	9(2)(g)(i)

03.2.	REP/24/11/1089	Appendix Four – Budget 2025 Vote Social Development invitation letter	Withhold in full	18(d)
04.	REP/24/12/1129	Budget 2025 – draft Ministerial submission letter and updated advice	Release in part	9(2)(f)(iv)
04.1.	REP/24/12/1129	Appendix One – Draft Ministerial submission letter	Withhold in full	9(2)(g)(i)
04.2.	REP/24/12/1129	Appendix Two – Summary of the Budget 2025 and 2026 invited initiatives	Release in part	9(2)(f)(iv), 9(2)(g)(i). 9(2)(j)
04.3.	REP/24/12/1129	Appendix Three – Vote Social Development Multi-year savings strategy	Release in part	9(2)(f)(iv)
04.4.	REP/24/12/1129	Final December submission letter to Minister of Finance	Release in part	9(2)(f)(iv)
05.	REP/25/1/004	Budget 2025 – Process update and timeline	Release in part	9(2)(f)(iv)
05.1.	REP/25/1/004	Appendix One – Budget Strategy A3	Withhold in full	9(2)(g)(i)
05.2.	REP/25/1/004	Appendix Two – Budget 2025 Social Development Ministerial Submission Letter	Release in part	9(2)(f)(iv)
06.	REP/25/1/016	Aide memoire – Advice to support your meeting with Minister Seymour for the Baseline Savings Programme	Release in part	9(2)(f)(iv)
07.	-	Letter to Minister Seymour	Release in part	9(2)(f)(iv)

08.	REP/25/2/079	Talking points for Ministerial engagement	Release in part	9(2)(f)(iv), 9(2)(g)(i)
08.1.	REP/25/2/079	Appendix Four – Updated Budget Strategy A3	Withhold in full	9(2)(g)(i)
09.	REP/25/2/122	Budget 2025 update – preparing for March bilaterals	Release in part	9(2)(f)(iv), 9(2)(g)(i)
09.1.	REP/25/2/122	Draft aide-memoire for Social Development bilateral	Withhold in full	9(2)(g)(i)
09.2.	REP/25/2/122	Annex 3 – Proposed sequencing and phasing of initiatives	Release in part	9(2)(f)(iv)
10.	REP/25/2/105	Aide-memoire – Budget 2025 – Social Development and Employment bilateral	Release in part	9(2)(f)(iv), 9(2)(j)
10.1.	REP/25/2/105	Appendix Four – Back pocket optimal savings package	Release in part	9(2)(f)(iv)
11.	REP/25/3/187	Budget 2025 – Draft submission letter for Incoming Charging Parts One and Two	Release in full	-
12.	REP/25/1/016	Final Budget 2025 on a page	Release in part	9(2)(f)(iv), 9(2)(j)
13.	REP-25-3-174	Tightening Jobseeker Support eligibility for 18- and 19-year-olds	Release in part	9(2)(f)(iv)
13.1.	REP-25-3-174	Follow up questions on REP-25-3-174 – Tightening Jobseeker Support eligibility for 18- and 19-year-olds	Release in full	-

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Report

Date:	30 September 2024	**Security Level:**	BUDGET SENSITIVE
To:	Hon Louise Upston, Minister for Social Development and Employment		
Reference:	REP/24/9/906		

Draft MSD Performance Plan and policy savings

Purpose

1 You requested to see a copy of the draft MSD Performance Plan on 30 September 2024 before submission to the Treasury on 17 October 2024. This report includes a copy of the draft Performance Plan, along with a summary of further work undertaken to support development of policy savings options.

Recommended actions

It is recommended that you:

1 **note** the attached draft Performance Plan (Appendix One)

2 **note** that slide 4 of the Performance Plan template titled: *Managing within baselines: Current and Future drivers*, was discussed at your meeting with officials on 9 September 2024, and submitted to the Treasury on 12 September 2024.

3 **indicate** whether you would like to discuss your feedback on the draft Performance Plan with MSD officials prior to submission to the Treasury on 17 October 2024

Yes / No

4 **note** that MSD has also been considering policy changes that may result in cost savings, and we expect to be able to update you in the next month.

5 **note** that policy changes are a component of our plan to manage cost pressures

6 **note** MSD will provide detailed advice by the end of October 2024 related to the following three areas of Jobseeker Support settings:

6.1 age of eligibility for Jobseeker Support

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

6.3 [redacted]

7 **note** that advice at the end of October will provide an indication of potential savings across these areas alongside implementation considerations

8 **note** that implementation of Jobseeker Support proposals will need to balanced against other Ministerial priorities, s9(2)(f)(iv) [redacted] s9(2)(f)(iv) [redacted]

9 **note** that MSD will also provide you with advice at the end of October on the potential for social security agreements (SSAs) s6(a) [redacted] s6(a) [redacted]

30/9/24

Sacha O'Dea
Deputy Chief Executive, Strategy and Insights

Date

20241007

Hon Louise Upston
Minister for Social Development and Employment

Date

Draft Performance Plan

2 MSD is required to complete and submit a draft Performance Plan to the Treasury. The Performance Plan brings together information which demonstrates how MSD will achieve results while managing within fixed baseline funding over the forecast period, including associated risks and opportunities for improving fiscal sustainability.

3 The Performance Plan is developed using an iterative process set out by the Treasury. Two check-ins with the Treasury are planned as part of this process.

4 Check-in One required MSD to submit slide 4 of the Performance Plan template titled: Managing within baselines: Current and Future drivers, along with:

4.1 the associated data to support this

4.2 a summary of MSD's approach and timeline to developing the Performance Plan

4.3 any early insights and emerging challenges including where additional support from Central Agencies may be useful.

5 The information for Check-in One was discussed at your meeting with officials on 9 September 2024, and submitted to the Treasury on 12 September 2024.

6 For Check-in Two, MSD is required to submit a full draft of the Performance Plan to the Treasury on 17 October 2024. As part of this check-in, the Treasury will be interested in understanding:

6.1 any barriers to getting the Performance Plan completed and/or signed off by the Responsible/Lead Minister

6.2 the aggregate level challenges which may impact Budget 2025.

7 You requested to see a copy of the draft MSD Performance Plan on 30 September 2024 before submission to the Treasury on 17 October 2024. This report includes a copy of the draft Performance Plan, attached as Appendix One.

Potential areas for Jobseeker Support cost savings proposals

8 As indicated in advice provided at the beginning of September [REP/24/9/825], MSD is developing options for potential cost savings proposals related to Jobseeker Support settings and to support the Jobseeker Reduction target.

9 MSD have considered potential options for Jobseeker Support cost savings proposals using the 'five levers' framework. This framework helps us to think

about a range of changes to welfare settings to achieve desired outcomes. It identifies five core levers that affect different elements of client access to, and behaviour in the benefit system, where each lever can be pulled in respect of a particular outcome. The five levers include:

Lever	Example
Gateways	Eligibility criteria and eligibility conditions
Obligations and Sanctions	Requirements to seek, prepare for or accept suitable employment and consequences for not meeting these requirements.
Financial incentives to work	The rate of benefit relative to in-work incomes and other financial assistance, abatement regimes, incentive payments.
Case management style and allocation	Cohorts for case management and ratio of case managers to clients.
Services	Non-case management interventions

10 Recent changes to the welfare system to support the Jobseeker Support Reduction target have focused on changes to the Obligations and Sanctions and the Case Management levers. MSD considers that policy proposals related to the Jobseeker Support Gateway will have the biggest impact in terms of potential savings and support for the Jobseeker Support target.

11 MSD have identified three areas that we will provide detailed advice on by the end of October. These areas represent broad settings related to entry onto Jobseeker Support and options related to these areas are likely to have the greatest contribution to the Jobseeker Support target. These areas include:

- age of eligibility for Jobseeker Support
- s9(2)(f)(iv) [redacted]
- [redacted]

12 Alongside reducing the numbers of Jobseeker Support grants, these areas will also likely contribute to reduced costs to Government. However, while there may be savings as a result of reduced number of Jobseeker Support grants, advice will consider flow on impacts to other areas of MSD administered support and other areas of Government.

13 Implementation of Jobseeker Support proposals would need to be balanced against existing items on the work programme other priority initiatives and may require trade-offs. Due to the nature of these change, most proposals

are likely to require primary legislation amendment and therefore will be dependent on availability of House time. Realisation of savings will be dependent of when changes can be implemented.

14 These proposals would sit alongside cost savings related to housing – and advice will continue to go to Housing Minister's on those matters.

15 We have previously advised you that we can provide further advice s9(2)(f)(iv) [redacted] [REP/24/7/655 refers]. We are not in a position to progress for Budget 2025 timing; however, we can provide you with advice by mid-2025 s9(2)(f)(iv) [redacted]

MSD is also looking at social security agreements

16 MSD is currently working through a range of considerations in response to your request for advice s6(a) [redacted]

17 We are working through these issues in more detail and will provide you with advice by the end of October.

Next steps

18 Subject to your feedback, MSD will finalise and submit the draft MSD Performance Plan to the Treasury on 17 October 2024. MSD will also provide you with an update on policy savings options by the end of October.

Appendices

- Appendix One: Draft MSD Performance Plan

Author: Lance Fowler, Principal Advisor Budget, Strategy and Insights

Responsible manager: Carolyn Palmer, Director Office of the DCE, Strategy and Insights

Report

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Date: 1 November 2024 **Security Level:** Budget Sensitive

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

File Reference: REP/24/10/983

Budget 2025 - potential policy cost savings options in the benefit system

Purpose of the report

1 This report describes several policy savings change proposals that could be considered for Budget 2025 or beyond. This paper accompanies *Budget 2025 - performance plan and savings overview* [REP/24/10/982 refers].

Executive summary

2 The Ministry of Social Development (MSD) has developed three policy cost savings options, s9(2)(f)(iv) [redacted]

- option 1: s9(2)(f)(iv) [redacted]
- option 2: s9(2)(f)(iv) [redacted]
    - option 2A: s9(2)(f)(iv) [redacted] **OR**
    - option 2B: s9(2)(f)(iv) [redacted]
- option 3: s9(2)(f)(iv) [redacted]

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

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

5 [redacted]

6 We also canvassed fundamental changes to age settings for Jobseeker Support (JS). These were developed given previous advice on s9(2)(f)(iv) [redacted] receiving JS. These options are:

- option 4: s9(2)(f)(iv) [redacted]
- option 5: Introducing a parental income test for JS recipients s9(2)(f)(iv) [redacted]
- option 6: s9(2)(f)(iv) [redacted]
- option 7A: s9(2)(f)(iv) [redacted]
- option 7B: s9(2)(f)(iv) [redacted]

7 Options 4 to 7 have large savings in comparison to options 1 to 3. This demonstrates that to generate large savings, policy changes would need to be more fundamental in nature and would involve significant trade-offs regarding impacts for clients, families and communities.

8 Given the potential negative impacts, which are canvassed in **Appendix 2**, we do not recommend progressing options 4 to 7. You may wish to talk with other Ministers and Coalition partners about these options.

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

10 Given the number of changes in the design and implementation stage, we recommend you select a maximum of two options for further advice in the lead up to Budget 2025.

Recommended actions

It is recommended that you:

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

Options 1 to 3

2 **indicate** if you wish to receive further advice on:

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

2.2 [redacted]

YES / NO

OR

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

YES / NO

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

YES / NO

Options 4 to 7 s9(2)(f)(iv) [redacted]

3 **indicate** if you wish to receive further advice on options 4-7 [not recommended]:

3.1 option 4: s9(2)(f)(iv) [redacted] s9(2)(f)(iv) [redacted]

3.2 option 5: introducing a parental income test for jobseekers s9(2)(f)(iv) [redacted] with estimated savings between $75 and $300 million over five years

YES / NO

3.3 option 6: s9(2)(f)(iv) [redacted] s9(2)(f)(iv) [redacted]

3.4 option 7A: s9(2)(f)(iv) [redacted] s9(2)(f)(iv) [redacted]

3.5 option 7B: s9(2)(f)(iv) [redacted] s9(2)(f)(iv) [redacted]

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

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

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

31/10/2024

Bede Hogan
Policy Manager, Income Support Policy

Date

20241124

Hon Louise Upston
Minister for Social Development and Employment

Date

Background

11 The Budget strategy for Vote Social Development includes the consideration of further policy changes to achieve savings. This paper accompanies an update on Budget 2025 - *Budget 2025 - performance plan and savings overview* - which sets out other savings options including invest-to-save and potential options for Budget 2026 [REP/24/10/982 refers].

12 We are still working through the design of the changes to implement the Budget 2024 cost savings initiative around housing subsidies for boarders.

13 s9(2)(f)(iv) [redacted] We centered our analysis on changes to Jobseeker Support (JS), given manifesto commitments, discussions between you and officials, and advice on s9(2)(f)(iv) [redacted] [REP/24/7/649 refers].

14 In addition, you may be interested in considering options for Budget 2025 that were identified in the lead up to Budget 2024, including changes to:

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

Assessment of the options (refer to Appendix 1)

15 To assess the options, we used the following criteria to guide our advice and demonstrate the benefits, limitations, and disadvantages of each option.

- **Confidence in the savings estimates.** As MSD does not capture all the data necessary for precise forecasting for some options, actual savings may diverge from the current estimates.
- **Scale of impact on benefit incomes.** As all the options s9(2)(f)(iv) [redacted] you may prefer options that do not significantly reduce incomes, or options that limit the impact to a smaller group of people. We would need to undertake further work to quantify the impact of the options for different client groups.
- **Delivery of the options – including lead-in time and whether legislative change is required.** 18 months from decisions is generally the minimum lead-in time for delivery (including IT and operational changes), when the proposal requires primary legislative amendments.
- **International precedence.** Comparing New Zealand's policies to similar Organisation for Economic Cooperation and Development (OECD)

countries provides a benchmark for the policy change across countries with similar democratic systems and values.

- **Risk that the proposal shifts costs somewhere else.** Some proposals may relocate the cost of providing support to other Votes (e.g. Justice, Health) or communities (e.g. non-governmental organisations).
- **Impact on existing welfare system settings/frameworks.** Some proposals could significantly shift the role of the welfare system in providing income support to New Zealanders. This criterion indicates the level of impact the option could impose on clients and the benefit system.

16 Our analysis, using the above criteria, resulted in the seven options presented in this report. The fulsome criteria analysis is attached as **Appendix 1**, alongside the assumptions embedded in our savings, impacts on the target, and delivery estimates.

17 The timeframes indicated in this paper are individual to each proposal, meaning they are likely to change depending on the suite of policy changes you want to progress via Budget 2025 and the relationship to MSD's wider work programme capacity [REP/24/10/1009 refers]. All timeframes in this advice include both legislative processes and policy implementation.

18 Operational costs (including IT, FTE, and project costs) have not been provided in this advice. Grandparenting implications (the provision where old rules continue to apply to existing situations, while the new rules will apply to all future clients) have also not been included. Operational costs and grandparenting approaches will reduce the savings generated by these options. We can canvass this in further advice.

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

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

s9(2)(f)(iv)

[redacted]

21 [redacted]

22 [redacted]

23 [redacted]

24 [redacted]

25 [redacted]

26 [redacted]

s9(2)(f)(iv)

[redacted]

s9(2)(f)(iv)

27 [redacted]

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

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

29

30

31

32

33

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

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

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

35 [redacted]

36 [redacted]

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

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

38 [redacted]

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

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

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

s9(2)(f)(iv)

40 [redacted]

41 [redacted]

42 [redacted]

43 [redacted]

44 [redacted]

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

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

46 [redacted]

We also canvassed policy changes that target people s9(2)(f)(iv) [redacted] on Jobseeker Support (Options 4 to 7)

47 We have also considered a range of options to target people s9(2)(f)(iv) [redacted] on JS:

- option 4: s9(2)(f)(iv) [redacted]
- option 5: Introducing a parental income test for JS recipients s9(2)(f)(iv) [redacted]
- option 6: s9(2)(f)(iv) [redacted]
- option 7A: s9(2)(f)(iv) [redacted]
- option 7B: s9(2)(f)(iv) [redacted]

48 Analysis on these options is summarised in table 2, with more detailed analysis is attached at **Appendix 2**.

49 Options 4 to 7 are the most likely to generate significant savings, as they have broad impacts compared to options 1-3. For instance, s9(2)(f)(iv) [redacted]

50 However, with those savings there would be large impacts on New Zealanders. Options 4 to 7 demonstrate that while large savings are possible it requires policy changes that are fundamental in nature, with significant impacts for the existing income support system compared to its current prescription in the Act. You would likely need to make trade-offs in respect of increases in hardship assistance and poverty, with consequent imposition of costs onto families and communities.

51 We would need to work with the Treasury on potential economic impacts, particularly in respect of options 6 and 7 and the role of JS as an automatic fiscal stabliser.

52 For these reasons, we do not recommend seeking further advice on options 4-7. You may wish to discuss these options with your colleagues or Coalition partners.

Table 2: Summary of impacts for options 4-7

	Option 4	Option 5	Option 6	Option 7A	Option 7B
Savings	s9(2)(f)(iv) [redacted]	$75-300m over five years (abatement regime)	s9(2)(f)(iv) [redacted]		
Delivery implications	Primary legislative amendments required for all options				
	s9(2)(f)(iv) [redacted]	Delivered within 24 months from decision	s9(2)(f)(iv) [redacted]		
Impact of proposal on other services or communities		Shifts provision of support from MSD to parents			
Estimated impact on benefit incomes		Low-medium			

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

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

54

55

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

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

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

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

Next steps

58 Due to the number of initiatives in train that require policy and legislative change and have a direct impact on MSD's frontline capacity (refer to REP/24/10/1009 *Shaping MSD's work programme*), MSD recommends selecting a maximum of two options for further advice on their potential inclusion in Budget 2025.

59 Once you have indicated your preferred options for future advice, we will undertake further analysis to refine the costings and timing of these proposals. This will also include estimates for FTE, IT and project costs, and choices around grandparenting which will reduce the total savings achieved. We will then prepare cost savings templates for submission to the Treasury.

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

Appendix

61 Appendix 1 - Options analysis for cost savings options, and assumptions and caveats.

62 Appendix 2 – Further analysis of age options.

File ref: REP/24/10/983

Author: Katie Tollan, Senior Policy Analyst, Income Support Policy
Responsible manager: Bede Hogan, Policy Manager, Income Support Policy

Appendix 1 – Options analysis for policy cost savings options, and assumptions and caveats

	Savings estimate[1,2] $ millions ($m) 2024/25 - 2028/29	**MSD confidence in savings estimate**	**Scale of impact on benefit incomes**	**Estimated time to deliver following policy decisions (standalone)**	**Proposal requires primary legislative amendments**	**OECD precedence**	**Proposal shifts costs somewhere else (e.g. other Votes, communities)**	**Changes existing welfare system settings/frameworks**
s9(2)(f)(iv) [redacted]								
Option 5: Introducing a parental income test for JS recipients s9(2)(f)(iv) [redacted]	s9(2)(f)(iv) [redacted] $0-5m per year, $0-15m over five years s9(2)(f)(iv) [redacted] $25-100m per year, $75-300m over five years	Low	Low-medium – some clients may not be financially supported by their parents, despite the expectation that they will be	Approximately 24 months due to expected design complexity	Yes	Yes – Australia's Youth Allowance for jobseekers aged 16-21 years	Yes – would place additional cost burden on parents/families, may see flow through to Student Loans	Yes – includes parental income in a person's eligibility assessment, may interact with legal interpretations of who is a dependent child
s9(2)(f)(iv) [redacted]								

[1] For the purpose of costings, each option has assumed a 1 July 2026 commencement date. This is illustrative only and commencement timeframes should be based on the delivery estimates in column 6.
[2] Costing ranges would be refined in future advice. This range does not account for any costs to implement the option (e.g. from FTE or IT requirements), or due to grandparenting arrangements if relevant.

Modelling and delivery estimates: assumptions and caveats

- All modelling estimates assume:
  - Five-year forecast period from 2024/25 to 2028/29
  - 1 July 2026 commencement date (for illustrative purposes only)
  - No flow-through impact to other assistance, e.g. hardship assistance.
- All delivery timeframe estimates are illustrative. Costings and timeframes presented are individual to each proposal within each option, meaning that they represent the costings and timeframes if that proposal was progressed on its own. Because of this, we will need further direction on your preferred options before we can provide a more accurate representation of the possible impacts. This includes savings, timeframes, flow-ons to other assistance, nature of regulatory changes, IT and other operational costs (e.g. FTE), and required trade-offs for implementation.

	Modelling assumptions / caveats	**Delivery timeframes assumptions / caveats**
s9(2)(f)(iv) [redacted]		
Option 5: Introducing a parental income test for JS recipients s9(2)(f)(iv) [redacted]	• Assumes same s9(2)(f)(iv) [redacted] o s9(2)(f)(iv) [redacted] o Cut-out points: s9(2)(f)(iv) [redacted] • Assumes one to ten percent of the applicable population would have s9(2)(f)(iv) [redacted] per year • MSD does not collect s9(2)(f)(iv) [redacted] information – further modelling could seek to use IDI to refine assumptions	s9(2)(f)(iv) [redacted]
s9(2)(f)(iv) [redacted]		

Appendix 2 – Further analysis of s9(2)(f)(iv) [redacted]

1 This appendix provides further analysis of options 4 to 7.

Option 4: s9(2)(f)(iv) [redacted]

s9(2)(f)(iv)

2 [redacted]

3 [redacted]

4 [redacted]

5 [redacted]

Option 5: Introducing a parental income test for JS recipients s9(2)(f)(iv) [redacted]

6 Parental income is excluded from main benefit applications. This is because people are generally seen as financially independent at age 18 and are expected to have individual responsibility for themselves.[1]

7 Student support is an area where this differs. A person may have their parental income included in the assessment of eligibility up to the age of 24. This was first introduced in 1989 for 16–19-year-olds (in acknowledgement of parents maintaining some financial responsibility for their teenagers) and then extended to all people under 24 in 1991 to better target spending and

[1] This is reflected in several statutes, including the legal age for voting, purchasing alcohol, and marriage (without needing consent from the Family Court).

need. Between January and June 2024, 56 percent of students were receiving a parentally income tested Student Allowance.

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

9 There would be some matters to work through as outlined below.

- A removal of the safety net for young people with parental income over the threshold will impose costs onto parents and families, placing additional pressure on individual parents/caregivers. This could mean additional family hardship and prevent parents' ability to save for their futures.
- A person is not legally afforded rights to their parents' income, meaning the legislative design would be complex and may require jointly working with Inland Revenue to appropriately draft amendments.
- Requiring a person to rely on another individual's income (outside of the currently prescribed settings for partners or dependents) may require amendments to the purposes and principles and key legal definitions within the Act (such as 'dependent child'), which would have significant consequential impacts to other sections of the Act.
- Parental income assessments delivered in the Student Support Scheme are complex to administer due to the level of information and processing required to complete them. This would be compounded if introduced to the benefit system without significant changes or enablers. We would also need to consider the risk of deprivation of parental income and whether there are any mitigations.
- Most clients s9(2)(f)(iv) [redacted] grow up in benefit dependent households – this change may place additional burden on beneficiaries with children when they would not be the targeted group. The savings may be small compared to cost and work required to implement the change.
- There may be a perverse incentive to enter tertiary education and increase debt to government via Student Loans. Students entering tertiary education for this reason may be less incentivised to complete their studies/qualifications.

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

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

Option 6: s9(2)(f)(iv) [redacted]

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

13 [redacted]

• [redacted]

Option 7: s9(2)(f)(iv) [redacted]

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

16 [redacted]

17 [redacted]

18 [redacted]

s9(2)(f)(iv)

[redacted]

19 [redacted]

20 [redacted]

21 [redacted]

Option 7A: s9(2)(f)(iv) [redacted]

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

Option 7B: s9(2)(f)(iv) [redacted]

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

Aide-mémoire

Meeting

Date:	29 November 2024 **Security Level:** BUDGET SENSITIVE
For:	Hon Louise Upston, Minister for Social Development and Employment
File Reference:	REP/24/11/1089

Budget 2025 update and bilateral advice

Meeting date/time	Thursday 5 December 2024, 1:45pm
Meeting location	EW 7.2
Expected attendees	**Ministers** • Hon Nicola Willis – Minister of Finance **Ministry of Social Development officials** • Debbie Power – Chief Executive • Sacha O'Dea – Deputy Chief Executive, Strategy and Insights • Simon MacPherson – Deputy Chief Executive, Policy • Viv Rickard – Deputy Chief Executive, Service Delivery • Chris Bunny – Deputy Chief Executive, Disability Support Services • Brad Young – Chief Financial Officer
Purpose of meeting	This meeting is to discuss the following with the Minister of Finance: • **Agenda Item 1** – Disability Support Services cost pressures • **Agenda Item 2** – MSD cost pressures, reprioritisation, and savings • **Agenda Item 3** – Te Pae Tawhiti Transformation Programme.

Summary	This aide memoire provides you with materials for your upcoming Budget bilateral meeting: • Talking points to support your discussion (Appendix One) • Draft summary of the Budget 2025 invited initiatives (Appendix Two) • Back pocket information (Appendix Three) • Budget 2025 Vote Social Development invitation letter (Appendix Four).
Priorities for discussion	In previous Budget processes, bilateral meetings have taken place after the Ministry of Social Development (MSD) has submitted initiatives to the Treasury, and you have provided your submission letter to the Minister of Finance. However, the bilateral on 5 December 2025 will take place before those submissions have occurred – which differs from standard process. We understand from Treasury officials that the Minister of Finance will want to talk about: • Disability Support Services (DSS) cost pressures • your Budget 2025 savings strategy, including: - proposed targeted policy savings - how MSD will address its cost pressures including reprioritisation - the proposed employment invest-to-save initiative • the Te Pae Tawhiti Programme. We have provided talking points to support your discussion (attached as Appendix One). Appendix Two contains initiative-specific key points for the remainder of the package, as well as advice on the fiscal impacts, status, and next steps regarding each initiative.[1] Back pocket information and talking points for Automated Decision-Making and the ongoing review of housing supports is included in Appendix Three.
Budget 2025 invitation letters	You received the Budget 2025 Vote Social Development invitation letter (the invitation letter) from the Minister of Finance on 18 November 2024 (attached as Appendix

[1] Note that this appendix contains the latest advice, and this information (including fiscal impacts) is still under development and subject to change. This material will be finalised in advice ahead of initiative submissions.

Four). The invitation letter specifies a deadline of 23 December 2024 for:

- MSD to submit Budget 2025 templates to the Treasury, and
- you to provide a Budget 2025 submission letter to the Minister of Finance.

Note that MSD is proposing that these documents be submitted on Friday 20 December. We have provided you with a proposed timeline in our separate Budget 2025 advice (REP/24/11/1092 refers).

Disability Support Services

The recent independent review into DSS sustainability found that there was inadequate budgetary control and commercial rigour in the system. Despite Government spending increasing in Budget 2024 to $2.6b (with a $1.1b funding boost over 5 years), the reviewers found that the 2024/25 appropriation would be breached if spending was not controlled. You have taken urgent action to mitigate the risk for this financial year, but work to stabilise DSS will continue into 2025/26.

You plan to ask Cabinet to take decisions on allocation and flexible funding in May 2025. You will also seek agreement to a forward work programme to define DSS moving forward – It will be that future work that directly engages with how to manage cost growth for DSS.

In addition to the December submission deadline, the Minister of Finance's invitation letter notes that a requirement of the DSS cost pressures initiative is for MSD officials to provide information to Treasury around current year spending (actuals and forecasts), and the implications of current year spend for 2025/26 by 19 February 2025 (incorporating January actuals).

By February 2025, MSD should also be able to present options that bring down the cost for *Inflationary cost pressures - residential care*.

Abuse in Care

You will also be aware that the Minister of Finance provided a Budget 2025 Abuse in Care invitation letter to Minister Stanford, in her capacity as the Lead Coordination Minister for the Government's Response to the Royal Commission's Report into Historical Abuse in State Care and in the Care of Faith-based Institutions.

The letter invites Minister Stanford to coordinate the development of a package of survivor-focused initiatives requiring investment for Budget 2025, working closely with other relevant Ministers. Placeholder initiatives must be submitted by the 23 December deadline, however final submissions will be due on 18 January 2025.[2]

Social Investment

We also understand that the Social Investment Agency (SIA) are running a process to develop a social investment budget package. MSD is contributing to this process and focusing on identifying social investment opportunities for first 2,000 days delivering on your new Child and Youth Strategy.

Other savings

In addition to the three targeted policy savings, there are other savings that have been delivered as a result of work to meet Government targets, such as further Emergency Housing savings, and savings associated with 26-week reapplications.

'Ministry of Social Development: Targeted Savings'

Following the discussion of policy cost savings advice (REP/24/10/983 refers) at the meeting on 4 November 2025, we have been working on the options you indicated interest in:

1. s9(2)(f)(iv) [redacted]
2. [redacted]
3. Jobseeker Support: tightening eligibility for 18-19-year-olds (Option 7a from report).

Given the timing of your bilateral with the Minister of Finance we have included the latest information that we have on the proposals you agreed that we progress and will prepare Budget templates for them.

We have not included advice on all the options you agreed to in our policy cost savings advice, as decisions were only just received (REP/24/10/983). s9(2)(f)(iv) [redacted]

1. s9(2)(f)(iv) [redacted]

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

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2 Next steps and key points regarding the two key areas of the Abuse in Care package for MSD are included in Appendix Two.

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

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

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

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

s9(2)(f)(iv)

[redacted]

3. Jobseeker Support: tightening eligibility for 18-19-year-olds

We have further developed the option to remove access to Jobseeker Support for 18- and 19-year-olds. We have adjusted this to be "tightening" eligibility for Jobseeker Support to reflect wider welfare system settings and ensure that there is still a safety net for this age group. The tightening is still based on the rationale that parents should play a greater role in financially supporting their children between the ages of 18 and 19.

A parental support test would be added to the eligibility criteria for people aged 18-19 applying for JS. The test would ensure only people whose parents cannot or will not support them financially could access JS. We will need to design this test – and will be largely based on the test for Youth Payment, acknowledging that there may be good reasons to make the test different to reflect the circumstances of 18- and 19-year-olds. This same test would be applied to Emergency Benefit (EB) to ensure those not eligible for JS under the new criteria would not flow through to EB.

This option has the strongest policy rationale, is less complex, easier to explain to clients (given similarities to requirements for Youth Payment) and easier for MSD to implement than alternatives that we explored. Implementation is estimated at 36 months given the complexity of design required.

MSD estimates this proposal will save $113.051 million over 5 years when accounting for the lead-in time of 36 months. This would create savings of $84.797 million per year in outyears. There are limitations to these estimates, as due to the variability of circumstances it is difficult to

	measure the impact on supplementary and hardship assistance (e.g. Accommodation Supplement and Temporary Additional Support).
Appendices	Appendix One – Talking points to support your discussion Appendix Two – Draft summary of the Budget 2025 invited initiatives Appendix Three – Back pocket information Appendix Four – Budget 2025 Vote Social Development invitation letter

Responsible manager: Sacha O'Dea – Deputy Chief Executive, Strategy and Insights

Appendix One – Talking points to support your discussion

Introduction

- I understand the need to identify savings to deliver on our Government's work programme. During this financial year, we expect to recognise significant additional savings from the Budget 2024 Emergency Housing invest-to-save initiative, given savings are higher than originally forecast.
- There are other savings resulting from the 26-week reapplications policy change.
- In addition to identifying savings for the Government's work programme, my priority for Budget 2025 is to realise sufficient savings to offset cost pressures and deliver on the Te Pae Tawhiti Work programme – s9(2)(f)(iv) [redacted]

Item1: Disability Support Services cost pressures

- Disability Support Services provide essential services and support to around 52,000 disabled people and their whānau, as well as Environmental Support Services including equipment and modification services for approximately 100,000 New Zealanders, some of whom receive DSS service and supports as well.
- As you are aware, in September 2024, DSS moved from Whaikaha – Ministry of Disabled People to MSD.
- There are a number of significant risks within DSS, s9(2)(h) [redacted], and continued volume growth on a capped appropriation that has historically been treated as demand-driven. Funding for DSS has grown from $1.2b in 2015/16 to $2.6b in 2024/25. In the last 10 years, DSS expenditure has not remained within the funding allocated at Budget, requiring additional funding.

High and Complex Framework (HCF) - capital investment for secure services

- Future investment is urgently needed to respond to significant challenges raised by the Ombudsman Oversight report.

- A Programme Business Case (PBC) approach is being taken to explore investment options in facilities for people living under the HCF.
- Businesses cases are planned to be developed for capital builds with Kāinga Ora (for NGOs services) and Health New Zealand (for forensic hospital costs), and for the operating costs necessary to support the capital investment.
- A staged approach could be taken with upgrades to the most urgent facilities.
- A contingency could be considered through Budget 2025, to be accessed following completion of the PBC.

High and Complex Framework – Service Improvement

- There is an urgent need to upgrade some facilities to ensure people referred to them by Court Orders under the High and complex Framework can be appropriately placed in secure locations.
- The issues have been highlighted in the Ombudsman's Oversight report.
- Without additional funding there is may be both a risk to public safety and to the people referred to the HCF.

Cost pressures – Disability Support Services

Inflationary cost pressures

- There is a 2.1% inflationary pressure for the 2025/26 financial year on services excluding residential care. This is in the middle of the target inflationary band of 1-3% per annum.
- This funds increases to prices for providers, supporting them with the inflationary pressures in the economy, including the cost of labour and the costs of the equipment, others goods, and services purchased as part of delivering disability support services.
- Without this increase, providers would need to find ways to absorb cost increases within their baselines; this would like create sustainability challenges.
- A settlement negotiated by Health NZ with support workers for pay equity will likely create a pressure over and above the 2.1%

(about $50M per annum for every $1 increase to support worker wages). This cost isn't included in these estimates.

- Funding to increase residential care pricing is outlined separately below, as part of the response to the rapid review of residential pricing.

Volume pressures due to population growth and increased demand for services

- I released an Independent Review of the disability support system in August 2024. The Review found unsustainable spending resulting in cost pressures and a lack of fairness and transparency across disability support services and outlined future work was needed to strengthen the system.
- In response, I commissioned the transfer of the DSS team from Whaikaha to MSD in September. MSD has set up a taskforce to lead work on strengthening the system. This work is underway and has taken actions such as putting budgets in place for Needs Assessment and Service Coordination Agencies and temporality freezing funding for residential care, as part of managing fiscal risk.
- There is, however, still significant demand in the disability system for supports. About 50,000 people received disability supports in 2023/24. The number of people supported is increasing. About 4000 additional people are receiving supports each year, an increase of 8-10% per annum.
- These people meet the eligibility criteria for funded supports, so their entrance into the system results in an increase in costs as more services are delivered. The work to stabilise the system, ensuring transparency and fairness, will provide better assurance over expenditure and the implementation of budgets seeks prioritisation of resources from assessors. The funding sought assumes that growth levels are lower than has been seen in previous levels because of the heightened focus on fairness and prioritisation, but also recognises that there is pressure driven by the number of disabled people receiving supports.
- As work to stabilise the Disability system is ongoing, this bid seeks ongoing funding for pressures from the 2025/26 year only. Pressures for outyears may be sought once a firmer

understanding of the real cost pressures on the system has been developed.

Inflationary cost pressures – residential care

- Following our August decisions, I put in place a temporary funding freeze to control the overall spend on residential care, pending a rapid review of pricing and contracting models. The freeze will not be sustainable long-term and providers expect it to be removed by 1 July 2025 (or earlier) as signalled in the Independent Review.

- The rapid review has focused on developing a credible approach to price. Without credible prices, providers are increasingly seeking individualised rates, driven by provider demands, rather than deliberate decisions by government. This makes both fiscal control and accurate forecasting of future expenditure challenging.

- The options developed for the December SOU paper have been built from a new pricing model based on current (2024) costs of service delivery in community group home settings. Officials estimate that implementing the modelled prices will result in a cost pressure of between 2 percent and 6 percent in all three options (representing the current price related cost pressures in the residential care sector).

- Maintaining credible pricing is critical to ongoing fiscal management of residential care. Under all of the options presented, the government will be able to review rates against cost pressures each Budget, depending on government Budget priorities. This shifts the locus of control over pricing from NASCs/Providers to the government.

- This is a cost pressure; it reflects a move to credible pricing, rather than a shift in policy.

- There will be options in terms of implementation of the pricing model, including the approach taken to the transition to new banded rates – both in terms of timing or grandparenting of rates, and the number and level of neutral/increased/decreased rates paid on the bands compared to current levels.

- The cost pressures for residential care and wider inflationary costs provide for an uplift to meet real costs and provide credibility and reliability of out-year costs based on the system as it is now. Volume and related cost pressures below provide options to manage costs but will require strong management to achieve.

- As requested in your invitation letter, MSD officials will be providing further information on Disability Support Services cost pressures by 19 February 2025.

Item 2: MSD Cost pressures, reprioritisation and savings

- MSD's reprioritisation plan is to manage cost pressures, wherever possible, through internal reprioritisation. MSD has agreed to engage with Ministers if the cost pressure exceeds a financial threshold of $10 million per annum.
- I propose to reprioritise funding or use savings to offset MSD's larger cost pressures and my priority new initiatives in Budget 2025.
- I have asked officials to develop:
  - o Targeted Policy Savings – including options for changes to benefit settings – which I am particularly keen to discuss with you today
  - o an employment-focused invest-to-save initiative – to recognise savings from reductions in benefit expenditure, and re-invest funding into case management and employment programmes – which will support ongoing work to achieve the Jobseeker target.
- I understand Minister Seymour will be running a separate savings process, and options from the longer list of potential Policy savings could be considered through that process.
- It will not be possible for MSD to implement all of these options for Budget 2025. We will need to balance the quantum of savings we need with the lead in time to implement and other things that I have already asked MSD to do to achieve the Jobseeker and Emergency Housing targets.
- I am also aware that Ministers may consider options around s9(2)(f)(iv) [redacted] and Working for Families that MSD will need to implement.

Potential 'Ministry of Social Development: Targeted Savings'

- From a longer list of options, I am currently considering:
  - s9(2)(f)(iv) [redacted]
  - further options that I will work with the Minister of Housing on.

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

s9(2)(f)(iv)

[redacted]

3. Tightening eligibility to Jobseeker Support Benefit for people aged 18 and 19 years

- Currently the minimum age requirement to apply for Jobseeker Support is 18. This option adds a parental support test to the JS eligibility criteria for people aged 18 and 19. The test would ensure only people whose parents cannot or will not support them financially could access JS.
- This option would have significant impacts for New Zealanders e.g. placing additional pressure on families and community service providers.
- Due the flow-on implications and design complexity MSD estimates approximately 36 months would be required to implement this policy after decisions are taken.
- This option is fiscally significant with savings estimated at $113.051 million over 5 years when accounting for a lead-in time of 36 months. This would be $84.797 million per year in outyears.

Invest-to-save

- As you are aware, we have a challenging Government target to reduce the number of people on Jobseeker target to 140k by December 2029. To achieve this challenging target, I am proposing an invest to save proposal to enable us to meet with more young jobseekers and those with health conditions and disabilities. Based on modelling to 30 September 2022, young people under 25 and currently on a main benefit are estimated to spend 21.3 future years on average supported by a main benefit, and people on Jobseeker Support – Health Condition and Disability are estimated to spend 12.3 future years on average supported by a main benefit.

- This proposal will include investment in my welfare that works programme, additional case managers and effective evidence based employment programmes.

Invest-to-save initiative to support specific cohorts into employment

- In December 2023, 190,000 people were receiving Jobseeker Support. The Government has a target for there to be 50,000 fewer people on Jobseeker Support Benefit by 2030. We estimate that the number of people receiving Jobseeker Support will peak at around 214,000 people in January 2025. After January 2025 the number of people receiving Jobseeker Support is expected to decrease as economic conditions improve.
- As part of the Jobseeker target delivery plan, MSD already has a range of increased activation activities under way, such as Kōrero Mahi work seminars and phone-based case management. Based on current levels of funding this enables us to work actively with around 70,000 people at a time.
- Additional investment in case management and employment programmes would enable MSD to continue to work with similar numbers and potentially increase the number of people in active case management, targeting specific cohorts. The additional investment would support target delivery, manage the risk of time-limited employment funding coming to end and gather evidence about benefits over the longer term to provide learnings for MSD’s Te Pae Tawhiti programme and future employment investment strategies.

Increasing funding for case management

- An invest-to-save approach will draw on existing case management evidence from the original investment approach work and continue to strengthen our evidence base through an agreed monitoring and evaluation plan. This proposal would enable MSD to retain 490 frontline staff, where funding is due to end on 30 September 2025.
- MSD proposes to invest for two years in a combination of frontline and phone-based case management to target young jobseekers and those with a health condition or disability. It would also incorporate an expansion of the Welfare that Works approach.

Increasing funding for employment programmes

- There is currently a $117m reduction in employment programme funding from the 2024/25 to the 2025/26 financial year. An invest-to-save approach could draw on MSD's strong employment programme evidence base. MSD proposes to invest for two years into evidenced based high impact employment programmes, such as Flexi wage. There is a strong evidence base on the impacts of MSD's employment programmes that could inform an invest-to-save approach. This initiative would utilise the framework developed with the Treasury. It would allow savings from forecast reductions in Jobseeker numbers to be recognised.

Item 3: Te Pae Tawhiti Programme

- MSDs' current technological environment is complex and slow to change, with a large number of core platforms, systems and applications, which have been built through changing governments (a number of which are over 30 years old).
- Several critical systems are end of life and have no future roadmap. They have security vulnerabilities, and performance issues.
- Without transformation, MSD will need to spend over $1 billion on technology changes incrementally remediating, maintaining or replacing these at risk and critical systems.
- One of my top priorities is therefore to progress MSD's multi-year Te Pae Tawhiti Programme – to modernise the payments and public employment systems while future-proofing the welfare system and enabling a more strategic approach to commissioning. The programme will transform MSD's underlying business processes and technology to enable a fit-for-purpose service model.
- Since we last spoke about MSD's Business Transformation on 1 August 2024, I have also met with Infrastructure and Investment Ministers.
- The Ministry have addressed our feedback, reassessed the Programme in light of Government priorities and focus on fiscal sustainability, and developed a compelling Detailed Business Case (DBC).

- As directed, a Gateway Review occurred in early November, with the Programme awarded a positive Amber/Green rating. The business case assessment reflected its high quality.
- Gateway confirmed that the programme has considerable momentum and subject to the approval of this DBC and the provision of funding certainty, the Programme is well placed to progress.
- MSD's needs are unique. No other agency has systems that are configured to meet MSD business needs.
- s9(2)(f)(iv) [redacted]
- The Programme is on track, delivering on time and within budget and has already delivered its first improvements. MSD has the experience, governance and assurance mechanisms in place to deliver Transformation.
- At Cabinet I will recommend proceeding with Transformation and advise of my intentions in Budget 2025.

Appendix Two – Draft summary of the Budget 2025 invited initiatives

See attached table.

Appendix Three – Back pocket information

This Appendix provides back pocket information and talking points regarding additional initiatives.

Automated Decision-Making (ADM)

Information

In addition to targeted policy savings, MSD will develop a template to reflect the decisions you have made about s9(2)(h) [redacted].

You have agreed to seek Cabinet agreement to enact a general authorising provision for the use of ADM, alongside appropriate safeguards, alongside any legislative amendments required to give effect to remediation decisions (REP/24/3/258 and REP/24/3/259 refer).

Remediation options for the processes s9(2)(h) [redacted] all have future Benefit or Related Expenditure (BoRE) savings associated, with a combined total of $163.118 million over five years (although this may be adjusted down to reflect implementation timing).

All remediation options for the processes will also have a cumulative impact of increasing demand on frontline staff and will require investment in IT changes. Without additional investment, MSD will have to divert existing staff from priority work to mitigate the impact of these changes. You have previously agreed to seek a cost transfer to cover IT and FTE costs, as implementation is not possible without this (REP/24/8/723 and REP/24/8/801 refer).

Talking points

- MSD uses Automated Decision-Making (ADM) in a number of processes to enable a more proactive and efficient welfare system. It allows MSD to automate low-value administrative tasks which enables staff time to be focused on high-value engagement with clients, such as employment conversations.
- I will be seeking Cabinet agreement in 2025 to enact a general authorising provision for ADM accompanied by appropriate safeguards, alongside legislative amendments required to give effect to remediation decisions.
- This is a fiscally significant proposal, with the estimated future Benefits or Related Expenses (BoRE) savings from the remediation proposals of $163.118 million over five years (although this may be adjusted down to reflect implementation timing).
- To deliver this initiative would require associated IT costs and FTE impacts to be funded from the BoRE savings delivered by the remediation options. This would enable MSD to invest in frontline FTE, alongside IT system changes, to reduce demand on staff and increase our ability to direct staff effort towards achieving the Jobseeker reduction target.

Two proposals for – 'Ongoing review of housing supports (including Accommodation Supplement s9(2)(f)(iv) [redacted] s9(2)(f)(iv) [redacted])' (joint with Minister of Finance)

Information

We recommend only presenting the options deferred at Budget 2024, while the review is ongoing.

In line with the Budget letter, and given recent discussions with the Minister of Housing about areas of interest for further work on housing supports, we recommend presenting only the two AS s9(2)(f)(iv) [redacted] savings proposals that were deferred last Budget:

- s9(2)(f)(iv) [redacted]
- increasing the Accommodation Supplement entry threshold for homeowners from 30 percent to 40 percent.

You may also want to seek the Minister of Finance's agreement to progress Accommodation Supplement boundary adjustments.

In line with your commitment in response to the Petitions Committee, MSD is also preparing a new funding Budget bid to update the Accommodation Supplement (AS) boundaries and introduce a mechanism to regularly update boundaries every 5 years. At an estimated cost of $14.8 million over the forecast period, this initiative could be funded through some of the savings realised from increasing the homeowner threshold (estimated to save $72.3 million over the forecast period). As you have not been invited to submit a bid for this funding, you will need to seek the Minister of Finance's agreement to include this in your submission.

Talking points

Minister Bishop and I have talked this morning, and we will present the Accommodation Supplement (AS) / s9(2)(f)(iv) [redacted] options deferred at Budget 2024 as savings options for this Budget [contingent on outcome from meeting with Minister Bishop]

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

s9(2)(f)(iv)

[redacted]

Increasing Accommodation Supplement entry threshold for homeowners (from 30% to 40%)

- This would increase the proportion homeowners contribute to their accommodation costs before being able to receive the Accommodation Supplement from 30 percent to 40 percent of their income.
- This would make settings more equitable for renters and boarders who generally have less ability to reduce housing costs. Homeowners have more options to manage accommodation costs, e.g. sale of home, rates rebate, refinancing, accepting boarders/flatmates, repayment holiday.
- Out of 37,565 homeowners receiving AS, the change is forecast to reduce the AS amount received for 15,439 recipients and reduce support to zero for 3,564 recipients.
- This will have a larger impact on those with fixed incomes (including those receiving New Zealand Superannuation/Veteran's Payment or Supported Living Payment) and people with boarders who are due to be impacted by Budget 2024 changes. If we wanted to exclude some groups from this proposal it would reduce the savings.

Proposal for funding - Updating the AS boundaries

- In response to a petition to rezone the Accommodation Supplement earlier in the year, the coalition Government publicly agreed that more regular updates would help the AS remain fit-for-purpose.
- I would like to progress with updating AS area boundaries through Budget 2025 and introduce a mechanism for MSD to update the boundaries in line with urban expansion every 5 years.
- I know that I have not been invited to submit this bid but would like you to consider it if we find savings from other areas. The estimated cost is $14.8 million over the forecast period.

Appendix Four – Budget 2025 Vote Social Development invitation letter

See attached letter.

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Report

Date: 6 December 2024 **Security Level:** BUDGET SENSITIVE

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

File Reference: REP/24/12/1129

Budget 2025 – draft Ministerial submission letter and updated advice

Purpose

1 The purpose of this report is to provide you with:

- a draft Ministerial submission letter (attached as Appendix One),
- an updated summary of the Budget 2025 and Budget 2026 invited initiatives (attached as Appendix Two), and
- the Vote Social Development: Multi-year savings strategy (attached as Appendix Three).

Recommended Actions

It is recommended that you:

1 **provide feedback** on the draft Ministerial submission letter for the 2025 Budget round (attached as Appendix One)

2 **discuss** the updated summary of the Budget 2025 and Budget 2026 invited initiatives (attached as Appendix Two) and Vote Social Development: Multi-year savings strategy (attached as Appendix Three), with MSD officials at the officials' meeting on Tuesday 10 December 2024

3 **note** that the Ministry of Social Development recommends discussing the targeted policy savings proposal s9(2)(f)(iv) [redacted]

pp

Sacha O'Dea
Deputy Chief Executive, Strategy and Insights

6/12/2024
Date

Hon Louise Upston
Minister for Social Development and Employment

Date

Draft Ministerial submission letter

2 You received the Vote Social Development Budget 2025 invitation letter (the invitation letter) from the Minister of Finance on 18 November 2024. The invitation letter specifies a deadline of Monday 23 December 2024 for:

- MSD to submit Budget 2025 templates to the Treasury, and
- you to provide a Budget 2025 submission letter to the Minister of Finance.

3 Note that MSD is proposing that these documents be submitted on Friday 20 December. In line with the timeline outlined in our advice on 29 November 2024 (REP/24/11/1092 refers), a draft Ministerial submission letter for Budget 2025 is attached for your feedback (attached as Appendix One). We will provide you with an updated version of this letter by 13 December 2024, for your office to submit to the Minister of Finance the following week.

Updated Summary of Budget 2025 invited initiatives

4 On 29 November 2024, we also provided you with advice to support your Budget 2025 bilateral meeting with the Minister of Finance, which included a summary of Budget 2025 invited initiatives (REP/24/11/1089 refers).

5 An updated summary of initiatives following the bilateral (including fiscal impacts, impacts on clients, and next steps for each initiative) is attached as Appendix Two. This includes initiatives for delivery over both Budget 2025 and 2026.

6 Note that this appendix contains the latest advice, and this information (including fiscal impacts) is still under development and subject to change. This material will be finalised in advice sent ahead of initiative submissions.

Multi-year savings strategy

7 As discussed with officials and the Minister of Finance at your bilateral meeting, we have developed a multi-year savings strategy to offset Cost Pressures and your priority New Spending initiatives (attached as Appendix Three).

8 Cost savings from Vote Social Development detailed in the multi-year savings strategy exceed the funding requirements, when considering Disability Support Services and the Government's response to the Royal Commission's Report into Historical Abuse in State Care separately.

s9(2)(f)(iv)

[redacted]

Next steps

11 Following your discussion with officials on Tuesday 10 December, and your feedback on the draft Ministerial submission letter, we will:

- continue to develop Budget 2025 templates, and
- provide you with updated advice regarding your Budget 2025 package, including an updated Ministerial submission letter, on 13 December 2024.

Appendices

Appendix One – Draft Ministerial submission letter

Appendix Two – Summary of the Budget 2025 and Budget 2026 invited initiatives

Appendix Three – Vote Social Development: Multi-year savings strategy

Appendix Two - Draft summary of the Budget 2025 and Budget 2026 invited initiatives

Note that this appendix contains the latest advice, and this information (including fiscal impacts) is still under development and subject to change. This material will be finalised in advice ahead of initiative submissions.

Note that estimated policy savings have not yet been reduced to account for IT and FTE costs.

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

MoF Budget 2025 invitation		MSD Initiative	Fiscals (net, $m)						Client and staff impacts	Next steps for the initiative	Key points
Component	Conditions		2024/25	2025/26	2026/27	2027/28	2028/29	Total			
Savings											
Ministry of Social Development: Targeted Savings	*I invite you to identify multiple policy options from services that Ministry of Social Development (MSD) administers, which Budget Ministers could consider for savings in Budget 2025.* *These can be scalable, but each should be fiscally significant (for example, at least $100 million in savings each over the forecast period, although smaller savings could be considered if agreed with the Treasury ahead of submission).* *I am providing an open invitation to your ideas for savings.* *Please work with other Ministers (and the Ministry of Social Development to work with other agencies) as necessary to develop these options.*	s9(2)(f)(iv) [redacted]									
		Jobseeker Support: tightening eligibility for 18-19-year-olds			(28.254)	(84.797)	(84.797)	(197.848)	Client: 11,728 impacted over five years. Staff TBC	For Budget 2026 MSD will prepare a submission based on this option and go through the usual process for finalising. Operational costs are not reflected in current fiscals - this will reduce overall savings. These will be included prior to submission.	Complexity of change: Very high This would add a Parental support eligibility test added for 18-19-year-olds applying for Jobseeker Support or Emergency Benefit - which is similar to the test used for Youth Payment. Timing/feasibility – from decisions: Approximately 36 months due to expected flow-on impacts and design complexity (hardship-tested assistance e.g. EB, grandparenting etc). This is assumed in the costings. Would need legislative vehicle. Impact – people or assistance: 18- and 19-year-olds – as only those with a parental support gap will be eligible for Jobseeker Support. Parents/caregivers with a child aged 18 or 19 years.

MoF Budget 2025 invitation		MSD Initiative	Fiscals (net, $m)						Client and staff impacts	Next steps for the initiative	Key points
Component	Conditions		2024/25	2025/26	2026/27	2027/28	2028/29	Total			
		Automated Decision-Making changes	BoRE: approximately ($163.118 m) over 5 years [($50.564m) from top 3 processes, and ($112.554m) from those requiring significant modification].						Staff Impact: All remediation options for the processes will also have a cumulative impact of increasing demand on frontline staff. Without additional investment, MSD will have to divert existing staff from priority work to mitigate the impact of these changes. Client Impact: The use of Automated Decision Making (ADM) helps ensure timely and more responsive support to clients for those types of assistance and improves the efficiency and consistency of decision-making in the welfare system.	For Budget 2025 MSD will prepare a submission based on the advice you have received advice to date. We are confirming the costings and savings for this proposal based on more recent data and detailed implementation plans. This will be included prior to submission.	Complexity of change: High Timing/feasibility – from decisions: Approximately 18 months+ from Cabinet decisions (noting that costings have not been adjusted to account for lead in). Cabinet process currently planned for March 2025. Requires Legislative change, this Bill has been signalled in the 2024 Legislation Programme. Impact – people or assistance: Assistance impacted: Hardship Assistance (Food and Dental) Temporary Additional Support; Disability Allowance (DA); Child Disability Allowance (CDA); Supported Living Payment including carers; Emergency Benefit and Emergency Maintenance Allowance with an expiry longer than 52 weeks; Accommodation Supplement; NZ Superannuation (NZS) or Veteran's Pension (VP) with a Non-Qualified Spouse; Orphan's Benefit (OB); Unsupported Child's Benefit (UCB); Widows Benefit Overseas; SLP Overseas and People who are overseas for longer than 26 weeks and are receive NZ Super or VP; Special Benefit; Childcare Subsidy and Out of School Care and Recreational Subsidy; Jobseeker Support and Supported Living Payment (SLP); Sole parent rate of benefit.
Ongoing review of housing supports	*The Minister for Housing has been invited to provide an update on the ongoing review of housing supports, and specific savings initiatives that Budget Ministers could consider for Budget 2025. Please work with him on this update, particularly ensuring that it contains options on the Accommodation Supplement* s9(2)(f)(iv) [redacted]*, including options that Budget Ministers deferred at Budget 2024.*	s9(2)(f)(iv) [redacted]									
		Increasing Accommodation Supplement entry threshold for Homeowners (from 30% to 40%) (excluding NZS/VP/SLP)			(4.628)	(18.454)	(17.521)	(40.603)	Client: reduction in the Accommodation Supplement (AS) amount received for 9,946 families (with an average reduction in AS received per week of $36.45) and reduce AS received to zero for 1,300 recipients	This initiative is for Budget 2025. This reflects the scaled option that was discussed in your meeting with Minister Bishop - excluding homeowners receiving the NZS, VP and SLP. Operational costs are not reflected in current fiscals - this will reduce overall savings. These will be included prior to submission.	Complexity of change: Low to Medium Timing/feasibility – from decisions: Estimated 12-18 months (sizing underway). Requires a primary legislative change Impact – people or assistance: Low-income homeowners. As at November 2024, the AS supported around 37,502 homeowners, including around 7,434 recipients of New Zealand Superannuation/Veteran's Pension and 4,880 recipients of the Supported Living Payment. The change is forecast to reduce the AS amount received for 9,946 families (with an average reduction in AS received per week of $36.45) and reduce AS received to zero for 1,300 recipients

MoF Budget 2025 invitation		MSD Initiative	Fiscals (net, $m)						Client and staff impacts	Next steps for the initiative	Key points
Component	Conditions		2024/25	2025/26	2026/27	2027/28	2028/29	Total			
Tagged Contingencies	*You have the following tagged contingencies in your portfolio, which should be reviewed for potential savings opportunities. If there are no such opportunities, a reasonable justification for why the funding is still needed should be provided.*	Children and Young People's Commission - Establishment of New Entity						TBC	TBC	This will be included in Budget 2025. In August, you and the Minister of Finance agreed to draw down from the Children and Young People's Commission (the Commission) tagged contingency for the 2024/25 financial year. The draw down was to fund:- the Commission's operating costs for 2024/25- transition costs to make the Independent Children's Monitor into an independent Crown entity- the costs of the reviews of the Oversight of the Oranga Tamariki Act and Children and Young People's Commission Act. We will deliver a second paper to drawdown ongoing costs for the Commission and any remaining transitional costs for the Commission and the Monitor in 2025, before the Budget 2025 moratorium and once we have greater certainty on the future state of the Oversight system.	
		Total:	TBC	TBC	TBC	TBC	TBC	TBC			

MoF Budget 2025 invitation		MSD Initiative	Fiscals (net, $m)						Client and staff impacts	Next steps for the initiative	Key points
Component	Conditions		2024/25	2025/26	2026/27	2027/28	2028/29	Total			
New spending											
Invest to Save initiatives	*In developing these initiatives, you should make use of the framework agreed recently by Ministers and engage closely with the Treasury. MSD should also address the extent to which these initiatives can help to meet the cost of higher demand for frontline services.*	Employment invest-to-save		s9(2)(g)(i)					This funding enables MSD's frontline employment services to continue to be delivered at current levels. It means that the increase in frontline employment related engagement, including Kōrero Mahi seminars will continue despite the higher demand for both income and employment services, as resourcing decisions require a trade-off between these elements of the business. The phone-based case management service supported through funding for case managers is expected to support over 32,000 clients per year. Face to face case management, which continue to be supported through this initiative, is expected to support 140,000 clients per year based off current operational data. Overall, the case management service will be able to maintain capacity for 70,000 clients at any one time. Without this funding, in order to meet the demand for income support, it is likely employment related case management services would need to be significantly reduced. The Welfare that Works – Community Job Coaches programme is intended to support 4,000 clients in the first year, 6,000 in the second, and 8,000 in years three and four. This programme and new approach will be monitored and evaluated to ensure it is it effective and delivers a return on investment. The employment programme funding is intended to be driven by the ministry's Employment Investment Strategy, which will be finalised before March 2025. Return on investment has been based on example programmes, to cover the range of approaches MSD takes	For Budget 2025, this bid is progressing through MSD's internal processes	MSD's high exit rate, along with the increase in client engagement, shows that programmes and services are remaining effective despite dramatically increased demand for income support and a tight labour market. Historically, increased demand for income support has put a strain on employment services, as delivering on people's income support needs in a timely fashion that meets service level agreements and public expectations will often take priority. Achieving a high exit rate has been possible only because MSD has been able to put frontline resources into engaging with clients on employment with interventions like Kōrero Mahi. By June 2026, MSD will have approximately $187m less per annum available for employment support as time limited funding ends. The invest to save initiative seeks to meet some of that decrease during a period of forecast high unemployment and enable MSD's employment services to be maintained at their current levels. These services are important for achieving the Jobseeker Reduction Target. To generate projected savings, MSD has taken robust evaluations of programmes and services, or close proxies to those services, and used them to forecast the number of people they are expected to support off benefit. This is monetised using projected average benefit costs per person. In addition, MSD has been examining the appropriate substitution effect (where a person entering employment comes at the cost of a theoretical jobseeker who would otherwise have been employed). The substitution effect assumption will be based on available evidence of programmes, cohorts, and the job market. The Employment Investment Strategy currently in development is a crucial influence on this bid. The flexibility of the MCA allows MSD to focus investment on where it will have the largest impact, both for the Jobseeker Reduction target as well as projected BoRE savings.

MoF Budget 2025 invitation		MSD Initiative	Fiscals (net, $m)						Client and staff impacts	Next steps for the initiative	Key points
Component	Conditions		2024/25	2025/26	2026/27	2027/28	2028/29	Total			
Abuse in Care portfolio	Refer to the MoF's Abuse in Care invitation letter for guidance and conditions	Redress initiatives: - Monetary payment for survivors of abuse in care - Supports and services for survivors of abuse in care - The administration of claims from survivors for monetary payments and supports and services	TBC	TBC	TBC	TBC	TBC	TBC	TBC	This initiative is for Budget 2025. A cross agency bid that is being coordinated by the Crown Response Unit on behalf of the Lead Minister. A series of joint briefings are being provided to Joint Ministers to confirm the costing assumptions to develop the bid. Cross agency working groups are in place to support the development of these briefings and the bids. A joint Ministers meeting was held on 3 December to confirm the planned approach to developing the budget package. A further joint Ministers meeting is planned for 17 December to consider the whole package and confirm the high level placeholder information to be submitted to Treasury by 23 December. The final budget package is currently due to be submitted by 18 January 2025 (Crown Response Unit are seeking an extension to 24 January 2025 – yet to be confirmed).	
		Future proofing the care system	TBC	TBC	TBC	TBC	TBC	TBC	TBC		
Capital investments - Te Pae Tawhiti Programme	*This investment should have a Detailed Business Case approved by Cabinet ahead of Budget 2025 submissions in December. A Gateway review should also take place, and its findings shared with Ministers and the Treasury.* *Your submission should, so far as possible, estimate the forecast savings that would result from the programme (thereby reducing its overall cost), and identify options to meet the remaining cost from reprioritisation or other savings. Further information on a 'minimum cost' option (i.e. that does not amount to a transformation programme) should also be included (for instance, as different scaling options).*	MSD's Business Transformation Te Pae Tawhiti Programme	s9(2)(f)(iv), s9(2)(j) [redacted]						By investing to improve the capability of MSD, alongside key policy enablers, the programme will deliver better public services. The programme will allow MSD staff to devote more time to helping clients find and retain paid employment, strengthening our economy and easing the cost-of-living burden faced by those who have lost their jobs.	This initiative is for Budget 2025. You are seeking approval of the Detailed Business Case from the Cabinet Expenditure and Regulatory Review Committee on 10 December 2024. You will advise the Committee of your intention to seek funding from Budget 2025 for the remaining period (7 years). s9(2)(j) [redacted]	Please see advice provided to you on 6 December to support you at Cabinet on 10 December as referenced in REP/24/12/1126.

MoF Budget 2025 invitation		MSD Initiative	Fiscals (net, $m)						Client and staff impacts	Next steps for the initiative	Key points
Component	Conditions		2024/25	2025/26	2026/27	2027/28	2028/29	Total			
Capital investments - High and Complex Framework	*This investment should have a Detailed Business Case approved by Cabinet ahead of Budget 2025 submissions.*	High and Complex Framework - capital investment for secure services	TBC	TBC	TBC	TBC	TBC	TBC	TBC	This initiative is for Budget 2025.	TBC
Cost pressures - High and Complex Framework	(No conditions were noted in the invitation letter)	High and Complex Framework – Service Improvement	TBC	TBC	TBC	TBC	TBC	TBC	TBC	This initiative is for Budget 2025.	TBC

MoF Budget 2025 invitation		MSD Initiative	Fiscals (net, $m)						Client and staff impacts	Next steps for the initiative	Key points
Component	**Conditions**		**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**Total**			
Cost pressures - Disability Support Services	*I invite your submission to include the following components, with clearly stated assumptions (including for 2024/25 spend) for each:* *- inflationary pressures,* *- volume pressures due to population growth and increased demand for services, and* *- impact of policy and operational changes.* *Please ensure the total funding sought for invited cost pressures not to exceed the cost pressure funding that Disability Support Services received at Budget 2024.* *I ask that the submission includes scenarios for a range of growth forecasts. These should provide clear pathways for Ministerial decision-making on necessary policy changes. It should also outline how time-limited funding in 2024/25 is being used.* *I also invite your officials to provide information to Treasury around current year spending (actuals and forecasts), and the implications of current year spend for 2025/26 by 19 February 2025 (incorporating January actuals).*	Disability Support Services cost pressures – supporting tāngata whaikaha Māori and disabled people		255	255	255	255	1020	This funding bids supports stabilising Disability Support Services (DSS) and provides a pathway off the price freeze in 2024/25. There is a 2.1% inflationary pressure for the 2025/26 financial year on services excluding residential care. This is in the middle of the target inflationary band of 1-3% per annum. This funds increases to prices for providers, supporting them with the inflationary pressures in the economy, including the cost of labour and the costs of the equipment, others goods, and services purchased as part of delivering disability support services, Providers have had no uplift in 2024/25. Without this increase, providers would need to find ways to absorb cost increases within their baselines; this would like create sustainability challenges. A settlement negotiated by Health New Zealand with support workers for pay equity will likely create a pressure over and above the 2.1% (about $50M per annum for every $1 increase to support worker wages). Inflationary cost pressure in residential care is likely to be up to 6% as providers' banded rates have not been updated since 2015/16. Urgent work to review contract and pricing rates will provide options to reduce cost (phasing, reducing current negotiated 'over-band' rates). With a move to increase use f banded rates, we will have greater ability to manage costs compared to the current prevalence of individually negotiated rates. There is volume pressure across the disability support system, driven mainly by the increasing numbers of people who receive care each year. The core DSS system currently supports about 50,000 people; this is growing at about 4000 people per annum (roughly 9-10%). The population supported by DSS has increased at a rate faster than the general population growth of 1.4%, with a notable increase in younger age groups, particularly those aged 0-17, which is the fastest-growing segment. There has been a rapid increase in the number of individuals, especially younger age groups and those with Autism, accessing services.	For Budget 2025, this initiative will be submitted as part of the Budget 25 process and is dependent on Budget Ministers' decisions	Growth rates differ across different categories of support, for our main areas of expenditure, we are broadly assuming: •Residential Care - growth is about 1% on a base of about 7500 people; this rate aligns with population growth and observed changes in the numbers of people supported. •Community Care - growth is about 5% on a base of about 45,000 people; this rate is a midpoint between population of about 1% and observed increases in the number of people supported (10%) •Environmental Supports - growth is about 3% on a base of about 50,000 people who receive equipment; this is based on population growth weighted towards older people, who are the largest segment of the population receiving equipment. The funding baseline has increased from $1.36 billion in 2018/19 to a forecast of $2.5 billion in 2024/25, driven by volume, inflation, and pay equity settlements, particularly in residential care. Residential care remains the largest expenditure, with high average costs per person. The number of individuals with very high support needs has grown significantly, increasing by 7.9% per annum between 2019 and 2024. This cohort now represents 36% of all disability service recipients. Financially, this group incurs the highest average cost per person, with an annual spend of $71,339 per individual in 2024. The total expenditure for this group has grown at an annualised rate of 11.4%, reaching $1.16 billion in 2024. This substantial increase in both the number of individuals and the average cost per person has major financial implications, driving up the overall expenditure for DSS. Flexible funding arrangements, such as Individualised Funding (IF) and Personal Budget Services (PBS), have seen the greatest proportional increase, leading to a significant shift away from the Carer Support Subsidy (CSS). While the number of individuals using CSS has grown, the proportion of people opting for CSS has decreased as more individuals choose the more flexible but costlier IF and PBS options. This shift has resulted in higher overall costs, as IF supports are, on average, almost nine times more expensive per person than CSS. Consequently, expenditure has increased substantially ($176 million in 2019 to $547 million in 2024), reflecting the higher costs associated with providing more personalised and flexible care options. The work on the recommendations made by the Independent Review (5 & 6) may reduce some volume growth but it is not expected to be significant and comes with some risk (e.g. judicial review). More substantial growth management will be possible through work on believed cost shifting from other parts of Government and possibly legislation providing a clearer and stronger legal basis for access to DSS. This initiative aligns with the Government's priority of delivering effective and fiscally sustainable public services. The proposal is for this to be managed as part of MSD's reprioritisation and invest to save multi-year savings strategy.

MoF Budget 2025 invitation		MSD Initiative	Fiscals (net, $m)						Client and staff impacts	Next steps for the initiative	Key points
Component	Conditions		2024/25	2025/26	2026/27	2027/28	2028/29	Total			
Cost pressures - Improvement, Systems and Technology (IST); including Digital and Data initiatives	*I invite you to identify options to meet this cost from reprioritisation or other savings initiatives. Any interactions with Te Pae Tawhiti should also be clearly set out (for instance, as different scaling options).*	IST; including Digital and Data initiatives (Note that numbers reflect MSD's full price cost pressure, which also includes accommodation - eg inflation on committed leases)	s9(2)(f)(iv)							This initiative is for Budget 2025.	
Other	N/A	Adjusting Accommodation Supplement Boundaries and Introducing a Mechanism for Urban Expansion			1.652	6.799	6.799	15.25	As at 1 April 2027, 6,300 clients will be affected because their AS region would have changed, and we estimate 4000 clients will gain by receiving an average increased AS payments of $36 per week (after flow-on impacts to TAS is accounted for) Staff: TBC.	This initiative is for Budget 2025. Costing for this proposal are being refined, and operational costs are not reflected in current fiscals. These will be included prior to submission.	Complexity of change: Medium Timing/feasibility – from decisions: TBC Requires secondary legislative change to update the boundaries, and primary legislative change to implement a mechanism which regularly updates the boundaries (5 yearly) in line with StatsNZ updates. Impact – people or assistance: Low-middle income households. As at August 2024, MSD provides the Accommodation Supplememt to 370,365 households. Updating the AS boundaries will affect a total of 6,300 clients. The changes will immediately benefit 4,000 clients (after taking account of TAS/SB). Suggest packaging wuth the AS homeowners initiative for submission.
		Total:	TBC	TBC	TBC	TBC	TBC	TBC			

MoF Budget 2025 invitation		MSD Initiative	Fiscals (net, $m)						Client and staff impacts	Next steps for the initiative	Key points
Component	Conditions		2024/25	2025/26	2026/27	2027/28	2028/29	Total			

s9(2)(f)(iv)

[redacted]

Vote Social Development: Multi-year savings strategy

Savings required	Treasury Period 1 ($m) 2024/25	2025/26	2026/27	2027/28	2028/29	Total OFP
Securing funding for Ministerial priorities						
An allocation for the cost to implement the Minister's portfolio priorities - eg Food and Welfare that Works.						**100.000**
Adjusting Accommodation Supplement Boundaries and Introducing a Mechanism for Urban Expansion			1.652	6.799	6.799	**15.250**
Securing funding for the Te Pae Tawhiti Programme						
Net new funding	s9(2)(f)(iv)					
Maintaining funding for employment and managing MSD's cost pressures and gap due to declining baseline (excluding "do nothing" option for Te Pae Tawhiti)						
Total volume pressures		15.700				
Total price pressures		63.380				
Total wage pressures		21.110				
Total cost pressures		**100.190**				**100.190**
Contributing savings as part of the fiscal sustainability programme.						
TBC						

Note that this total only reflects the 2025/26 cost pressure. MSD also has cost pressures in:
- 2024/25: $69.090m
- 2026/27 to 2028/29: $539.250m total.

Savings to be sourced from	2024/25	2025/26	2026/27	2027/28	2028/29	Total OFP
1) Budget 2025 savings decisions						
Policy savings						
Automated Decision-Making (ADM) changes – top 3 remediation (TAS, Dental SNG, Food SNGs)						**-50.564**
ADM changes – Significant Modification (Automated reviews, Medical reviews, End of School Year process, Sustainable Employment Trial)						**-112.554**
Note that forecast savings are gross and only reflect Benefits or Related Expenses (BoRE). Implementation costs are still being worked through, and will offset some of these savings.						
Targeted savings						
s9(2)(f)(iv)						
Increasing Accommodation Supplement entry threshold for Homeowners (from 30% to 40%), excluding NZS, SLP and VP (note this is the scaled option)						**-40.603**
Invest to save						
Investment						
Case Management - investment of $120m						
Employment Programmes - investment of $127.9m						
Welfare that Works - investment of $187m						
Savings						
Total estimated net savings over forecast period						**-349.100**
s9(2)(f)(iv)						
Tagged contingency						
Children and Young People's Commission - savings TBC						
s9(2)(f)(iv)						
2) Budget 2026 savings decisions						
Invest to save						
s9(2)(f)(iv)						
Other policy savings						
Income charging – changes to weekly and annual assessment - TBC						
s9(2)(f)(iv)						
Jobseeker Support: tightening eligibility for 18-19-year-olds						**-197.848**
3) Other						
26-week reapplications (agreed by Cabinet in August [SOU-24-MIN-0096 refers], with savings from 2025/26 managed as a positive charge against Budget 2025 operating allowance)	-12.882	-9.963	-10.202	-10.202		**-43.249**
Additional Emergency Housing savings from Budget 2024 invest-to-save initiative						**-368.497**
Savings from the Growing Up in New Zealand (GUiNZ) study						**-6.800**
Total savings exceed funding requirements						**-503.926**

Funding required for Disability Support Services	Total OFP
High and Complex Framework - capital investment for secure services	90.000
High and Complex Framework – Service Improvement	20.000
Cost pressures - Disability Support Services - Inflationary cost pressures	118.200
Cost pressures - Disability Support Services - Volume pressures due to population growth and increased demand for services	641.700
Cost pressures - Disability Support Services - Inflationary cost pressures - residential care	240.000
Total	1109.900

MSD contribution to wider Budget package	
Government's response to Royal Commission's report into historical abuse: - Redress initiatives - TBC - Future proofing the care system - TBC	
Working for Families - TBC	
s9(2)(f)(iv)	
Social investment package - TBC	

Budget 2024	
Total savings - $710.551m	

Budget 2025	
Includes: **- Employment invest-to-save** **- Policy savings** **- Other savings**	
2024/25 year also includes recognition of: - Additional Emergency Housing savings from Budget 2024 invest-to-save initiative ($368.497m) - 26-week reapplications (agreed by Cabinet in August) ($43.249m)	

Budget 2026	
s9(2)(f)(iv)	

Hon Louise Upston

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

Hon Nicola Willis
Minister of Finance
Parliament Buildings
Wellington

Dear Nicola

Thank you for the opportunity to participate in Budget 2025.

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. I understand the need to maintain a culture of fiscal discipline and continue to make progress towards the objectives of our fiscal sustainability programme if we are to achieve better economic results for New Zealanders.

As discussed at our bilateral earlier this month, I have a multi-year Vote Social Development savings strategy. While the Ministry of Social Development (MSD) does not have capacity to implement more than three policy savings initiatives in Budget 2025, they have submitted four policy savings initiatives for consideration (in addition to Automated Decision-Making). This will give Ministers choices about phasing of savings, including savings that could be considered for Budget 2026.

In addition to identifying savings for the Government's work programme, I am focused on realising sufficient savings to offset cost pressures in 2025/26 and deliver on the Te Pae Tawhiti Work programme – s9(2)(f)(iv) [redacted] s9(2)(f)(iv) [redacted] I have outlined the interactions between my savings initiatives and cost pressure/new spending initiatives below.

Savings

I have worked through a process with MSD to identify credible savings options, including changes to policy settings and savings from a tagged contingency. I have submitted these initiatives as detailed in Appendix One.

As you are aware, we have a challenging Jobseeker Support target and rising benefit numbers. I do not want to identify savings that will contradict my strategy in this area, including supporting more parents (as well as those on Sole Parent benefits) into work.

While we are working through the longer term policy solutions to make Disability Support Services sustainable, I want to avoid making short term savings that impact grants or services that target disabled people. This does not include broader supports that are also provided to other people, such as accommodation support.

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s9(2)(f)(iv)

[redacted]

Children and Young People's Commission Tagged contingency

Following our initial decisions on drawdowns of the Children and Young People's Commission tagged contingency for 2024/25 in August 2024, we are due to make further decisions on drawdowns in the first quarter of 2025. This will be subject to the outcomes of the independent legislative review and the passage of the Oranga Tamariki System Legislation Amendment Bill.

MSD's advice will include consideration of whether any funding is available to be returned to the centre. I have been advised that officials are anticipating approximately $2m per annum may be returned (though this will be subject to our decision).

Housing

Minister Bishop and I met on Thursday 5th December to consider initial advice on the types of s9(2)(f)(iv) [redacted] AS options that could be considered at Budget 2025. We have jointly agreed the following:

s9(2)(f)(iv)

- [redacted]
- [redacted]
- However, as agreed at my bilateral meeting with you on 5 December, I will progress a savings initiative through Budget 25 that will increase the AS entry threshold for homeowners from 30 percent to 40 percent, with some exclusions (i.e., superannuates) and reprioritise some of this funding to adjust AS boundaries to account for urban expansion and introduce a mechanism for regular updates.

Additional savings and reductions in expenditure

In addition to the savings initiatives I am submitting for Budget 2025, during this financial year, we expect to recognise:

- A $703.639m reduction in the Emergency Housing appropriation at the Half Year Economic and Fiscal Update (HYEFU) 2024, which is on top of net savings of $350.545m recognised through Budget 2024 for the Emergency Housing invest-to-save initiative. In Budget 2024, gross savings of $427.532m were recognised for this initiative, which reflected 60 percent of the estimated savings at the time. The additional reduction in the Emergency Housing appropriation through HYEFU 2024 is $418.617m more than the remaining 40 percent of the original estimate ($285.022m).
- $43.249m from the policy change which introduces a 26-week reapplication for Jobseeker Support to increase the frequency at which MSD engages with jobseekers.
- $6.800m from the Growing Up in New Zealand study.

Invest-to-save

To achieve our target to reduce the number of people on Jobseeker Support to 140,000 by December 2029, I am proposing an invest-to-save proposal to enable us to meet with more young jobseekers and those with health conditions and disabilities.

Whilst this initiative requires investment, it will achieve significant gross savings that will outweigh the investment required (ie the initiative has a net saving).

The investment in this initiative will:

- support delivery of the Jobseeker target
- manage the risk of time-limited employment funding coming to an end, including for MSD frontline staff and effective evidence-based programmes while benefit numbers remain high
- enable the roll out of my Welfare that Works programme
- support MSD to gather evidence about benefits over the longer term to provide learnings for MSD's Te Pae Tawhiti programme and future employment investment strategies.

MSD will work with the Treasury to provide advice regarding what proportion of the net savings for this initiative could be returned to the centre under the invest-to-save framework.

Cost Pressures / New Spending

Te Pae Tawhiti Programme

MSDs' current technological environment is complex and slow to change, with a large number of core platforms, systems and applications, which have been built through changing governments (a number of which are over 30 years old).

Several critical systems are end of life and have no future roadmap. They have security vulnerabilities, and performance issues.

Through MSD's multi-year Te Pae Tawhiti transformation programme, MSD will change the way it operates, modernise its technology and business processes to support new and more efficient ways of working, and reduce costs and risk. This will deliver benefits to government via greater efficiencies in one of the largest Votes and improve the effectiveness of services delivered to New Zealanders.

On 10 December 2024, the Cabinet Expenditure and Regulatory Review Committee (EXP) approved the Detailed Business Case (DBC) for Horizons Two and Three of the Programme, and directed MSD to implement Option C of the DBC [EXP-24-MIN-0079]. Cabinet approved this on 16 December 2024.

The total cost of the Programme is estimated to be s9(2)(f)(iv) [redacted] I am seeking s9(2)(f)(iv) [redacted] gross through Budget 2025 to implement years three to six of the nine-year transformation programme. This is made up of:

- s9(2)(f)(iv) [redacted] new expenditure, including:
  - $67.6m appropriated directly in the 2025/26 financial year, and
  - s9(2)(f)(iv) [redacted] to deliver years four to six (Horizon Two)
- s9(2)(f)(iv) [redacted]

As discussed in our bilateral meeting, I am working with MSD officials to develop a savings strategy phased over two Budgets, with the objective of using savings

to offset the total (s9(2)(f)(iv) [redacted]) investment needed s9(2)(f)(iv) [redacted]
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Disability Support Services

The recent independent review into Disability Support Services (DSS) sustainability found that there was inadequate budgetary control and commercial rigour in the system. Despite Government spending increasing in Budget 2024 to \$2.6b (with a \$1.1b funding boost over 5 years), the reviewers found that the 2024/25 appropriation would be breached if spending was not controlled. I have taken urgent action to mitigate the risk for this financial year, but work to stabilise DSS will continue into 2025/26.

MSD has submitted the following two initiatives for DSS:

- High and Complex Framework
- DSS cost pressures.

As requested, MSD officials will provide further information to Treasury around current year spending, and the implications of current year spend for 2025/26 by 19 February 2025.

Reprioritising funding to implement key priorities

In addition to the new funding I am seeking through Budget 2025, I also intend to reprioritise funding to implement key initiatives that will support my priorities.

Child and Youth Strategy

I propose to reprioritise \$10m per annum from savings within Vote Social Development to support implementation of the Strategy through Budget 2025. I have identified three initiatives that align with the Strategy priorities, which I intend to fund through this reprioritisation.

- \$376,250 p.a. for 2 years to maintain funding for the KidsCan school jacket programme (no funding has been appropriated beyond June 2025). The funding will enable the provision of 17,500 warm and waterproof jackets per annum at a cost of \$21.50 per child. This investment reduces household costs and also contributes to child health and wellbeing.
- \$1.266m p.a. for 1 year to continue the Government contribution to the KickStart Breakfast programme (which is co-funded and delivered by Sanitarium and Fonterra) beyond June 2025. The programme provides daily free breakfasts to more than 42,000 students in over 1,400 schools. A recent value for money assessment of the programme identified a \$3.60 of benefit for the Government for every dollar invested. This funding extension would ensure the continuation of the programme while the Ministry of Education-led review of the overall provision of food in schools is carried out.
- \$7.8m per annum for 4 years for programmes that support positive parenting practices in the early years. Parental confidence, skills and connection with their children in pregnancy and post-birth is a significant determinant of children's cognitive and behavioural outcomes, and child harm. This initiative would improve access to established evidence-based parenting support programmes, particularly for at-risk families.

The first two of these initiatives directly support the Strategy priority of reducing child material hardship (in line with the Government's child poverty targets). The third contributes to the two other Strategy priorities of supporting children, families and whānau in the first 2000 days and preventing child harm.

I will work with you and other colleagues on the Child and Youth Ministers Group to consider future opportunities to reprioritise funding across a range of portfolios to support implementation of the Strategy.

Food Secure Communities

Given the numbers of people who are forecast to be out of employment over the next year and the amount of feedback I am receiving from foodbanks and charities, I am concerned about time-limited funding expiring at the end of 2024/25 for Food Secure Communities – and particularly the impact this will have on people in material hardship. I am therefore proposing to continue funding for Food Secure Communities for an additional year.

MSD has submitted an initiative with costs ranging from $7.5m (scaled) to $15m (full funding) – and I look forward to having further discussions about this with you in the new year. I am proposing to reprioritise this from savings including the $6.8m reduction in funding for Growing Up in New Zealand study.

Initiatives from other portfolios

Abuse in Care

MSD has also supported the development of placeholder new spending initiatives for Minister Stanford's package of initiatives as part of the Government's Response to the Royal Commission's Report into Historical Abuse in State Care and in the Care of Faith-based Institutions. I will continue to work with Minister Stanford ahead of the 18 January 2025 deadline for the final initiatives in this package to be submitted.

Other

MSD is also contributing to work underway on:

- Working for Families
- Student Loans, and
- the Social Investment Package.

I look forward to discussions regarding these areas in the new year.

Next steps

I look forward to working with you and our other colleagues in the new year to finalise the Budget 2025 package. I am also conscious that fiscal sustainability will be an ongoing priority, and I will work with MSD to:

- update their Performance Plan to reflect Budget 2025 decisions
- maintain a focus on efficiency after the Budget 2025 process, and
- continue work on a multi-year savings approach.

Yours sincerely

Hon Louise Upston
Minister for Social Development and Employment

Appendix One – List of submitted initiatives

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16442	New Spending / Cost Pressure	Capital Investment	MSD's Business Transformation Te Pae Tawhiti Programme
16441	New Spending / Cost Pressure	Cost Pressures	Disability Support Services cost pressures – supporting tāngata whaikaha Māori and disabled people
16440	New Spending / Cost Pressure	Cost Pressures	High-Complex Framework (HCF) – funding pressures
16438	New Spending / Cost Pressure	Cost Pressures	s9(2)(f)(iv) [redacted]

In addition to the above, MSD has submitted a new spending initiative for the Ākonga Community Fund. I understand that the Minister for Youth has written to you separately regarding this.

Report

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Date:	17 January 2025	**Security Level:**	BUDGET SENSITIVE
To:	Hon Louise Upston Minister for Social Development and Employment		
File Reference:	REP/25/1/004		

Budget 2025 – Process update and timeline

Purpose of the report

1 The purpose of this report is to provide you with an update regarding the general Budget 2025 process, as well as the Baseline Savings Programme led by Hon David Seymour, Associate Minister of Finance.

Recommended actions

It is recommended that you:

1 **note** that your office provided your Budget 2025 submission letter to the Minister of Finance on 19 December 2024, and the Ministry of Social Development (MSD) submitted Budget templates to the Treasury the following day

2 **note** that an updated Budget Strategy A3 is attached as Appendix One – which includes updated figures to reflect what was submitted to the Treasury in December

3 **note** that this report includes a proposed timeline of the next steps between now and mid-February for both the general Budget 2025 process, and the Baseline Savings Programme led by Minister Seymour

4 **note** you indicated that you would like MSD to provide further advice regarding the following four areas for the Baseline Savings Programme:

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

b) Emergency Benefit

c) aligning benefits for people aged 24 and under with other systems

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

The Aurora Centre, 56 The Terrace, PO Box 1556, Wellington
– Telephone 04-916 3300 – Facsimile 04-918 0099

5 **agree** to remove "aligning benefits for people aged 24 and under with other systems" (noted in recommendation 4c above), given you have submitted an initiative in Budget 2025 for "Jobseeker Support – tightening eligibility for 18-19-year-olds" which would overlap with this area

AGREE / DISAGREE

6 **agree** to remove Emergency Benefit (noted in recommendation 4b) as an area for consideration in the Baseline Savings Programme, given:

- relatively low expenditure per year – around $120 million
- that Emergency Benefit will be impacted by the Budget 2025 initiatives for "Jobseeker Support – tightening eligibility for 18-19-year-olds" and s9(2)(f)(iv) [redacted]

AGREE / DISAGREE

7 **agree** to include 'improvements to income charging' for consideration in the Baseline Savings Programme given the initial estimate of savings of around $300 million per year

AGREE / DISAGREE

8 **discuss** the advice in this report at your Officials' meeting on Tuesday 21 January 2025.

Fleur McLaren
Acting Deputy Chief Executive
Strategy and Insights

17/01/2025
Date

Hon Louise Upston
Minister for Social Development and Employment

Date

Process update and timeline

2 On 19 December 2024, your office provided your Budget 2025 submission letter to the Minister of Finance (attached for reference as Appendix Two). The following day, MSD submitted our Budget templates to the Treasury.

3 An updated Budget Strategy A3 is attached as Appendix One - which includes updated figures to reflect what was submitted to the Treasury in December.

4 The Treasury have now begun reviewing MSD's templates, and will meet with our officials over the coming weeks to discuss technical details of initiatives – to assist their understanding of the proposals.

5 A proposed timeline between now and mid-February is set out below. This includes key dates and deadlines in the general Budget 2025 process and the Baseline Savings Programme; and when you will receive advice.

6 Note that dates will be confirmed once your second Budget 2025 bilateral with the Minister of Finance (MoF) is scheduled.

Key:	**Advice you will receive** **Ministerial meeting** **Specific deadline**
Thursday 16 January	Final Abuse in Care Budget package distributed to Joint Ministers, and MSD provides advice regarding this (REP/25/1/010 refers)
Tuesday 21 January	Joint Ministers' meeting to approve complete Abuse in Care Budget package
Thursday 23 January	Final Abuse in Care Budget package due to be submitted to the Treasury
Friday 24 January	Aide-memoire to support your initial discussion with Minister Seymour regarding the Baseline Savings Programme
Tuesday 28 January	Initial discussion with Minister Seymour regarding the Baseline Savings Programme
Friday 31 January (TBC)	- Advice to support your engagement with Ministerial colleagues about your Budget 2025 proposals, including talking points (see para 7) - Advice regarding Baseline Savings Programme initiatives, and a draft Ministerial submission letter for this process
Week beginning Monday 3 February (TBC)	Engagement with your Ministerial colleagues about your Budget 2025 proposals
Wednesday 5 February (TBC)	- Advice to support your second Budget 2025 bilateral with MoF, including talking points - An updated Ministerial submission letter for the Baseline Savings Programme
Week beginning Monday 10 February (TBC)	Second Budget 2025 bilateral meeting with MoF
Thursday 13 February	Ministerial submission letter due to Minister Seymour, and Baseline Savings Programme templates due to the Treasury
Wednesday 19 February	MSD due to provide information regarding current year spending for Disability Support Services (actuals and forecasts), and the implications of current year spend for 2025/26 to the Treasury

7 As indicated in the timeline above, it is recommended that you engage with your colleagues regarding initiatives with impacts on other portfolios before your second Budget 2025 bilateral meeting with MoF. Detailed advice to support this engagement will be provided on Friday 31 January (to be confirmed), however portfolios are likely to include:

- Housing
- Labour Market
- Children and Youth
- Immigration and Foreign Affairs, and
- Digital Government.

Areas of consideration for the Baseline Savings Programme led by Hon David Seymour

8 You met with MSD officials in December 2024, and indicated that you would like MSD to provide further advice regarding the following four areas for the Baseline Savings Programme:

- s9(2)(f)(iv) [redacted]
- Emergency Benefit
- aligning benefits for people aged 24 and under with other systems
- s9(2)(f)(iv) [redacted]

9 We note that the Treasury guidance for the Baseline Savings Programme frames the process as being savings "proposed" by Ministers and agencies (i.e. yourself and MSD). You may wish to discuss who would be considered the proposer of any significant changes (e.g. changes to the parameters of New Zealand Superannuation) with Minister Seymour on 28 January.

We have taken another look across Vote Social Development Appropriations

10 In order to ascertain whether MSD would recommend adding or removing any areas from consideration for the Baseline Savings Programme, we have taken another look across Vote Social Development Appropriations – using the following factors:

- targeting large appropriations – where the Budget for 2024/25 is over $400 million
- that savings in the area would not conflict with your priorities – including the Jobseeker Support target, Child Material Hardship and Disability
- that these areas are not part of the general Budget 2025 process, or previous baseline savings processes.

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

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

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

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

Adding "improvements to income charging" as a new area

14 Instead, we recommend including "improvements to income charging settings", which was raised with you in July 2024 (REP/24/7/665 refers). Following Inland Revenue's Business Transformation, we have an opportunity to harness their more detailed and timely PAYE wages and salary income information to improve the accuracy of income charging for people working and receiving an abated benefit or supplementary assistance payment.

15 To facilitate this, changes would be required to a range of policy, legislative, and operational settings, to allow the automated use of this information. This area has not previously been canvassed in savings processes and would be an enduring change as we would capture more information about salary and wages. An initial estimate of savings for Benefits or Related Expenses (BoRE) is around $300 million per year once fully implemented.

Other appropriations canvassed but not recommended for inclusion

16 The other large appropriations we do not recommend including in the process s9(2)(f)(iv) [redacted] include:

- Hardship Assistance
- Disability Allowance
- Sole Parent Support
- Supported Living Payment
- Accommodation Assistance.

17 The rationale is that some changes:

- will be impacted by Budget 2025 initiatives (e.g. from the initiatives related to Automated Decision-Making and Accommodation Supplement)
- were subject to previous baseline savings exercises (e.g. Accommodation Supplement)
- were previously canvassed and represent very minor savings (e.g. for Supported Living Payment), or
- may not align with your priorities stated above

- are subject to a separate process (e.g. review of housing subsidies).

18 As indicated in our previous advice, and given your focus on supporting people into employment and achieving the Jobseeker target, we have not considered savings from the Improved Employment and Social Outcomes Support MCA. We will include talking points in our advice on Friday 24 January, to support you to discuss your employment priorities with Minister Seymour.

Implementation of policy changes

19 As outlined in our previous advice regarding the general Budget 2025 process, there is a limit on MSD's capacity to implement policy initiatives through Budget 2025, and Ministers will need to make choices about the phasing of savings agreed through Budget 2025 (including savings that could be considered for Budget 2026).

20 The phasing of any policy savings initiatives considered as part of the Baseline Savings Programme led by Minister Seymour will need to be considered alongside initiatives that are part of the general Budget 2025 process.

21 As outlined in the Treasury's guidance, the focus of the Baseline Savings Programme is on identifying enduring baseline savings. This means that agencies and Ministers can consider and propose savings that can't be delivered until after (or can only be partly delivered by) 2025/26.

Next steps

22 MSD will work with other agencies to finalise the Abuse in Care Budget package for submission on Thursday 23 January 2025.

23 As indicated in the timeline above, we will provide advice on Friday 24 January 2025, to support your initial discussion with Minister Seymour regarding the Baseline Savings Programme on Tuesday 28 January.

24 The information to support this meeting will include options against each of the areas and indicate:

- potential size of savings (small, medium or large)
- potential timing to implement (where known)
- impact on incomes
- international, particularly OECD, comparators
- whether it would create flow-ons to any other parts of Government.

25 It will also include talking points, and background information regarding Vote Social Development expenditure over time.

Appendices

Appendix One – Budget Strategy A3

Appendix Two – Budget 2025 Social Development Ministerial Submission Letter

Responsible manager: Sacha O'Dea, Deputy Chief Executive, Strategy and Insights

Hon Louise Upston

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

Hon Nicola Willis
Minister of Finance
Parliament Buildings
Wellington

Dear Nicola

Thank you for the opportunity to participate in Budget 2025.

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. I understand the need to maintain a culture of fiscal discipline and continue to make progress towards the objectives of our fiscal sustainability programme if we are to achieve better economic results for New Zealanders.

As discussed at our bilateral earlier this month, I have a multi-year Vote Social Development savings strategy. While the Ministry of Social Development (MSD) does not have capacity to implement more than three policy savings initiatives in Budget 2025, they have submitted four policy savings initiatives for consideration (in addition to Automated Decision-Making). This will give Ministers choices about phasing of savings, including savings that could be considered for Budget 2026.

In addition to identifying savings for the Government's work programme, I am focused on realising sufficient savings to offset cost pressures in 2025/26 and deliver on the Te Pae Tawhiti Work programme – s9(2)(f)(iv) [redacted] s9(2)(f)(iv) [redacted] I have outlined the interactions between my savings initiatives and cost pressure/new spending initiatives below.

Savings

I have worked through a process with MSD to identify credible savings options, including changes to policy settings and savings from a tagged contingency. I have submitted these initiatives as detailed in Appendix One.

As you are aware, we have a challenging Jobseeker Support target and rising benefit numbers. I do not want to identify savings that will contradict my strategy in this area, including supporting more parents (as well as those on Sole Parent benefits) into work.

While we are working through the longer term policy solutions to make Disability Support Services sustainable, I want to avoid making short term savings that impact grants or services that target disabled people. This does not include broader supports that are also provided to other people, such as accommodation support.

Private Bag 18041, Parliament Buildings, Wellington 6160, New Zealand | +64 4 817 6807 | l.upston@ministers.govt.nz

s9(2)(f)(iv)

[redacted]

Children and Young People's Commission Tagged contingency

Following our initial decisions on drawdowns of the Children and Young People's Commission tagged contingency for 2024/25 in August 2024, we are due to make further decisions on drawdowns in the first quarter of 2025. This will be subject to the outcomes of the independent legislative review and the passage of the Oranga Tamariki System Legislation Amendment Bill.

MSD's advice will include consideration of whether any funding is available to be returned to the centre. I have been advised that officials are anticipating approximately $2m per annum may be returned (though this will be subject to our decision).

Housing

Minister Bishop and I met on Thursday 5th December to consider initial advice on the types of s9(2)(f)(iv) [redacted] AS options that could be considered at Budget 2025. We have jointly agreed the following:

s9(2)(f)(iv)

- [redacted]
- However, as agreed at my bilateral meeting with you on 5 December, I will progress a savings initiative through Budget 25 that will increase the AS entry threshold for homeowners from 30 percent to 40 percent, with some exclusions (i.e., superannuates) and reprioritise some of this funding to adjust AS boundaries to account for urban expansion and introduce a mechanism for regular updates.

Additional savings and reductions in expenditure

In addition to the savings initiatives I am submitting for Budget 2025, during this financial year, we expect to recognise:

- A $703.639m reduction in the Emergency Housing appropriation at the Half Year Economic and Fiscal Update (HYEFU) 2024, which is on top of net savings of $350.545m recognised through Budget 2024 for the Emergency Housing invest-to-save initiative. In Budget 2024, gross savings of $427.532m were recognised for this initiative, which reflected 60 percent of the estimated savings at the time. The additional reduction in the Emergency Housing appropriation through HYEFU 2024 is $418.617m more than the remaining 40 percent of the original estimate ($285.022m).
- $43.249m from the policy change which introduces a 26-week reapplication for Jobseeker Support to increase the frequency at which MSD engages with jobseekers.
- $6.800m from the Growing Up in New Zealand study.

Invest-to-save

To achieve our target to reduce the number of people on Jobseeker Support to 140,000 by December 2029, I am proposing an invest-to-save proposal to enable us to meet with more young jobseekers and those with health conditions and disabilities.

Whilst this initiative requires investment, it will achieve significant gross savings that will outweigh the investment required (ie the initiative has a net saving).

The investment in this initiative will:

- support delivery of the Jobseeker target
- manage the risk of time-limited employment funding coming to an end, including for MSD frontline staff and effective evidence-based programmes while benefit numbers remain high
- enable the roll out of my Welfare that Works programme
- support MSD to gather evidence about benefits over the longer term to provide learnings for MSD's Te Pae Tawhiti programme and future employment investment strategies.

MSD will work with the Treasury to provide advice regarding what proportion of the net savings for this initiative could be returned to the centre under the invest-to-save framework.

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- s9(2)(f)(iv) [redacted] from departmental and non-departmental savings from the Programme.

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I look forward to discussions regarding these areas in the new year.

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- update their Performance Plan to reflect Budget 2025 decisions
- maintain a focus on efficiency after the Budget 2025 process, and
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Yours sincerely

Hon Louise Upston
Minister for Social Development and Employment

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16442	New Spending / Cost Pressure	Capital Investment	MSD's Business Transformation Te Pae Tawhiti Programme
16441	New Spending / Cost Pressure	Cost Pressures	Disability Support Services cost pressures – supporting tāngata whaikaha Māori and disabled people
16440	New Spending / Cost Pressure	Cost Pressures	High-Complex Framework (HCF) – funding pressures
16438	New Spending / Cost Pressure	Cost Pressures	s9(2)(f)(iv)

In addition to the above, MSD has submitted a new spending initiative for the Ākonga Community Fund. I understand that the Minister for Youth has written to you separately regarding this.

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Aide-mémoire

Meeting

Date:	28 January 2025	**Security Level:**	BUDGET SENSITIVE
For:	Hon Louise Upston, Minister for Social Development and Employment		
File Reference:	REP/25/1/016		

Advice to support your meeting with Hon David Seymour to discuss the Baseline Savings Programme

Meeting	5.00-6.00pm, Tuesday 28 January 2025 Room 7.6 EW
Expected attendees	**Ministers** Hon David Seymour, Associate Minister of Finance (the Minister) **Ministry of Social Development officials** Debbie Power, Chief Executive Sacha O'Dea, Deputy Chief Executive, Strategy and Insights Simon MacPherson, Deputy Chief Executive, Policy Brad Young, Chief Financial Officer
Purpose of meeting	This meeting is to discuss options that could be considered for the Minister's Baseline Savings Programme.
Summary	This aide memoire provides you with advice to support your meeting with the Minister regarding the Baseline Savings Programme.
Talking points	**Introduction about Vote Social Development and growth** • Vote Social Development has grown significantly over the last ten years and is forecast to continue to grow, mainly due to the growing cost of New Zealand Superannuation (NZS) as the population ages. NZS is

forecast to cost $23.2 billion in 2024/25, which is just over half (51%) of the $45.7 billion Vote.
  - Benefits and other related expenses (BoRE) make up a further $15.2 billion of the Vote (33.3%).
  - Student loans and MSD recoverable assistance account for another $2 billion (4.4%).
  - Disability Support and Whaikaha make up another $2.54 billion (5.6%).
- MSD's Departmental funding (excluding Disability Support Services) peaked last year, and is now declining with $1.699 billion in 2024/25, reducing to $1.432 billion in 2025/26 and remains flat at $1.322 billion from 2027/28.
- When I took up this portfolio, I worked through an iterative and comprehensive process with MSD to understand the Vote. This has provided the foundation to enable me to prepare for Budgets 24 and 25.
- Comparisons between 2016/17 and 2025/26 baselines show that:
  - Growth in NZS and benefit numbers are the key drivers of growth in the Vote
  - NZS costs have almost doubled from $13.1 billion to $24.7 billion
  - Benefit costs have doubled from $7.4 billion to $15.6 billion
  - Non-departmental has increased by 18.6% from $3.2 billion to $3.8 billion
  - Departmental operating has increased by 40.7% from $1.02 billion in 2017/18 to $1.43 billion
  - Funding has come into the Vote for Disability Support of $1.6 billion.
- As at 31 December 2024, MSD had 9,041 FTE. This compares to 6,799 in June 2017.
- Since 2016/17, Ministers have made decisions to move functions into MSD on a permanent or temporary basis (for example, Disability Support, and the Child Wellbeing and Poverty Reduction Group, on a permanent basis). This accounts for around 925 FTE.
- Funding has also been provided for additional frontline staff to meet demand:490 FTE are time-limited and due to end in September 2025 and an additional 237 FTE were funded in 2019/20 following a Treasury baseline review.
- MSD is actively managing FTE numbers including reductions over the last year through attrition, voluntary

redundancy and change processes. MSD is expecting a further reduction in FTE by June 2025.

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

You may wish to handover to Debbie Power to provide further information at this point.

Your approach to Budgets 24 and 25

- Savings of $792.4 million were found in Vote Social Development as part of Budget 24. This included an invest to save initiative to reduce the number of people in Emergency Housing: $350.5 million was booked in Budget 24. On top of that, the balance of savings can now be booked ($285 million) and a further reduction in expenditure ($418.6 million) recognised in the Half Year Economic and Fiscal Update 2024 (HYEFU). The total impact of this is $703.6 million.
- Other Savings in Budget 24 included:
    - s9(2)(f)(iv) [redacted]
    - Savings from Community programmes including a small Community Innovation Fund and not proceeding with implementing a wage supplement to replace the minimum wage exemption ($52.9 million)
    - Departmental savings including reductions in contractors and consultants, 165 FTE, travel, and accommodation ($154.9 million)
    - Time limited funding including COVID-19 departmental funding, and two social sector capability funds ($83.1 million).
- For Budget 25, I am committed to supporting the Government's fiscal sustainability objectives. I have a multi-year Vote Social Development savings strategy. This will give Ministers choices about phasing of savings, including savings that could be considered for Budget 26.
- As part of the Budget 25 package, I have submitted:
    - An Employment invest to save proposal (savings of around $374 million)
    - Four options for potential policy savings ($288.6 million):

- ▪ s9(2)(f)(iv) [redacted]
- ▪ s9(2)(f)(iv) [redacted]
- ▪ Tightening eligibility for 18-19 year olds for Jobseeker Support
- ▪ Increasing entry threshold for homeowners receiving the accommodation supplement
  - Other savings ($279.4 million).
- In addition to identifying savings for the Government's work programme, I am focused on realising sufficient savings to offset cost pressures in 2025/26 and deliver on the Te Pae Tawhiti Work programme – s9(2)(f)(iv) [redacted]

The Baseline Savings Programme

- This is all background for what we have come to discuss today: potential areas for additional savings as part of the Baseline Savings Programme you are leading.
- I have identified three potential areas in Vote Social Development you could consider for exploration as part of your Baseline Savings Process. I want to clarify upfront that these are three areas that meet the criteria for the Baseline Savings Programme and are areas where significant savings could be identified.
- I have not considered these as potential savings for the Budget process and would not propose these as part of my policy agenda for this portfolio, particularly consideration of any changes to s9(2)(f)(iv) [redacted]
- Working with MSD, I have identified areas to explore that:
  - are large appropriations (where the Budget for 2024/25 is over $400 million)
  - do not conflict with my priorities including the Jobseeker Support target, and reducing Child Material Hardship and Disability
  - are not part of the general Budget 2025 process and have not been in previous baseline savings processes.
- The three areas are:
  - s9(2)(f)(iv) [redacted]
  - Income charging improvements
  - s9(2)(f)(iv) [redacted].

1. s9(2)(f)(iv) [redacted]

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

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

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

s9(2)(f)(iv)

- [redacted]
- [redacted]

3. Income charging improvements

- Changes to how MSD collects information about salary and wages that people receive could be an area for savings.
- There is a challenge with people incorrectly or not declaring income from wages and salary to MSD. This manifests as overpayments or underpayments which has negative impacts for clients and the Government.
- At the moment, MSD can only manually check around 10 percent of the records received from Inland Revenue under existing integrity processes, which does not include all clients. This is because it requires staff time to manually review the information. Where errors are found this generally results in the establishment of overpayment debt in these cases.
- Following Inland Revenue's Business Transformation, MSD has an opportunity to harness Inland Revenue's more detailed and timely PAYE wages and salary income information to improve the accuracy of income charging for people working and receiving an abated benefit or supplementary assistance payment.
- This would see MSD pay less financial assistance as it would have near real-time income information sourced from Inland Revenue as opposed to relying on clients to declare, and the charging process would be automated.
- To fully utilise PAYE information from Inland Revenue we would need to make policy, legislative, and operational settings, to receive the information and to automate its use. Because income touches almost every part of MSD's system there is operational and system complexity to implement changes, which would require multiple years for implementation.
- An initial estimate of savings for BoRE is around $300 million per year.

4. s9(2)(f)(iv) [redacted]

s9(2)(f)(iv)

- [redacted]
- [redacted]

s9(2)(f)(iv)

[redacted]

Clarifying which options to explore for 13 February submissions

- I am aware that submissions are due on 13 February. To maximise what officials can achieve by this date, we need to confirm which of these areas you would like us to work up.
- I also want to understand how the genesis of these initiatives will be framed as some of these areas reach over Coalition Agreements, or were discounted by the Prime Minister prior to Budget 24. I am comfortable with these being framed as you asking me to work with my agency on what options could look like. But I am not proposing these as options myself.
- There are capacity limits for MSD which means that for any areas you want to explore in this process need to weigh up the quantum of enduring savings against decisions in Budget 2025 for savings and other things that I have already asked MSD to do.

Understanding broader process and any impact on other Votes

- I am interested in the cumulative impact of savings and revenue raising initiatives, particularly on those with fixed incomes and for families with children. I am thinking about this within my own Vote, and wonder whether you have considered this across your Baseline Savings Programme?

- Areas to consider may also have impacts for or require effort by other portfolios – including Inland Revenue – and this is something that hasn't been raised with them.

Reactive talking points

Treasury proposed these areas for exploration so you may need reactive talking points.

Employment

- I do not suggest any additional savings measures for Employment Assistance (EA) programmes.
- These programmes support my employment priorities and deliver to the Government's target of fewer people receiving Jobseeker Support.
- Overall spending on EA was $539 million in 2023/24, which is relatively low compared to the OECD countries and per capita.
- In 2023/24, around 94% of the spending that was assessed with statistical modelling was found to be effective at reducing peoples' time on benefit.
- Around $450 million (84%) of total EA spend has been or will be formally evaluated using statistical modelling.
- For the remaining balance of $89 million (16%) that cannot be formally evaluated using this method, MSD uses international literature and other evidence to assess which interventions are worthwhile.
- I am confident that MSD continually monitors and evaluates programmes, making changes when they are not effective.

Accommodation Supplement

- I have agreed with the Ministers of Finance and Housing not to consider additional savings measures for the Accommodation Supplement (AS) at this time
- s9(2)(f)(iv) [redacted]

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

Family Violence and Sexual Violence programmes

- Changes to FV/SV funding are systematically and collectively considered by FV/SV Ministers to ensure a coordinated, system-wide approach to savings and reprioritisation. Te Puna Aonui agencies will be working with Te Puna Aonui Business Unit and the Social Investment Agency to begin a full review of investment across the FV/SV portfolio this year, which is an action in the second Te Aorerekura Action plan. This work will be used to inform collective investment decisions going forward.
- My priority within the FV/SV portfolio is to reprioritise available funding towards violence prevention initiatives.
- There is already an overall reduction in MSD's FV/SV funding of $13.398 million for 2025/26, as time-limited funding for several initiatives ends.
- MSD's FV/SV funding is almost completely invested in multi-year funding agreements. Any significant changes would require early termination of these contracts, leading to sector disruption and uncertainty for clients and providers.

Appendices

- Appendix 1 – Template for initial engagement
- Appendix 2 – Overview of Vote Social Development and drivers
- Appendix 3 – Further detail of proposed savings options
- Appendix 4 – Accommodation Supplement
- Appendix 5 – MSD Budget 2025 strategy A3
- Appendix 6 - Overview of policy changes from 2017 – 2023

Responsible manager: Sacha O'Dea – Deputy Chief Executive, Strategy and Insights

Hon Louise Upston

Minister for the Community and Voluntary Sector
Minister for Disability Issues
Minister for Social Development and Employment
Minister for Tourism and Hospitality
Minister for Child Poverty Reduction
Deputy Leader of the House

Hon David Seymour
Associate Minister of Finance
Parliament Buildings
Wellington

Dear David

Thank you for the opportunity to discuss our contribution to your Baseline Savings Programme. I am committed to supporting the Government's fiscal sustainability objectives and ensuring New Zealanders get the best value from public funding.

As discussed at our meeting earlier this week, I have identified potential areas in Vote Social Development for you to consider as part of your Baseline Savings Programme. This letter contains additional information about the options you have indicated interest in. It also seeks your confirmation regarding which options you would like the Ministry of Social Development (MSD) to continue to develop for the submission to Treasury on 13 February 2025.

In addition, you asked for further information about MSD staff numbers.

s9(2)(f)(iv)

[redacted]

Income charging

MSD can change the way that salary and wage information is captured and used for the purpose of benefit entitlement as an area for savings.

There is a challenge with people incorrectly or not declaring income from wages and salary to MSD. This manifests as overpayments or underpayments which has negative impacts for clients and the Government.

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Inland Revenue's business transformation, provides an opportunity to harness its more detailed and timely PAYE wages and salary income information to improve the accuracy of income charging for clients.

We currently do not make full use of the information available from Inland Revenue due to system and policy constraints. This area has not previously been canvassed in savings processes and would be an enduring change as we would capture more information about salary and wages. An initial estimate of savings for Benefits or Related Expenses (BoRE) is around $300 million per year once fully implemented.

To fully utilise PAYE information from Inland Revenue would require changes to policy, legislative, operational and IT system settings, to receive the information and to automate its use. Because income touches almost every part of MSD's system, there is operational and system complexity to implement changes which would require multiple years for implementation. This work is both a key policy and legislative enabler for MSD's Te Pae Tawhiti Programme, s9(2)(f)(iv) [redacted] s9(2)(f)(iv) s9(2)(f)(iv) Given this, it would not be possible to progress this option in Budget 2025 but, if agreed, work could start and can be factored into future Budget processes.

Officials are due to provide me with substantive advice on income charging in March 2025, which will cover next steps and timelines. MSD will provide the information it has to date by the submission deadline next month.

Ministry of Social Development staff numbers

MSD currently has 8,993.65 full time equivalent staff (FTE), comprised of 8,495.54 permanent and 498.11 fixed term employees (as at 27 January 2025).

In June 2017, MSD had 6,799 FTE. The difference in FTE between June 2017 and June 2025 is approximately 1,960 FTE, made up of the following:

New funding or expanded functions established since 2017, including a decision arising from Treasury's baseline review to increase employment case management capacity (see Appendix 2)	1,162 FTE
Functions funded by other agencies and capital	132 FTE
Additional Service Delivery roles (time-limited funding ending October 2025)	490 FTE
Remaining difference between June 2017 and October 2025 This is a point in time. MSD will continue to actively manage FTE numbers, including reductions through attrition and vacancy management. MSD's numbers will also fluctuate due to the size of the organisation, seasonal demand and activities such as forward recruitment to minimise impact on clients.	*+176 FTE*

By June 2025, MSD is projected to further reduce to approximately 8,759 FTE. By October 2025, time-limited funding will expire resulting in a further reduction of 490 FTE.

s9(2)(f)(iv)

[redacted]

Next steps

Once you have confirmed which policy options you would like MSD to continue working on, it will develop templates for these initiatives to be submitted to the Treasury for next month's deadline.

Yours sincerely

Hon Louise Upston
Minister for Social Development and Employment

Report

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Date: 13 February 2025 **Security Level:** BUDGET SENSITIVE

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

Reference: REP/25/2/079

Budget 2025 – Talking points for Ministerial engagement

Purpose

1 This report provides you with talking points to support Ministerial engagement on Budget 2025 proposals in the week beginning 17 February.

Recommendations

It is recommended that you:

1 **note** you have bilateral meetings scheduled in the first week of March with the Minister of Finance (MoF)

2 **note** that we recommend that you engage with Ministerial colleagues prior to the Social Development and Employment bilateral on 6 March

3 **note** that we have provided talking points to support engagement in Appendices One to Three

4 **note** that we understand that you have discussed the housing initiatives with the Minister of Housing, and we can provide talking points to support a discussion with the Associate Minister of Housing if you wish

5 **note** that an updated Budget Strategy A3 with the latest figures is attached as Appendix Four

6 **note** we will provide draft material to support your bilateral meetings by 21 February

7 **discuss** this report at your Officials' meeting on 17 February.

13/2/25

Sacha O'Dea
Deputy Chief Executive, Strategy and Insights

Date

Hon Louise Upston
Minister for Social Development and Employment

Date

The Aurora Centre, 56 The Terrace, PO Box 1556, Wellington
– Telephone 04-916 3300 – Facsimile 04-918 0099

Dates have been set for bilateral meetings

2 Now that we have more certainty about the bilateral meetings with MoF, we have updated the Budget 2025 process timeline between now and early March, set out below.

3 This does not include the 13 February submission deadline for the Baseline Savings Programme led by Hon David Seymour. The timeline has been extended until 21 February, but will depend on the timing of a response to your letter from the end of January.

Key:	**Advice you will receive Ministerial meeting Specific deadline**
Week beginning Monday 17 February	Engagement with your Ministerial colleagues about your Budget 2025 proposals
Wednesday 19 February	MSD due to provide information regarding current year spending for Disability Support Services (actuals and forecasts), and the implications of current year spend for 2025/26 to the Treasury
Friday 21 February	Advice to support your bilateral meetings with MoF, including talking points (three separate aide memoires)
Wednesday 5 March 7:00pm - 7:30pm	Bilateral meeting with MoF – Working for Families (also includes the Minister of Revenue)
Wednesday 5 March 7:45pm - 8:30pm	Bilateral meeting with MoF – Housing (also includes the Minister of Housing and the Associate Minister of Housing)
Thursday 6 March 10:30am - 11:15am	Bilateral meeting with MoF – Vote Social Development

Ministerial engagement

Talking points

4 We recommend that you engage with your colleagues regarding initiatives with impacts on other portfolios before your bilateral meetings. We have provided you with key talking points, attached as Appendices One to Three, to assist your engagement with:

- Hon David Seymour and Hon Shane Jones as Associate Ministers of Finance (attached as Appendix One)
- members of the Child and Youth Ministers Group (particularly the Minister of Health, Minister for Youth, and Minister for Children) (attached as Appendix Two), and
- Hon Erica Stanford as Minister of Education and Minister of Immigration (attached as Appendix Three)

5 You have previously discussed the Budget 2025 housing initiatives with the Minister of Housing, and we can provide talking points to support a discussion with the Associate Minister of Housing should you require it.

6 We will also provide separate advice regarding Working for Families.

Budget Strategy

7 An updated Budget Strategy A3 is attached as Appendix Four for your reference and includes the latest costings.

8 The only significant costing change is the employment invest-to-save initiative. s9(2)(g)(i) [redacted]

s9(2)(g)(i) [redacted]

Disability Support Services

9 As part of the Budget 2025 letter, MoF invited officials to provide information to the Treasury around current year spending (actuals and forecasts), and the implications of current year spend for 2025/26 by 19 February 2025 (incorporating January actuals). We have been discussing this with the Treasury and will provide information summarising:

- the year-to-date spend on service provision, up to 31 January 2025;
- the projected expenditure for the remainder of the year; and
- any implications of the current year spend on the next financial year (2025/26).

10 The information is due to the Treasury by 19 February. We will provide an update to your office next week.

Next steps

11 We recommend that you discuss the contents of this report at your Officials' meeting on 17 February.

12 We will provide advice by 21 February to support your bilateral meetings with MoF in early March.

Appendices

Appendix One – Talking points for engagement with Associate Ministers of Finance

Appendix Two – Talking points for engagement with Ministers from the Child and Youth Ministers Group

Appendix Three – Talking points for engagement with the Minister of Immigration and Minister of Education

Appendix Four – Updated Budget Strategy A3

Responsible manager: Sacha O'Dea, Deputy Chief Executive, Strategy and Insights

Appendix One – Talking points for engagement with Associate Ministers of Finance

This Appendix provides talking points to support a discussion with the Associate Ministers of Finance from your coalition partners – Hon David Seymour and Hon Shane Jones.

Key talking points

- I am committed to supporting the Government's fiscal sustainability objectives and to ensuring that our resources are directed towards the highest value investments.
- In Budget 2024, I contributed over $700m in savings from the Social Development and Employment portfolio. That included savings from my Emergency Housing invest-to-save initiative and since then, there has been a further reduction in the Emergency Housing appropriation of $703.6m in HYEFU 24.
- For Budget 2025, I am proposing that further savings be realised from targeted policy savings and other savings.

Targeted Policy Savings

- My targeted policy savings proposals include:
  s9(2)(f)(iv)
  - [redacted]
  - [redacted]
  - Tightening eligibility to Jobseeker Support Benefit and Emergency Benefit for people aged 18 and 19 years (estimated net savings of $173.4m over five years).
    - Currently the minimum age requirement to apply for Jobseeker Support is 18. This option adds a parental support gap test to the

Jobseeker Support and Emergency Benefit eligibility criteria for people aged 18 and 19. The test would ensure only people whose parents cannot or will not financially support them could access Jobseeker Support or Emergency Benefit.

    - There are no easy options to generate fiscally significant savings, and there are some choices and trade-offs that need to be made given this option would have significant impacts for New Zealanders e.g. placing additional financial pressure on families and community service providers.
    - Due to the flow-on implications and design complexity, MSD estimates it will take 18 months (from 1 July 2025) to implement this proposal.

  - Increasing Accommodation Supplement (AS) entry threshold for homeowners (estimated net savings of $46.4m over five years).
    - AS is currently available to homeowners who spend at least 30 percent of their income on their accommodation costs. I am proposing to increase this threshold to 40 percent for AS homeowners, excluding those receiving NZ Superannuation, Veteran's Pension or Supported Living Payment. For context, the 'housing cost overburden rate' used by the OECD measures the proportion of households or population that spend more than 40 percent of their disposable income on housing costs.
    - The AS entry threshold for other tenure types (such as renters and boarders) is currently 25 percent. The additional five percent acknowledges that the AS payment to homeowners also helps the recipient to acquire an asset. However, there is a lack of justification as to why this was valued at five percent of income. Some homeowners also have options to manage accommodation costs that renters and boarders do not, such as rates rebates, refinancing and repayment holidays.
    - Out of approximately 25,000 homeowners receiving AS (excluding those receiving NZ Superannuation/Veteran's Pension or the Supported Living Payment), the change is forecast to reduce the accommodation assistance received for 9,900 recipients and reduce the AS to zero for 1,300 recipients.
    - This initiative would not apply to recipients of NZ Superannuation/Veteran's Pension or the Supported Living Payment. These homeowners will continue to have their AS assessed on 30 percent of their income.
    - I have discussed priorities with the Minister of Housing and we are proposing that some of the savings from this initiative be reprioritised to adjust Accommodation Supplement Area Boundaries and introduce a mechanism for future adjustment to reflect urban expansion (at a cost of $22.8m). This aligns with the Government's commitment that more regular updates to AS geographic boundaries would help the AS remain fit-for-purpose, in response to a petition to rezone the AS earlier in the year.
    - The net savings from these two initiatives are $23.6m.

- The Ministry of Social Development only has capacity to progress two Targeted Policy Savings initiatives through Budget 2025 – the AS initiative plus one of the remaining three Targeted Policy Savings proposals. Ministers will therefore need to make decisions regarding the phasing of savings, including savings that could be considered for Budget 2026.

- I am also aware that Ministers may consider options around s9(2)(f)(iv) [redacted] and Working for Families that MSD will need to implement.

Invest-to-save s9(2)(g)(i) [redacted]

- As you are aware, we have an ambitious Government target to reduce the number of people on Jobseeker Support to 140,000 by 2030. To achieve this challenging target, I am proposing an invest-to-save proposal to enable us to meet with more young jobseekers and those with health conditions and disabilities.
- s9(2)(g)(i) [redacted] It includes three key components:
    - o Maintaining current levels of Case Management – the proposal would enable MSD to retain 490 frontline staff, where funding is due to end on 30 September 2025.
    - o Community Job Coaching – the proposal includes funding for the Government's manifesto commitment for Community Job Coaches as part of Welfare that Works.
    - o Continuing employment programmes – the proposal would enable MSD to continue delivering key employment programmes that have time-limited funding set to expire, including Flexi-wage, Regional Employment Placement Programmes, Oranga Mahi IPS and Here Toitu.
- An invest-to-save approach draws on MSD's strong employment programme evidence base. The initiative would:
    - o enable MSD to maintain current levels of income and employment support, targeting specific cohorts
    - o support delivery of the Jobseeker target
    - o manage the risk of time-limited funding expiring, and
    - o gather evidence about benefits over the longer term to provide learnings for MSD's Te Pae Tawhiti programme and future employment investment strategies.
- The proposal utilises MSD's joint invest-to-save framework with the Treasury, and agencies will continue to work through assumptions and refine costings.

Other savings

- In addition to my Targeted Policy Savings proposals and invest-to-save initiative, I am proposing other savings through Budget 2025, including Automated Decision-Making changes (estimated net savings of $220m over five years), and the return of some other funding (approximately $58m over the forecast period).

Detailed supporting material (back pocket)

Invest-to-save

- As you are aware, we have an ambitious Government target to reduce the number of people on Jobseeker Support to 140,000 by 2030. To achieve this challenging target, I am proposing an invest-to-save proposal to enable us to meet with more young jobseekers and those with health conditions and disabilities. s9(2)(g)(i) [redacted]

- Based on modelling to 30 September 2022, young people under 25 and currently on a main benefit are estimated to spend on average 20.4 future years supported by a main benefit, and people on Jobseeker Support – Health Condition and Disability are estimated to spend on average 12.3 future years supported by a main benefit.
- This proposal will include investment in my welfare that works programme, maintaining current levels of Case Management and investment in evidence-based employment programmes.

Invest-to-save initiative to support specific cohorts into employment

- In December 2023, 190,000 people were receiving Jobseeker Support. The Government has a target for there to be 50,000 fewer people on Jobseeker Support Benefit by 2030. At HYEFU 2024 we had forecast that the number of people receiving Jobseeker Support would peak at around 215,900 people in January 2025.
- As part of the Jobseeker target delivery plan, MSD already has a range of increased activation activities under way, such as Kōrero Mahi work seminars and phone-based case management. Based on current levels of funding this enables us to work actively with around 70,000 people at a time in dedicated employment case management.
- Continued investment in case management and employment programmes would enable MSD to maintain current levels of income and employment support, targeting specific cohorts. The continued investment would support target delivery, manage the risk of time-limited employment funding coming to end and gather evidence about benefits over the longer term to provide learnings for MSD's Te Pae Tawhiti programme and future employment investment strategies.

Increasing funding for case management

- An invest-to-save approach draws on existing case management evidence from the original investment approach work that showed that the return on investment of a similar service in 2017 was positive. Continued strengthening of our evidence base through an agreed monitoring and evaluation plan will occur. This proposal would enable MSD to retain 490 frontline staff, where funding is due to end on 30 September 2025.
- MSD proposes to invest for two years in a combination of frontline and phone-based case management to target young jobseekers and those with a health condition or disability. It would also incorporate an expansion of the Welfare that Works approach.

Increasing funding for employment programmes

- There is currently a $117m reduction in employment programme funding from the 2024/25 to the 2025/26 financial year.
- An invest-to-save approach draws on MSD's strong employment programme evidence base. MSD proposes to invest for two years into evidence-based high impact employment programmes, such as Flexi wage. This initiative utilises the framework developed with the Treasury. It allows savings from forecast reductions in Jobseeker numbers to be recognised.

Appendix Two – Talking points for engagement with Ministers from the Child and Youth Ministers Group

This Appendix provides talking points to support a discussion with Ministers from the Child and Youth Ministers Group – particularly Hon Simeon Brown (Minister of Health) and Hon James Meager (Minister for Youth) in their new portfolios, as well as Hon Karen Chhour (Minister for Children).

Child and Youth Strategy

- Cabinet has agreed that the refreshed Child and Youth Strategy focus on three key priorities:
  - supporting children and families in the first 2,000 days
  - reducing child material hardship, and
  - preventing child harm.
- These priorities span Ministerial portfolios and contribute to outcomes across multiple domains, including in areas where we have set Government and portfolio targets.
- Making progress in our Strategy priorities requires us to coordinate our efforts and identify opportunities to deliver greater value and impact across the system.
- As lead Minister for the Child and Youth Strategy, I am proposing an investment approach focused on reprioritisation opportunities and pooling investment across portfolios.
- This will require collaborative work across Ministerial portfolios and agencies, and I therefore suggest that Ministers look to progress the investment approach through Budget 2026.
- However, I am keen to start the process through Budget 2025 for Vote Social Development, and to this end I have submitted a Budget 2025 bid seeking to reprioritise funding from the Vote to help deliver on our priorities in the Strategy.
- I am proposing to reprioritise $40m over four years from Vote Social Development to support three initiatives. I am not seeking any new funding through this bid.

  1. Continue the KickStart Breakfast programme for a further year ($1.23m in 2025/26)
  - Government will continue to partner with Fonterra and Sanitarium to provide daily free breakfasts to more than 42,000 students in over 1,400 schools.
  - Currently, there is no funding appropriated for the Government contribution to continue beyond the 2024/25 financial year. Continuing the funding for a further year will provide continuity while the Ministry of Education completes the review of broader provision of food in schools.
  - Continuing this initiative will contribute to reducing child material hardship.

  2. Continue provision of jackets by KidsCan in schools ($750,000 across two years)
  - KidsCan will be funded to continue to provide 17,500 waterproof jackets to schools over the next two years.

  - Currently, there is no funding appropriated for this KidsCan programme beyond the 2024/25 financial year.
  - Continuing this initiative will contribute to reducing child material hardship.

  3. Establish a contingency to fund evidence-based parenting programmes ($38m across four years).

  - The contingency would be used to purchase the provision of prevention-focused programmes and resources that support positive parenting practices in the first 2,000 days of children's lives (conception to age 5).
  - This initiative will contribute to supporting children and their families in the first 2,000 days and to preventing child harm.

- This bid will contribute towards the Strategy priorities that this Government has agreed. It also supports our Government's social investment approach of using evidence to invest in early intervention initiatives which we know work, and which can save money in the long run.
- As a Minister on the Child and Youth Ministers Group, you have a key role in driving improved outcomes for our children and youth, and this bid is relevant to your portfolio and your work programmes.
- I would appreciate your support for this bid, which will demonstrate our Government's commitment to delivering on the Strategy and to reprioritising funding towards what works.
- I also look forward to working with you and other members of the Child and Youth Ministers Group on my proposed cross-portfolio investment approach for Budget 2026 and beyond.

Food Secure Communities

You may also wish to discuss your food proposal, which also has an impact on children and youth.

- I also intend to reprioritise funding to invest $15m in 2025/26 to continue the Food Secure Communities programme for one more year (at 2024/25 levels). The investment will fund:
  - existing national and regional food distribution infrastructure to cost-effectively distribute bulk and rescued food
  - community-based food security initiatives giving them more time to transition to self-sustaining funding models
  - community-level food providers, including foodbanks
  - an evaluation of the programme within the wider food support eco-system to enable the development of more self-sustaining pathways for food security.
- The continued investment is needed in 2025/26 to support families with ongoing cost-of-living pressures. Treasury now expects the pace of economic recovery to be slower than previously forecast and unemployment to remain higher for longer.
- The benefits of the programme include:
  - providing value-for-money, including through rescuing surplus food and sourcing supplies significantly below retail costs.

- promoting a whānau-centred approach which especially benefits children and aligns with the *increased student attendance* Government target
- reducing greenhouse gas emissions through food rescue.

- MSD will continue to work with other agencies and community partners to explore ways to transition the Food Secure Communities work programme onto a more self-sustaining basis.

Appendix Three – Talking points for engagement with the Minister of Immigration and Minister of Education

This Appendix provides talking points to support a discussion with Hon Erica Stanford who is both Minister of Education and Minister of Immigration.

Key talking points

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

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

Tightening eligibility to Jobseeker Support Benefit (JS) and Emergency Benefit (EB) for people aged 18 and 19 years (estimated net savings of $173.4m over five years)

- We have other initiatives in the Budget 2025 package that may be of interest to you as the Minister of Education, such as tightening eligibility to Jobseeker Support Benefit (JS) and Emergency Benefit (EB) for people aged 18 and 19 years.
- Currently the minimum age requirement to apply for Jobseeker Support is 18. This option adds a parental support gap test to the JS and EB eligibility

criteria for people aged 18 and 19. The test would ensure only people whose parents cannot or will not financially support them could access JS or EB.

- This option is fiscally significant with net savings estimated at $173.4m over five years when accounting for lead-in of 18 months.
- There are no easy options to generate fiscally significant savings, and there are some choices and trade-offs that need to be made given this option would have significant impacts for New Zealanders, e.g. placing additional financial pressure on families and community service providers.
- Due to the flow-on implications and design complexity, MSD estimates it will take approximately 18 months (from 1 July 2025) to implement this proposal.

Invest-to-save s9(2)(g)(i) [redacted]

- As you are aware, we have an ambitious Government target to reduce the number of people on Jobseeker Support to 140,000 by 2030. To achieve this challenging target, I am proposing an invest-to-save proposal to enable us to meet with more young jobseekers and those with health conditions and disabilities.
- s9(2)(g)(i) [redacted] It includes three key components.
    - Maintaining current levels of Case Management – the proposal would enable MSD to retain 490 frontline staff, where funding is due to end on 30 September 2025.
    - Community Job Coaching – the proposal includes funding for the Government's manifesto commitment for Community Job Coaches as part of Welfare that Works.
    - Continuing employment programmes – the proposal would enable MSD to continue delivering key employment programmes that have time-limited funding set to expire, including Flexi-wage, Regional Employment Placement Programmes, and Oranga Mahi IPS and Here Toitu.
- An invest-to-save approach draws on MSD's strong employment programme evidence base. The initiative would:
    - enable MSD to maintain current levels of income and employment support, targeting specific cohorts
    - support delivery of the Jobseeker target
    - manage the risk of time-limited funding expiring, and
    - gather evidence about benefits over the longer term to provide learnings for MSD's Te Pae Tawhiti programme and future employment investment strategies.
- The proposal utilises MSD's joint invest-to-save framework with the Treasury, and agencies will continue to work through assumptions and refine costings.

Detailed supporting material (back pocket)

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

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

Tightening eligibility to Jobseeker Support Benefit (JS) and Emergency Benefit (EB) for people aged 18 and 19 years

- Tightening JS eligibility for 18-19-year-olds could create perverse incentives for people to apply for other assistance. For instance, people may apply for a Student Allowance or Student Loan with no intent to finish study.
- We are not able to estimate the impact of this because it is difficult to know what proportion of the affected cohort would be likely to take-up study without historic data to support this assumption.
- At this stage there are no changes to the eligibility of Jobseeker Support Student Hardship.

Invest-to-save

- As you are aware, we have an ambitious Government target to reduce the number of people on Jobseeker Support to 140,000 by 2030. To achieve this challenging target, I am proposing an invest-to-save proposal to enable us to meet with more young jobseekers and those with health conditions and disabilities. The proposal is estimated to deliver net savings of approximately $300m over the forecast period.
- Based on modelling to 30 September 2022, young people under 25 and currently on a main benefit are estimated to spend on average 20.4 future years supported by a main benefit, and people on Jobseeker Support – Health Condition and Disability are estimated to spend on average 12.3 future years supported by a main benefit.
- This proposal will include investment in my welfare that works programme, maintaining current levels of Case Management and investment in evidence-based employment programmes.

Invest-to-save initiative to support specific cohorts into employment

- In December 2023, 190,000 people were receiving Jobseeker Support. The Government has a target for there to be 50,000 fewer people on Jobseeker Support Benefit by 2030. At HYEFU 2024 we had forecast that the number of people receiving Jobseeker Support would peak at around 215,900 people in January 2025.
- As part of the Jobseeker target delivery plan, MSD already has a range of increased activation activities under way, such as Kōrero Mahi work seminars and phone-based case management. Based on current levels of funding this enables us to work actively with around 70,000 people at a time in dedicated employment case management.
- Continued investment in case management and employment programmes would enable MSD to maintain current levels of income and employment support, targeting specific cohorts. The continued investment would support target delivery, manage the risk of time-limited employment funding coming to end and gather evidence about benefits over the longer term to provide learnings for MSD's Te Pae Tawhiti programme and future employment investment strategies.

Increasing funding for case management

- An invest-to-save approach draws on existing case management evidence from the original investment approach work that showed that the return on investment of a similar service in 2017 was positive. Continued strengthening of our evidence base through an agreed monitoring and evaluation plan will occur. This proposal would enable MSD to retain 490 frontline staff, where funding is due to end on 30 September 2025.

- MSD proposes to invest for two years in a combination of frontline and phone-based case management to target young jobseekers and those with a health condition or disability. It would also incorporate an expansion of the Welfare that Works approach.

Increasing funding for employment programmes

- There is currently a $117m reduction in employment programme funding from the 2024/25 to the 2025/26 financial year.
- An invest-to-save approach draws on MSD's strong employment programme evidence base. MSD proposes to invest for two years into evidence-based high impact employment programmes, such as Flexi wage. This initiative utilises the framework developed with the Treasury. It allows savings from forecast reductions in Jobseeker numbers to be recognised.

Report

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Date:	21 February 2025	**Security Level:**	BUDGET SENSITIVE
To:	Hon Louise Upston, Minister for Social Development and Employment		
File Reference:	REP/25/2/122		

Budget 2025 update – preparing for March bilaterals

Purpose of the report

1 You have three Budget 2025 bilateral meetings with the Minister of Finance (MoF) on Wednesday 5th and Thursday 6th March. Ministry of Social Development (MSD) officials are meeting with you online next week to prepare for these bilateral meetings. This report provides you with:

1.1 a draft aide memoire for the Social Development bilateral

1.2 a proposed agenda for our discussion next week, including choices about proposed sequencing of savings proposals and changes to the Employment Invest to Save proposal

1.3 an update on the Baseline Savings Programme.

2 Draft aide memoires are also being provided for the other two bilaterals, which will also be discussed at our online meeting next week.

Recommended actions

It is recommended that you:

1 **note** you are meeting with MSD officials next week to prepare for your upcoming bilateral meetings

2 **note** our proposed agenda for discussion at this meeting (Annex 2)

3 **discuss and provide feedback** on the provisional sequencing and phasing of initiatives (Annex 3)

4 **agree** to receive further advice regarding:

4.1 this sequencing of Budget 2025 initiatives, following discussion and incorporation of your feedback

AGREE / DISAGREE

4.2 the implications of implementing all the Budget 2025 initiatives on the pipeline of policy, legislative and change work on MSD's work programme

AGREE / DISAGREE

5 **note** that MSD has been working through an iterative process with Treasury to thoroughly test this proposal

6 **note** that we are proposing to make changes to the proposal to optimise the savings profile, while still delivering on Welfare that Works and making progress on the Jobseeker Support target

7 **discuss** the employment invest-to-save initiative

8 **indicate** whether you require any further information or material to support your bilateral meetings

9 **note** that MSD may be able to provide more information once the Treasury have provided advice to their Minister on 28 February

10 **note** the Treasury are preparing a report for the Cabinet Expenditure and Regulatory Review Committee (EXP) regarding Performance Plans, and will assign a RAG rating to each Plan.

21/2/25

Sacha O'Dea
Deputy Chief Executive
Strategy and Insights

Date

Hon Louise Upston
Minister for Social Development and Employment

Date

Preparing for the March bilateral meetings

3 Three bilateral meetings have been scheduled for the first week of March: Social Development, Housing, and Working for Families.

4 A draft aide memoire for the Social Development bilateral is attached (Annex 1) for you to discuss with officials next week during your bilateral preparation meeting. You may wish to provide feedback or request further information during this discussion.

5 A proposed agenda for the meeting with MSD officials next week to prepare for your upcoming bilateral meetings is attached as Annex 2.

6 Final versions of the aide memoire will be provided on Monday 3 March, following our discussion.

7 We anticipate that Treasury will be providing its final briefing material to MoF in the weekend bag prior to the bilateral meetings. We will include the latest information we have from Treasury in the final aide memoire on 3 March 2025.

Sequencing and phasing of initiatives

8 We have previously indicated that it would not be possible to implement all the targeted policy savings and other savings initiatives at the same time.

9 We have undertaken further work to understand what sequencing of implementation would look like if we were asked to book and deliver all the initiatives as part of Budget 2025. We have staggered the implementation dates to account for:

9.1 when capacity becomes available (starting from implementation of Traffic Light System Phase 2 and 26-week reapplications, and following go-live of Digital Employment Service)

9.2 client impacts (e.g. of Budget 2024 changes for Accommodation Supplement and then Budget 2025 proposals for Accommodation Supplement)

9.3 staff impacts (to allow change to be embedded before the next initiative goes live)

9.4 largest savings being implemented first (ADM and Jobseeker Support – tightening eligibility for 18-and-19-year-olds).

10 Annex 3 sets out the estimated implementation timing for the initiatives. Overall, we have determined that:

10.1 MSD can implement all the initiatives through Budget 2025, but it will take more time than was indicated for individual initiatives when progressing all of them

10.2 a shift in go-live dates will reduce total savings over the forecast period

10.3 it will be challenging to fit any additional change into the schedule and this will impact other priorities in the portfolio. For example – this timing does not account for any changes you may want to consider for s9(2)(f)(iv) [redacted]

11 We can provide further advice on:

11.1 timing and fiscal impacts to reflect any preferred prioritisation for the sequencing of initiatives

11.2 what capacity remains for change and how this impacts your Ministerial work programme over 2025 and 2026.

12 This analysis does not include impacts from the Baseline Savings Programme initiatives, or initiatives led by other agencies. Any additional work will put pressure on this schedule and delivery of existing initiatives may be delayed.

Employment invest-to-save update

13 Over the last month, we have been working through an iterative process with Treasury to:

13.1 respond to questions on the proposal

13.2 test the assumptions underpinning the bid including costs and operational assumptions

13.3 understand the evidence used to support proposed return on investment for different components of the bid

13.4 review MSD's analysis, parameters and assumptions for non-participant effects

13.5 quality assure the modelling.

14 s9(2)(g)(i) [redacted]

15 s9(2)(g)(i) [redacted] we are proposing to make changes to the proposal that we would like to discuss with you. The key objectives are to:

15.1 optimise the savings profile

15.2 secure funding for Welfare that Works for at least two years

15.3 retain 490 frontline FTE to support achievement of the Jobseeker Support target.

16 The revised proposal includes:

16.1 changing the Welfare that Works package from four years to two years. This allows us to recognise the savings in years three and four for the investment made in years one and two. The original four-year option meant that participants starting in year four would realise the majority of their savings outside the constraints of the Treasury model and was therefore negating savings in the bid. It also allows us to complete a formal evaluation before submitting a future bid for the funding for years three and four.

16.2 including funding for the Skills for Industry programme of $10m per year across two years. MSD plans to be more targeted towards Jobseeker cohorts and in particular increased investment for Jobseeker-HCD clients who have a high return on investment for the programme. By introducing this additional funding of $20m across two years, it produces net savings of $18.5m.

17 MSD is still working on revised modelling to try to improve the savings profile and will provide an update when we meet next week. As at 21 February, the estimated savings across the forecast period are set out in the table below:

Components	**Costs ($m)**	**Gross savings with no substitution replacement effects ($m)**	**Gross savings based on 30% substitution replacement effects ($m)**	**Gross savings based on 50%/30% substitution replacement effects ($m)**
Employment Related Case Management	$128.818m	($371.571m)	($260.100m)	($260.100m)
Welfare that Works (2 years)	$72.019m	($94.428m)	($66.100m)	($66.100m)
Testing for JS-HCD	$4.000m	Unable to Forecast Savings		
Employment programmes	$138.463m	($344.146m)	($240.902m)	($189.306m)
Total	**$343.301m**	**($810.145m)**	**($567.102m)**	**($515.506m)**
Costs	**$343.301m**			
Total savings less costs	**N/A**	**($466.845m)**	**($223.801m)**	**($172.205m)**

18 We will update the talking points for your bilateral meeting following our pre-meet with you next week.

Disability Support Services

19 As part of the Budget 2025 letter, MoF invited MSD to provide information to the Treasury by 19 February 2025, regarding the following for Disability Support Services (DSS):

19.1 current year spending

19.2 the implications of current year spend for 2025/26.

20 We provided a report to the Treasury on 19 February, which advised them on:

20.1 the year-to-date spend on service provision, up to 31 January 2025

20.2 the projected expenditure for the remainder of the financial year

20.3 any implications of the current year spend on the next financial year (2025/26).

21 We understand that the Treasury will be including DSS information in their advice for the bilateral, and MoF will likely want to discuss this with you. We have provided talking points to support this discussion in the draft aide memoire attached as Annex 1.

Other Budget 2025 updates

Performance Plan update

22 MSD submitted the MSD Performance Plan and draft DSS Performance Plan to Treasury in November 2024.

23 Treasury shared Performance Plans with MoF and Minister Seymour in December 2024, along with central agencies' insights on the Plans. The Minister has commissioned a report to EXP in March on these insights, as part of the committee's assigned role of scrutinising the Plans.

24 Treasury have informed us that it expects the report will reinforce expectations about turning plans into actions. MoF has reiterated a desire for Ministers to use the Plans to ensure that departments can manage within baselines and deliver value over the medium term.

25 The report will also present a summary of the Plans with a RAG rating. Treasury will assign RAG ratings to Plans and discuss these with departments. We will keep you updated and engage with you ahead of the report being discussed at EXP.

Baseline Savings Programme

26 On 17 February, you received a letter from Minister Seymour inviting you to submit three savings initiatives as part of the Baseline Savings Programme: s9(2)(f)(iv) [redacted] income charging, and s9(2)(f)(iv) [redacted] MSD provided a

response letter for you to send to Minister Seymour and submitted the savings templates to Treasury today.

s9(2)(f)(iv)

[redacted]

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

28 [redacted]

29 [redacted]

30 [redacted]

Explaining the $273m increase in Minister Seymour's letter

31 Minister Seymour's 17 February letter quoted a $273 million increase in annual expenditure within the Social Development and Employment portfolio gross base since 2018/19.

32 At this week's Officials' meeting, we told you we were looking into what this number comprised. We found that this number is calculated on a comparison between an inflation-adjusted baseline (discretionary expenditure) in 2018/19 compared to the average (discretionary expenditure) 2024 HYEFU baseline.

33 There are several exclusions to get to a discretionary expenditure base. This includes removing benefit spend, non-departmental capital expenditure, non-departmental other expenditure and departmental other expenditure. The only Ministerial portfolio included was Social Development and Employment.

34 The most significant drivers of this increase are:

34.1 the Community Support Services MCA increased by $140.427m, with most of that increase from Supporting Victims and Perpetrators of Family and Sexual Violence ($115.565m)

34.2 the Improved Employment and Social Outcomes Support MCA increased by $97.343m, mainly from increases in employment programmes – this included He Poutama Rangatahi and Jobs and Skills Hubs, which were transferred to MSD from MBIE in 2021/22.

35 The table below sets out the drivers of this increase:

Appropriation/category	Average spend increase ($m)
Community Support Services MCA, includes:	**140.427**
Supporting Victims and Perpetrators of Family and Sexual Violence	115.565
Place-based approaches	6.691
Participation and Support Services for Seniors	11.171
Community Support and Advice	7.000
Improved Employment and Social Outcomes Support MCA, includes:	**97.343**
Administering Income Support	13.735
Improving Employment Outcomes	44.358
He Poutama Rangatahi	33.000
Jobs and Skills Hubs	6.250
Other appropriations	**35.230**
Drivers licence support	19.800
Community Participation Services	14.350
Other	1.080
Total	**273.000**

Next steps

36 You are scheduled to meet with officials next week to discuss your three bilateral meetings and the associated aides memoire. The three bilateral meetings are currently scheduled for the first week of March.

37 MoF has agreed that she will seek Cabinet approval for the Budget 2025 package on 14 April, at which point the Budget moratorium will begin and run until Budget Day (22 May).

Annexes

Annex 1: Draft aide memoire for Social Development bilateral

Annex 2: Proposed agenda for discussion at pre-meet

Annex 3: Proposed sequencing and phasing of initiatives

File ref: REP/25/2/122

Author: Amy Dowdle, Senior Advisor Budget

Responsible manager: Sacha O'Dea, Deputy Chief Executive, Strategy and Insights

Budget 2025 Bids – sequencing and phasing of initiatives [BUDGET SENSITIVE] DRAFT 19 February 2025

We were asked to look at the Budget 2025 initiatives and the timing and phasing of implementation. This has been assessed against MSD's current work programme. This does not account for any additional initiatives such as Baseline Savings Programme or changes that may be considered in future advice (s9(2)(f)(iv) [redacted]).

What we know:

- Once the Traffic Light System Phase 2 and 26-week Reapplications have been implemented (from July 2025), some capacity for new initiatives will be released.
- MSD IT teams are at capacity until January 2026 given the focus on the Digital Employment Service milestone in November 2025 which will better enable MSD to match clients to jobs and training.
- Delivering all the initiatives would require three to four Bills. We have bid for two Bills in the 2025 Legislative Programme. Additional Bills can be bid for in the 2026 Legislative Programme.
- Excluding ADM, all bids account for some limited project FTE, which will support capacity to a point (noting lead-in time may be required to onboard new staff).

What we don't know:

- Unknown impacts from initiatives led by other agencies for Budget 2025, including the Working for Families. There may be greater pressure on timing and resourcing.
- Unknown impacts from Baseline Savings Programme which has not been accounted for, in particular income charging.

Timing and phasing: We have used the timing for the ADM work as a base (with some changes), then working in the Working for Families changes, AS changes (2 initiatives), the remaining bids s9(2)(f)(iv) [redacted], 18- and 19-year-olds).

	MSD Budget 2025 bids					Watching
	1. ADM remediation[1]	2a. Accommodation Supplement – adjusting AS boundaries	2b. Accommodation Supplement – increasing the entry threshold for homeowners	3a. Jobseeker Support – tightening eligibility for 18-19-year-olds	s9(2)(f)(iv) [redacted]	Working for Families (working with IR)
BoRE impact – outyears ($m, net)	(101.102)	7.520	(17.500)	(83.838)		N/A
Start work	February 2025	April 2025	April to July 2025	July 2025		July 2025
Implementation/go live	Rolling between March 2026 and August 2027	1 July 2026	1 July 2026	1 July 2027		April 2026
Legislation structure and timing	s9(2)(f)(iv) [redacted] Amendment Bill (introduced 2025, commencement 2026).	Budget 2025 Initiatives Bill (both changes together in same Bill, aiming for introduction via 2026 Budget Night Legislation).		Remaining bids in standalone Bill – Budget 2025 Initiatives Bill #2 (introduced late 2026, commencement 2027).		
Comments, including risks	Implementation has been pushed out for TAS (1 Oct 2026 to 1 April 2027) and Food changes (to 1 May 2027 to 1 Aug 2027) to account for IT lead in time required. This will impact the savings and we will update the costings for the draft Cabinet paper.	Implementation of these initiatives will be 4 months after the Boarders Contribution initiative (go live 2 March 2026). Around 500 recipients will receive less AS from both the Boarders Contribution and Homeowners entry threshold changes. Because of reprioritisation for boundaries, we have assumed that AS initiatives need to be implemented in same financial year. Starting work from April could happen if we have clear decisions on these progressing. Starting early may impact work in flight.		Currently assuming Legislation and go live all on same timeframes. This is dependent on capacity – implementation may need to be staged but this cannot be determined until policy and design work commences. While it could be possible to implement Jobseeker Support – tightening eligibility for 18- and 19-year-olds on its own given the complexity/difficulty of the initiative this would only move it forward by a few months and would delay other initiatives.		While B25 changes are expected to have a small impact for MSD – there is likely larger ongoing work to that will need resourcing.

Implications:

- With more time, MSD can implement all the proposed initiatives. Extending the timing, so implementation can be split over the 2026/27 and 2027/28 financial years, will reduce the savings over the forecast period. We will need to re-cost the initiatives according to the new timing.
- The above timing allows the changes to be embedded before the next initiative goes live. This staggering is useful for staff who will be implementing changes.
- Additional change initiatives in the Baseline Savings Programme, s9(2)(f)(iv) [redacted] will put pressure on the schedule and timeframes may need to be revisited.

[1] This includes:
- Removing ADM from the processing of Food Special Needs Grants, Dental Special Needs Grants and Temporary Additional Support reapplications via MyMSD (MSD's online service), and instead using a staff member to assess applications.
- Amending legislation to allow MSD to use automated decisions to automatically initiate a review of a benefit, request information, confirm a client's ongoing eligibility and rate of benefit and subsequently stop a clients benefit. These reviews and requests for information will be time-bound or triggered by a specific event. Noting that legislative changes will be made through two separate legislative vehicles.
- s9(2)(f)(iv) [redacted]
- Removing the automatic suspension of a client's Supported Living Payment when their Sustainable Employment Trial ends, noting this will not require legislative changes.

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Aide-mémoire

Meeting

Date:	28 February 2025	**Security Level:**	BUDGET SENSITIVE
For:	Hon Louise Upston, Minister for Social Development and Employment		
File Reference:	REP/25/2/105		

Budget 2025 – Social Development and Employment bilateral

Meeting details	Wednesday 5 March, 3:15pm – 4:00pm, EW 7.2 You are attending two other bilateral meetings held on Wednesday 5 March, regarding: • housing initiatives (REP/25/2/100 refers), and • Working for Families (REP/25/2/113 refers).
Expected attendees	**Ministers** • Hon Nicola Willis – Minister of Finance (MoF) **Ministry of Social Development officials** • Debbie Power – Chief Executive • Sacha O'Dea – Deputy Chief Executive, Strategy and Insights • Simon MacPherson – Deputy Chief Executive, Policy • Viv Rickard – Deputy Chief Executive, Service Delivery • Chris Bunny – Deputy Chief Executive, Disability Support Services • Tracy Voice – Deputy Chief Executive, Transformation • Brad Young – Chief Financial Officer
Purpose of meeting	This meeting is to discuss your proposed Budget 2025 package with the Minister of Finance.

The Aurora Centre, 56 The Terrace, PO Box 1556, Wellington
– Telephone 04-916 3300 – Facsimile 04-918 0099

Summary	This aide memoire provides you with materials for your upcoming Budget bilateral meeting: • Proposed annotated agenda provided by the Minister of Finance's office (Appendix One) • Talking points to support your discussion (Appendix Two) • Back pocket talking points and supporting material (Appendix Three) • Back pocket optimal savings package (Appendix Four).
Priorities for discussion	The proposed annotated agenda received from MoF's office is (attached as Appendix One), and includes the following priorities for discussion: • Agenda Item 1 – savings initiatives • Agenda Item 2 – reprioritisation options • Agenda Item 3 – Disability Support Services (DSS) cost pressures • Agenda Item 4 – Te Pae Tawhiti transformation programme • Agenda Item 5 – Employment invest-to-save initiative. The priority for the discussion is on items 1 – 3, and the agenda notes that items 4 and 5 are for discussion "if time permits". Talking points in the appendices to this aide memoire are structured in line with this agenda. 'Per annum' figures listed in the annotated agenda received from MoF's office have been calculated by dividing the total over the forecast period (as submitted to the Treasury December 2024), by four. They do not reflect the actual year-by-year breakdown (figures vary year-to-year for many initiatives).
Context	While we understand you may still receive a letter from MoF asking you to find additional savings on top of those you have submitted into the Budget 2025 process, this was not sent by the end of Thursday. As discussed with officials on Wednesday 26 February, MSD's advice on the optimal savings package that you could present includes the following initiatives: • ADM remediation (submitted in Budget 25 but with phasing to prioritise changes with highest savings)

- Jobseeker Support – tightening eligibility for 18-19-year-olds (submitted in Budget 25)
- Income charging (submitted in Baseline Savings Programme with initial savings in 2028/29)
- s9(2)(f)(iv) [redacted] Accommodation Supplement (AS) – adjusting boundaries (submitted in Baseline Savings Programme)
- AS – increasing entry threshold for homeowners and adjusting boundaries (submitted in Budget 25 but delayed implementation until April 2027)
- Employment invest-to-save (submitted in Budget 25)
- Phase 1 of Income Charging: Additional integrity checks of MSD payments (ahead of income charging).

Whilst you indicated that you do not wish to table this optimal package until the letter from MoF is received, MSD recommends that if additional savings are needed for Budget 25, it may be better to defer two proposals s9(2)(f)(iv) [redacted] to a later date and free up the resource for alternative proposals. This is because these will result in relatively modest savings but will divert some valuable and limited MSD resources to implement.

You may also want to advise her that you have been considering proposing a new invest-to-save initiative as an alternative. This new proposal:

- can be implemented immediately by scaling up an existing MSD function and will realise savings from 2025/26, s9(2)(f)(iv) [redacted]
- does not require legislative change, s9(2)(f)(iv) [redacted]
- is estimated to deliver savings earlier.

The talking points included in the appendices reflect our recommended approach outlined above.

In the course of your conversation, MoF may ask you to find additional savings in Vote Social Development. We have included some relevant talking points in Appendix Three and the overview of the optimal savings package as Appendix Four if required.

1 Withdrawing these two smaller initiatives also opens up MSD capacity for other work – for example, undertaking policy development and design for income charging as part of Te Pae Tawhiti Transformation Programme.

	We have not attached the Social Development and Employment Budget Strategy A3 (this was last provided in REP/25/2/122). However we can update this to reflect your latest preferred package before the bilateral if required.
Appendices	Appendix One – Proposed annotated agenda provided by the Minister of Finance's office Appendix Two – Talking points to support your discussion Appendix Three – Back pocket talking points and supporting material Appendix Four – Back pocket optimal savings package

Responsible manager: Sacha O'Dea, Deputy Chief Executive, Strategy and Insights

Appendix One – Proposed annotated agenda provided by the Minister of Finance's office

Agenda

The proposed agenda for this meeting is set out below. Further details on each agenda item are set out in the tables below.

1. **Agenda Item 1 and 2: Social Development Savings and Reprioritisation Initiatives**

2. **Agenda Item 3: Disability Support Services (DSS) cost pressures**
3. **Agenda Item 4 and 5: Te Pae Tawhiti transformation programme and Employment 'invest-to-save' initiative** *(if time permits)*

Agenda Item 1 – Social Development Savings Initiatives

<table>
<tr>
<td>Description of key issue</td>
<td>
Overview of Savings Initiatives
In her Budget 2025 submission letter, Hon Upston outlined five policy savings initiatives. According to the Ministry of Social Development (MSD), these would generate approximately $500 million in total over the forecast period:
<table>
<tr><td>Changes to Automated Decision-Making (ADM)</td><td>($54.0 million)</td></tr>
<tr><td>Restricting Jobseeker Support eligibility for 18-19-year-olds</td><td>($43.3 million*)</td></tr>
<tr><td>Raising the Accommodation Supplement entry threshold for homeowners</td><td>($11.6 million)</td></tr>
<tr><td colspan="2">s9(2)(f)(iv) [redacted]</td></tr>
<tr><td>Total</td><td>($125.7 million p.a.)</td></tr>
</table>
MSD has also developed an 'invest-to-save' initiative that would generate savings by investing in MSD's frontline resources and contracted employment programmes. Officials are still refining this initiative.
Three further savings options are also being considered through the Budget 2025 Baseline Savings Process (which Hon Seymour is leading): s9(2)(f)(iv) [redacted], Income Charging, and savings from s9(2)(f)(iv) [redacted]
</td>
</tr>
</table>

Agenda Item 2 – Social Development Reprioritisation

Description of key issue

Overview of reprioritisation options

MSD submitted the four new spending initiatives in the table below (excluding Te Pae Tawhiti and the employment 'invest-to-save' initiative discussed at **Agenda Items 4 and 5 below**), and Hon Upston proposed to meet the cost of these initiatives from the Budget 2025 savings initiatives. Of these, only the Akonga Fund initiative was invited (although Hon Upston indicated at your earlier bilateral meeting that the other initiatives would be submitted).

Implementing the Child & Youth Strategy (Kickstart, KidsCan and parenting programmes)	$10 million p.a. ($2 million over two years for Kickstart and KidsCan, and $38 million over the forecast period for parenting programmes)
Adjusting Accommodation Supplement (AS) Area Boundaries	$5.7 million p.a.
Extending the Ākonga Fund	$5.6 million p.a.
Continuing the Food Secure Communities programme	$15 million in 2024/25 only ($3.8 million p.a.)
Total	**$25.1 million p.a.**

Implementing the Child and Youth Strategy

This initiative would continue the government's contribution to two child hardship programmes, KickStart Breakfast and KidsCan jackets ($2 million over two years), as well as setting aside $38 million over the forecast period for parenting programmes.

Adjusting Accommodation Supplement (AS) Area Boundaries

This initiative seeks to adjust AS area boundaries to account for urban development and residential expansion (which would result in some applicants receiving higher AS payments), as well as introduce a legal requirement for MSD to review the boundaries every five years. AS area boundaries have not been updated since 2018, and subsequent urban development has led to inequities between AS recipients.

Extending the Ākonga Community Fund (Youth portfolio)

This initiative provides funding ($5.6 million) for the continuation of youth development programmes delivered by local providers which currently support 2,750 young people with moderate needs (aged 12-21 years) annually. This initiative falls within the Youth portfolio.

Continuing the Food Secure Communities programme

The Food Secure Communities (FSC) programme was initially established with time-limited funding from Budget 2020, with additional funding provided in subsequent years. However, the programme's funding is set to expire on 30 June 2025. This initiative seeks $15 million to extend the programme for an additional year in response to sustained demand for food support services, which remains high due to current economic conditions.

Agenda Item 3 – Disability Support Services (DSS) cost pressures

Description of key issue	Following the Independent Review and the establishment of the DSS taskforce, work is progressing on strengthening the long-term sustainability of DSS. While plans to implement the review recommendations are underway, it will take time for them to be implemented and to see the full impact. The Minister has submitted a DSS cost pressure initiative of $255 million per year. This is less than the $275 million average per year provided in Budget 2024 that was set as an upper limit for this initiative. That Budget 2024 funding included $92 million that was time-limited for 2024/25. s9(2)(f)(iv) [redacted] The DSS appropriation for 2024/25 is $2.6 billion. The amount of funding needed to address cost pressures in 2025/26 is driven by price pressures, volume pressures, and how much is spent in 2024/25 (in other words, the bigger the underspend in 2024/25, the less funding is needed for a given level of volume and price growth in 2025/26). As such, there is uncertainty over the funding needed. As at 31 January, spending is tracking slightly under budget for Needs Assessment and Service Coordination providers and Enabling Good Lives demonstration sites, and MSD has not used any of the risk pool of $133 million set aside in the 2024/25 appropriation. MSD has indicated that it expects it will need to use some of the risk pool by year-end. Assuming an underspend of $50 million (1.9%) in 2024/25, funding of $250 million per year would pay for: • average price growth of 3.5% (a new pricing model for residential care with an average revenue increase of around 5.2% for providers, which is scheduled to be discussed at the 5 March Cabinet Social Outcomes Committee meeting, and 2% for other components); and • average volume growth of 4.3%, which is well below volume growth in recent years (8-10%). Funding could be reduced below $250 million by assuming a larger 2024/25 underspend will eventuate (e.g. an underspend of $100 million would mean funding of $200 million would fund the same price and volume growth set out above), or by providing for lower price and/or volume growth.

Agenda Item 4 – Te Pae Tawhiti transformation programme

Description of key issue	MSD has submitted a Budget 2025 initiative that seeks operating funding for its business transformation programme, Te Pae Tawhiti (TPT). s9(2)(f)(iv) [redacted] s9(2)(f)(iv) [redacted] Cabinet considered and approved a Detailed Business Case for TPT in December 2024 and directed MSD to implement its preferred option (a re-sequenced transformation), subject to future funding decisions, which are to be taken through Budget 2025 (i.e. this initiative) [EXP-24-MIN-0079 refers]. Ahead of the Detailed Business Case, the programme underwent a Gateway review in November 2024. The review was positive: it found that the programme was "well placed to progress," with a "rock-solid case for change," and delivery "tracking well" to date. s9(2)(j) [redacted]

Agenda Item 5 – Employment 'invest-to-save' initiative

Description of key issue	MSD has submitted a Budget 2025 initiative that requests new funding to invest in employment services, leading to savings over time ('invest-to-save'). The investment in additional FTE and employment programmes, including Welfare that Works, are forecast to lead to savings over the forecast period. When calculating savings, a discount rate is applied to account for non-participant impacts. The discount rate is based on evaluations of employment programmes, including case management. MSD applied a 30% discount rate to the initiative. MSD is still finalising its model for calculating the savings from this initiative, and will provide updated costings to be considered ahead of Budget Ministers 3 in late March.

Appendix Two – Talking points to support your discussion

- I am committed to working with you to support the Government's fiscal sustainability objectives and to ensuring that our resources are directed towards the highest value investments. My officials have been working with Treasury to refine my Vote Social Development proposals for Budget 25.
- As discussed previously, I have been working with MSD to develop a multi-year Budget Strategy. Given the need to find savings for Budget 25, I have asked MSD to provide advice to enable more savings proposals to be agreed and recognised through Budget 25.
- As you are aware, I have a challenging Jobseeker target which is my focus for the portfolio and will result in significant savings if we can beat the current forecast. This is my highest priority, alongside the Te Pae Tawhiti transformation which will provide us with a modern system and more options for reducing costs in the future.
- In addition to the savings initiatives I am proposing for Budget 2025, during this financial year we recognised a $703.639m reduction in the Emergency Housing appropriation at the Half Year Economic and Fiscal Updated (HYEFU) 2024, which is on top of net savings of $350.545m recognised through Budget 2024 for the Emergency Housing invest-to-save initiative.

Agenda Item 1 – savings initiatives

Proposals submitted in December 2024

- My savings proposals as submitted in December 2024 include:
    - Automated Decision-Making changes (estimated net savings of $220m over the forecast period).
    - Tightening eligibility to Jobseeker Support Benefit and Emergency Benefit for people aged 18 and 19 years (estimated net savings of $173.4m over the forecast period).
    - Increasing Accommodation Supplement (AS) entry threshold for homeowners (estimated net savings of $46.4m over the forecast period).
        - I have discussed priorities with the Minister of Housing and we are proposing that some of the savings from this initiative be reprioritised to adjust Accommodation Supplement Area Boundaries and introduce a mechanism for future adjustment to reflect urban expansion (at a cost of $22.8m).
    - s9(2)(f)(iv) [redacted]
    - s9(2)(f)(iv) [redacted]

Prioritisation of savings initiatives

- As discussed in our bilateral in December 2024, there is a limit on MSD's capacity to implement policy savings initiatives through Budget 2025.
- MSD have advised me that they can implement all the initiatives, but a staggered approach is required. This will:
    - take more time than was initially indicated
    - reduce the total savings over the forecast period (though the savings per annum remain the same), and
    - impact our ability to implement any new savings initiatives through Budget 2026.
- I am also aware that implementing all of the initiatives will put pressure on my portfolio, and my ability to do more to achieve the Jobseeker target.
- Decisions about Working for Families and other initiatives that MSD needs to implement will create other delivery pressures and may lead to further changes in the implementation timeline.

Potential alternative savings proposal

Introducing a new savings proposal

- As part of my Budget Strategy, I have included two proposals s9(2)(f)(iv) [redacted] that will result in relatively modest savings, but will divert some valuable and limited MSD resources to implement. If we need to find more savings for Budget 25, it may be better to defer these to a later date and free up the resource for alternative proposals.
- MSD officials have identified a potential new time-limited proposal to increase the number of integrity checks on MSD payments.
    - This proposal is consistent with our Government's direction on ensuring only those who need help are receiving this, and brings forward some savings using a manual approach ahead of implementing more efficient and elegant technical solutions. This is phase one of a longer work programme on income charging that will ensure MSD is paying people the right entitlements based on their income in real time.
    - I am aware of the significant Legislation Programme for 2025, and I am conscious of the impact of further legislative changes on this already full Programme. This new proposal does not require legislative change, s9(2)(f)(iv) [redacted]
    - As discussed in December 2024 – MSD has limited capacity to implement savings initiatives. This new proposal can be implemented immediately by scaling up an existing MSD function and will realise savings from 2025/26, s9(2)(f)(iv) [redacted]

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

   - This new proposal will deliver earlier savings and these may be at the same level as the two smaller policy initiatives combined.

MSD manually checks declared income against Inland Revenue information

- MSD currently carries out integrity checks on a small proportion of payments each week. This is a manual process using matched records from the Inland Revenue Information Share.
- There is a challenge with people incorrectly or not declaring income from wages and salary to MSD. This manifests as overpayments or underpayments which have negative impacts for clients and the Government.
- MSD's integrity checks therefore help to improve efficiency in the system and generate savings by reducing client debt and overpayments, as well as removing people who are not entitled to the assistance they are receiving.

I am proposing a time-limited initiative for additional FTE, to increase the number of matched records that are reviewed each week

- Given this is an existing function within MSD, this is a low-complexity initiative. It can be scaled up quickly, with savings realised from 2025/26. No legislative changes are required.
- This is designed as a time-limited initiative to boost MSD capacity while automated income charging capability is developed as part of Te Pae Tawhiti Transformation Programme.
- This time-limited initiative will enable MSD to increase the overall volume of integrity checking, using a targeted approach (based on risk).
- I expect that this work will contribute to my Jobseeker target, as increased checking is likely to identify more clients who are not eligible to receive Jobseeker Support.
- This initiative will improve efficiency in the welfare payment system, helping to ensure the right people receive the right payment at the right time.
- MSD has other significant work programmes underway to improve efficiency across the welfare system, including Automated Decision Making and the wider Te Pae Tawhiti Programme.

Agenda Item 2 – reprioritisation options

Implementing the Child and Youth Strategy

General points about the Budget 2025 proposal

- Cabinet has agreed that the refreshed Child and Youth Strategy focus on three key priorities:
  - o supporting children and families in the first 2,000 days
  - o reducing child material hardship, and
  - o preventing child harm.
- These priorities span Ministerial portfolios and contribute to outcomes across multiple domains. As lead Minister for the Child and Youth Strategy, s9(2)(f)(iv) [redacted]
- Given this will require collaborative work across Ministerial portfolios and agencies, s9(2)(f)(iv) [redacted]
- However, I am keen to start the process through Budget 2025 for Vote Social Development, and to this end I have submitted a Budget 2025 bid seeking to reprioritise funding from the Vote to help deliver on the priorities in the Strategy.
- I am proposing to reprioritise $40m over four years from Vote Social Development to support three initiatives. I am not seeking any new funding through this bid – but am proposing to use savings from Automated Decision-Making to:
  - o Continue the KickStart Breakfast programme for a further year to provide daily free breakfasts to more than 42,000 students in over 1,400 schools ($1.23m in 2025/26)
  - o Continue to provide 17,500 waterproof jackets to schools over the next two years through KidsCan ($750,000 across two years)
  - o Establish a contingency to fund evidence-based parenting programmes and resources that support positive parenting practices ($38m across four years).

Evidence from SIA's work on the first 2,000 days about what parenting programmes have the best outcomes

- I'm aware that in October/ November the Social Investment Agency undertook an impact review of government spending in the First 2000 days.
- Of the 113 programmes that SIA looked at, about a dozen are programmes aimed at building parental confidence, positive parent-child relationships, and parenting practices that support child development and address behavioural challenges.
- As was its intended purpose, the impact review provides a useful source of evidence to inform our investments.

- The SIA identified three existing parenting programmes as having the most evidence of positive impact, and potential opportunities for further investment: Triple P; Incredible Years; and Hoki Ki Te Rito | Mellow Parenting.
  - Triple P (and the kaupapa Māori adaption, Te Whānau Pou Toru): As noted in my Budget template, the positive impact and value for money of the Triple P programme is supported by strong evidence (including randomised control trials, or RCTs), both in New Zealand and internationally. A small amount of funding is currently provided from Vote Health for provider coordination and training to support programme delivery in four locations.
  - Incredible Years (Parent): There is strong evidence this intervention improves outcomes, including large improvements in child behaviours (including for children with ADHD), moderate to large improvement in parenting practices, and moderate reductions in parental conflict. Evidence suggests it is more effective for families with higher distress and number of issues. Incredible Years is an internationally developed programme that has been delivered in New Zealand since at least 2010 and is currently funded through Vote Education.
  - Hoki Ki Te Rito (kaupapa Māori adaption of internationally developed Mellow Parenting): Overseas RCT evidence and kaupapa Māori evaluation indicate that programme participation is associated with improvements in maternal wellbeing and a reduction in child behaviour problems. This is a small-scale initiative, that currently receives a small amount of funding from Vote Education.
- All these parenting programmes are brief interventions that are delivered at low cost per capita, but with significant benefits for both parents and children across a range of outcome areas (children's cognitive and behaviour development, maternal mental health, family stress and risk factors for family violence).
- If Vote Social Development funding is reprioritised as proposed, the next step is to work with agencies to confirm the specifics for expanding access to evidence-based parenting programmes.

Adjusting Accommodation Supplement (AS) Area Boundaries

- I have discussed priorities with the Minister of Housing and we are proposing that some of the savings from this initiative be reprioritised to adjust Accommodation Supplement area boundaries and introduce a mechanism for future adjustment to reflect urban expansion (at a cost of $22.8m).
- Updating AS area boundaries aligns with the Government's commitment that more regular updates to AS geographic boundaries would help the AS remain fit-for-purpose, in response to a petition to rezone the AS earlier in the year.
- This would involve updating AS boundaries to reflect urban expansion and introduce a mechanism for MSD to make five-yearly updates to the

AS boundaries, which would align with StatsNZ updates and reflect future urban growth.

- This initiative would:
  - address some of the inequities in places like Queenstown (where outdated AS boundaries currently do not reflect urban expansion)
  - futureproof settings by making regular updates to reduce inequities as they arise in the future, and
  - improve equity in the provision of housing subsidies and income adequacy outcomes for approximately 3,500 clients.
- When considering this new spending proposal alongside the savings from increasing the entry threshold for homeowners, the net savings from these two AS initiatives are $23.6m over the forecast period.

Extending the Ākonga Community Fund (Youth portfolio)

- This initiative is led by the Minister of Youth – I am supportive of reprioritising funding within Vote Social Development to continue this initiative.

Continuing the Food Secure Communities programme

- I intend to reprioritise funding to invest up to $15m in 2025/26 to continue the Food Secure Communities programme for one more year (at 2024/25 levels) to support families with ongoing cost-of-living pressures. Treasury now expects the pace of economic recovery to be slower than previously forecast and unemployment to remain higher for longer.
- The benefits of the programme include:
  - providing value-for-money, including through rescuing surplus food and sourcing supplies significantly below retail costs.
  - promoting a whānau-centred approach which especially benefits children and aligns with the *increased student attendance* Government target
  - reducing greenhouse gas emissions through food rescue.

Agenda Item 3 – Disability Support Services (DSS) cost pressures

- You invited me to submit cost-pressure bids for Disability Support Services (DSS) and the High-Complex Framework, the total to be no more than what was previously provided in Budget 2024 ($1.2b).
- DSS is committed to manage price and volume pressures within existing funding. They are currently managing to budget (latest forecasts to 31 January 2025 show a 0.1 percent underspend) but there's still uncertainty around costs to year-end and outyears.
- The two broad types of pressures facing DSS are:

  - o price pressures - driven by inflation and the need for credible residential pricing, and
  - o volume pressures - driven by the number of people and the mix of supports required.
- The work DSS has progressed on a new pricing model proposes using six banded rates for residential care in community group homes in each of four regions. Implementing this model will require a funding increase of $60m per annum. This is within the funding envelope agreed by Cabinet in December 2024. Moving to this new model will support improved fiscal management as any future increases can be considered on an annual basis and remove the increasing incidence of ad hoc individual rates.
- In addition, our modelling provides for 2 percent price uplift in community-based services, which is in the middle of the 1-3 percent of the RBNZ target inflationary range.
- Volume growth has largely been driven by:
  - o Residential care volumes – growing at around 1 percent per annum, though the number of support hours allocated has grown by around 3 percent per annum
  - o Community care volumes – which have grown at around 10 percent per annum and with greater support packages (this is where the majority of all DSS volume growth is)
  - o Equipment and modification services – which have grown at around 2 percent
  - o Additional people entering the system placing greater volume pressure on other support lines such as NASC services, and specialist services supporting diagnoses (e.g. Child Development Services).
- We estimate future volume growth to be around 5 percent. This is still above general population growth but reflects better control over new entries to services, the packages allocated, and regular review of packages against disability needs.
- The funding sought for DSS through Budget 25 is $1.02b over the forecast period. I also seek that any 2024/25 underspends are retained to meet cost pressures and costs associated with stabilising and strengthening DSS.
- The DSS bid also provides for the expected changes in volume and mix of services and a modest price increase of around 2 percent for non-residential volume pressures across the whole of DSS.
- I'm also seeking $5m in 2025/26 and in 2026/27 only for High and Complex Framework (HCF) – Service Improvement, to address some short-term critical need while longer-term investment planning is underway. There is a critical need to upgrade some facilities to ensure people referred to them by Court Orders under the HCF can be appropriately placed in secure locations. Without additional funding

there is both a risk to public safety and to the people referred to the HCF.

- The current intention is to progress the strengthening work through 25/26 to inform Cabinet decisions to realise a DSS that is fair, consistent, transparent and sustainable.
- s9(2)(f)(iv) [redacted]
- The expectation to manage the outlined pressures excludes the following items:
  - o HCF – capital investment for secure services
    - Future investment is planned in response to significant and ongoing challenges raised by the sector and in the Ombudsman's Oversight report.
    - A Programme Business Case (PBC) approach is being taken to explore investment options for capital investment in facilities for people living under the Forensic Intellectual Disability HCF.
    - Businesses cases are planned to be developed for capital builds with Kainga Ora (for Non-Government Organisations' services) and Health New Zealand (for forensic hospital costs), and for the operating costs necessary to support the capital investment.
    - A staged approach is being taken with upgrades to the most urgent facilities. The PBC is expected to be completed by July 2025, but this timing is subject to variables and dependencies.
  - o Pay Equity Negotiations
    - DSS has been working closely with the Lead Funder: Health New Zealand – Te Whatu Ora to support analysis for the progression of the Pay Equity Claim for Care and Support Workers (CSW).
    - Should the pay equity claim be settled, and it resulted in an increase in pay for CSW, DSS would be unable to meet these increased settlement costs without further increased funding.

Agenda Item 4 – Te Pae Tawhiti transformation programme

We understand that the Treasury has provided advice to the Minister of Finance regarding how the costs and benefits of the Te Pae Tawhiti Programme could be recognised. The Minister of Finance may provide you with an update on this.

- In December, Cabinet supported continuing with the Ministry of Social Development's business transformation – Te Pae Tawhiti – and approved its Detailed Business Case for the remainder of the programme.

- Transformation will create sizeable efficiencies and improve the effectiveness of services provided by MSD to New Zealanders. This will be achieved by transforming MSD's underlying service model, business processes and technology, which are critical to delivering a sustainable welfare system that is responsive to Government priorities and direction.
- I have been able to identify savings to offset the short-term costs of this programme, ahead of reaping the benefits in the longer term.

Agenda Item 5 – Employment invest-to-save initiative

- As you are aware, we have an ambitious Government target to reduce the number of people on Jobseeker Support to 140,000 by 2030. To achieve this challenging target, I am proposing an invest-to-save proposal to enable us to meet with more young jobseekers and those with health conditions and disabilities.
- My officials have worked closely with Treasury to thoroughly kick the tyres on this proposal. This has led me to make the changes to the proposal to optimise the savings profile, deliver on my Welfare that Works commitment, and reduce the number of people on Jobseeker Support in line with our target.
- The key components of this proposal now include:
  - $128.818m for 490 employment facing staff (the majority of which will be case managers) over 2 years to deliver face to face and phone-based case management as well as Kōrero Mahi seminars and the Early Response service.
  - $72.019m for Welfare that Works and Bonus Payments over 2 years.
  - $138.463m for Employment Programmes over 2 years which includes:
    - Flexi-wage
    - Regional Employment Placement Programmes
    - Oranga Mahi IPS and Here Toitū
- The proposal is estimated to deliver net savings of approximately $194.191m over the forecast period.
- This initiative is critical for me to:
  - make progress on my Jobseeker Support target
  - deliver on My Welfare that Works manifesto commitment
  - ensure that we can continue to manage the demand for support from Work and Income, without long call wait times and delays in processing applications.
- My officials have provided more material to the Treasury in the last week and will continue to work with them, so that ministers can have confidence in forecast savings when making final budget decisions.

Appendix Three – Back pocket talking points and supporting material

This Appendix provides back pocket talking points and supporting material regarding initiatives that are on the agenda.

Agenda Item 1 – savings initiatives

Automated Decision-Making changes (estimated net savings of $220m over the forecast period)

- MSD uses ADM in a number of processes which supports MSD to have a more proactive and efficient welfare system. It allows MSD to automate low-value administrative tasks which enables staff time to be focused on high-value engagement with clients, such as employment conversations.
- I will be seeking Cabinet agreement in 2025 to enact a general authorising provision for ADM accompanied by appropriate safeguards, alongside legislative amendments required to give effect to remediation decisions.
- This is a fiscally significant proposal, with the updated estimated future BoRE savings from the remediation proposals being a total of $220 million over the forecast period.
- We have prioritised changes related to mandatory reviews which generates significant savings and enables the Boarders Contribution from Budget 2024.
- I propose to offset any IT costs and FTE impacts with the BoRE savings associated with the remediation options. This would enable MSD to invest in frontline FTE, alongside IT system changes, to reduce demand on staff and increase our ability to direct staff effort towards achieving the Jobseeker reduction target.

Tightening eligibility to Jobseeker Support Benefit and Emergency Benefit for people aged 18 and 19 years (estimated net savings of $173.4m over the forecast period)

- Currently the minimum age requirement to apply for Jobseeker Support is 18. This option adds a parental support gap test to the Jobseeker Support and Emergency Benefit eligibility criteria for people aged 18 and 19. The test would ensure only people whose parents cannot or will not financially support them could access Jobseeker Support or Emergency Benefit.
- There are no easy options to generate fiscally significant savings, and there are some choices and trade-offs that need to be made given this option would have significant impacts for New Zealanders e.g. placing additional financial pressure on families and community service providers.

Increasing Accommodation Supplement (AS) entry threshold for homeowners (estimated net savings of $46.4m over the forecast period)

- AS is currently available to homeowners who spend at least 30 percent of their income on their accommodation costs. I am proposing to increase this threshold to 40 percent for AS homeowners, excluding those receiving NZ Superannuation, Veteran's Pension or Supported Living Payment. For context, the 'housing cost overburden rate' used by the OECD measures the proportion of households or population that spend more than 40 percent of their disposable income on housing costs.
- The AS entry threshold for other tenure types (such as renters and boarders) is currently 25 percent. The additional five percent acknowledges that the AS payment to homeowners also helps the recipient to acquire an asset. However, there is a lack of justification as to why this was valued at five percent of income. Some homeowners also have options to manage accommodation costs that renters and boarders do not, such as rates rebates, refinancing and repayment holidays.
- Out of approximately 25,000 homeowners receiving AS (excluding those receiving NZ Superannuation/Veteran's Pension or the Supported Living Payment), the change is forecast to reduce the accommodation assistance received for 9,900 recipients and reduce the AS to zero for 1,300 recipients.
- This initiative would not apply to recipients of NZ Superannuation/Veteran's Pension or the Supported Living Payment. These homeowners will continue to have their AS assessed on 30 percent of their income.

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

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

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

s9(2)(f)(iv)

[redacted]

Agenda Item 2 – reprioritisation options

Implementing the Child and Youth Strategy

Three components of the Budget 2025 proposal

- The three components of the Budget 2025 initiative are as follows.

  1. Continue the KickStart Breakfast programme for a further year ($1.23m in 2025/26)
     - o Government will continue to partner with Fonterra and Sanitarium to provide daily free breakfasts to more than 42,000 students in over 1,400 schools.
     - o Currently, there is no funding appropriated for the Government contribution to continue beyond the 2024/25 financial year. Continuing the funding for a further year will provide continuity while the Ministry of Education completes the review of broader provision of food in schools.
     - o Continuing this initiative will contribute to reducing child material hardship.
  2. Continue provision of jackets by KidsCan in schools ($750,000 across two years)

- o KidsCan will be funded to continue to provide 17,500 waterproof jackets to schools over the next two years.
- o Currently, there is no funding appropriated for this KidsCan programme beyond the 2024/25 financial year.
- o Continuing this initiative will contribute to reducing child material hardship.

3. Establish a contingency to fund evidence-based parenting programmes ($38m across four years)

- o The contingency would be used to purchase the provision of prevention-focused programmes and resources that support positive parenting practices in the first 2,000 days of children's lives (conception to age 5).
- o This initiative will contribute to supporting children and their families in the first 2,000 days and to preventing child harm.

Background information about SIA impact review, including findings about parenting programmes

- In September / October 2024, the SIA, supported by the Child Wellbeing and Poverty Reduction Group in MSD, undertook an impact review of social sector spend in the first 2,000 days. The review covered over 100 programmes and initiatives in health, housing, education, income support, and other services. SIA found that First 2000 Days spending is hard to define or quantify as most of the relevant investment is in 'core' services (e.g. health, education, taxes and transfers etc), with limited specific investment targeted to First 2,000 Days outcomes, and to specific cohorts within this.
- SIA's impact review of First 2000 Days programmes looked at four factors: (1) NZ evidence of impact; (2) alignment with international evidence; (3) quality of the evidence against the SIA evidence standards; and (4) alignment of the programme with the First 2000 Days focus areas in the Strategy (maternal mental health, parenting support, child cognitive development). SIA then gave programmes an overall 'evidence of impact' score (High/Medium/Low) and categorised them as either: a Mature Investment (e.g. core service or policy); Opportunity for Investment; Strategic Priority; Speculative Prospect (i.e. good alignment with Strategy but little or no existing evaluative evidence); or Low Impact.
- The following table presents the SIA findings for evidence of impact, overall evidence score, and categorisation.

Programme name	Impact (based on NZ and international evidence)	Evidence of impact (size of impact + quality of evidence)	Categorisation
Incredible years (parent)	Positive	High	Opportunity for investment
Incredible Years Autism	Slightly positive	Medium	Opportunity for investment
Hoki Ki Te Rito | Mellow Parenting Programme	Very positive	High	Opportunity for investment
Triple P and Te Whānau Pou Toru (culturally adapted variant of Triple P)	Positive	High	Opportunity for investment
HIPPY (rescoped "Whānau at home") *Programme that empowers parents to prepare their 2–5-year-old children for success at early childhood education (ECE) and school by fostering parents' skills and confidence as educators.*	Slightly positive	Low-medium	Opportunity for investment
Triple P - Parenting through separation		No information	Mature investment
Skip Local Initiatives and National Parent Support and Education Programmes | Takai		No information	Strategic priority
Family Start	Slightly positive	Medium	Mature investment
Toolbox Parenting Programme	Positive	High	Mature investment
Watch Wait and Wonder		No information	Speculative prospect
Whānau Toko I Te Ora- Whānau-Centred Support Services *Parenting support and development programmes run by Māori Women's Welfare League*	Positive	Low	Speculative prospect
Brainwave Trust parenting programme (Growing Great Brains and Tiakina te Taimait)	Slightly positive	Low	Low impact

Adjusting Accommodation Supplement (AS) Area Boundaries

No additional material – see Appendix Two.

Extending the Ākonga Community Fund (Youth portfolio)

Background

- The Ākonga Community Fund provides funding for local providers delivering high value youth development programmes for young people with moderate needs. Outcomes sought include improvements in education, training, employment, and positive community connections.
- This initiative uses an early intervention and prevention model to support at-risk learners aged 12 to 21 years to stay engaged in education.

- It will support the achievement of several Government Targets including increasing student attendance, reducing child and youth offending, and having fewer people on the Jobseeker Support Benefit.
- Minister Meager is seeking a total of $22.340m over the forecast period for this initiative, and has recently written to you indicating that he is keen to discuss this initiative with you (as well as your Child and Youth Strategy initiative).

Continuing the Food Secure Communities programme

- The reprioritisation of funding to invest up to $15m in 2025/26 to continue the Food Secure Communities programme for one more year (at 2024/25 levels) will fund:
  - existing national and regional food distribution infrastructure to cost-effectively distribute bulk and rescued food
  - community-based food security initiatives giving them more time to transition to self-sustaining funding models
  - community-level food providers, including foodbanks
  - an evaluation of the programme within the wider food support eco-system to enable the development of more self-sustaining pathways for food security.
- MSD will continue to work with other agencies and community partners to explore ways to transition the Food Secure Communities work programme onto a more self-sustaining basis.

Agenda Item 3 – Disability Support Services (DSS) cost pressures

Background

- Disability Support Services (DSS) provide essential services and support to around 52,000 disabled people and their whānau, as well as Environmental Support Services including equipment and modification services for approximately 100,000 New Zealanders, some of whom receive DSS service and supports as well.
- Historically, growth hasn't been well managed or forecasted and with a capped appropriation, DSS expenditure has breached its appropriation in 9 out of the last 10 years, requiring additional funding to continue providing services. Funding for DSS has grown from $1.2b in 2015/16 to $2.6b in 2024/25.
- In September 2024, DSS moved from Whaikaha – Ministry of Disabled People to MSD. Since DSS was moved to MSD, a taskforce has been established to lead work on stabilising and strengthening the disability support system. Actions taken so far include introducing budgets for Needs Assessment and Service Coordination Agencies (NASCs), not increasing prices to providers and progressing a detailed review of residential contract and pricing models.

Agenda Item 4 – Te Pae Tawhiti transformation programme

No additional material – see Appendix Two.

Agenda Item 5 – Employment invest-to-save initiative

Why is this needed?

- In December 2023, 190,000 people were receiving Jobseeker Support, this Government set an ambitious target to reduce this number to 140,000 by 2030.
- New Zealand has been experiencing weak economic conditions which has driven an increase in the number of people receiving Jobseeker Support - Work Ready.
- Jobseeker Support - Health Condition or Disability also increased mainly due to a higher number of people transferring from Jobseeker Support - Work Ready.
- At HYEFU 2024 we had forecast that the number of people receiving Jobseeker Support would peak at around 215,900 people in January 2025 and remain elevated throughout 2025.
- Recent modelling shows that young people currently on a main benefit who are under 25 are estimated to spend on average 20.4 future years supported by a main benefit. For those on Jobseeker Support – Health Condition and Disability, they are estimated to spend on average 12.3 future years supported by a main benefit.

What are we already doing?

- MSD has been focused on increased activation with Jobseekers to increase JS exits against the economic challenges driving the increase in new grants.
- As part of the Jobseeker target delivery plan, MSD already has a range of increased activation activities under way, such as Kōrero Mahi seminars and phone-based case management.
- Based on current levels of funding this enables us to work actively with around 70,000 people at a time in dedicated employment case management.
- MSD has been exploring approaches to support clients receiving JS-HCD, through Phone Based Case Management. Alongside this, a trial in Nelson region will be assigning three targeted caseloads for dedicated employment case management, with a focus on JS-HCD clients.

Why are we proposing this invest to save package?

- The proposal utilises MSD's joint invest-to-save framework with the Treasury. This draws on MSD's robust employment programme evidence base, investing in effective employment services to achieve the Jobseeker Reduction Target and gain welfare savings.

Maintaining current levels of Case Management

- Extending current levels of Case Management for a further two years would allow MSD to maintain current levels of clients in case management as well change the composition. Retaining these staff levels will be crucial given the increase in the number of people receiving Jobseeker Support over the past year and the forecast that these levels will remain higher for longer. Alongside this it would enable MSD to continue Korero Mahi Seminars, which are delivered by Case Managers and a key part of MSD's client activation strategy.
- Case Management is one of MSD's most effective tools to deliver outcomes for clients. Case managers provide valuable support to help people into work. Maintaining this engagement with as many job seekers as possible as is important as our welfare system responds to the current economic climate.
- Included in the 490 frontline staff in this invest to save package, are the 35 staff required to maintain the Early Response Redeployment Service, a prevention service that links people affected by closures with other jobs and hiring businesses.

Delivering on my Welfare that Works manifesto commitment

- This package would secure funding for two years of Community Coaches, as part of my Welfare that Works manifesto commitment, giving Jobseekers on benefit for 3 months or more coaching, an assessment of their needs, an individual plan and being held accountable for achieving that plan.
- Community Job Coaching will help a greater number of clients be prepared to find and retain employment, more of these clients are people who would previously have experienced significant barriers.
- The addition of the bonus payment for those who have remained off benefit for 12 months can lead to marginal improvement in motivation for job coach participants to find employment.
- Funding for Welfare that Works – Community Job Coaches assumes 4,000 participants in the first year, 6,000 in the second. It assumes a mix of low-high intensity clients including Jobseeker – Health Condition or Disability clients. Also included is the delivery of bonus payments to participants in Job Coaching who remain in employment for 12 months.

Continuing employment programmes

- The proposal would enable MSD to continue delivering key employment programmes that have time-limited funding set to expire as there is currently a $117m reduction in employment programme funding from the 2024/25 to the 2025/26 financial year.
- The programmes being funded are programmes that have been evaluated to be effective for employment outcomes and include Flexi-Wage, Regional Employment Placement Programmes, Skills for Industry and Oranga Mahi. These will primarily support those receiving the Jobseeker Benefit. Oranga Mahi is focused on people with health conditions including disabilities.

- Flexi-Wage is an employment programme that is paid to employers to take on new employees who do not meet the entry level requirements, are at risk of long-term benefit receipt or are disadvantaged in the labour market. It subsidises new employee's wages while they gain the necessary skills for that job.
- Regional Employment Placement Programmes are delivered by local providers, procured at a regional level to meet the needs of local clients.
- Skills for Industry programmes provide short-term job-focussed training to prepare clients who require up-skilling for specific requirements, identified by industry. Training can be offered as pre-employment or in-work training and is delivered by contracted providers or directly by employers.
- This invest to save package will fund the Oranga Mahi services Individual Placement Services (IPS) and Here Toitu.
  - o IPS is an evidence-based service that integrates employment and mental health services to support people with severe mental health conditions to find an stay in work.
  - o Here Toitu is a collaboration with primary health organisations, providing a 12 month service to support people with health and disability conditions to find, and maintain meaningful work, study or volunteering experiences.

If MoF asks for further savings

Refer to Appendix Four for more information to support this discussion.

- In addition to the integrity checking proposal I've discussed with you today, we could also consider initiatives that I have submitted to Minister Seymour as part of his Baseline Savings Programme: s9(2)(f)(iv) [redacted] (, and bringing income charging forward.
- MSD has undertaken initial work to develop an alternative savings package including these initiatives s9(2)(f)(iv) [redacted] – with the aim of optimising savings. I will continue to work with MSD on this alternative package if further savings are required.
- To optimise savings, we will need to make deliberate choices to phase implementation of the savings to prioritise the initiatives with the highest ongoing savings. I have already started to consider this, which is why I am proposing to work on Phase 1 of Income charging, as a possible alternative to two smaller policy savings which require legislative change and are more complex to implement.

Budget 25 Package – lines for other initiatives

Additional savings as part of the Social Development multi-year Budget Strategy

- In addition, I am also proposing savings from:
  - o the 26-week reapplication changes (estimated net savings of $43.2m)

- Growing Up in New Zealand (GUiNZ) study (estimated net savings of $6.8m)
- Children and Young Peoples Commission tagged continency (estimated net savings of $8m).

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

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

Appendix Four – Back pocket optimal savings package

Refer to attached back pocket optimal savings package table.

Appendix Four – Back pocket optimal savings package (recommended package to optimise savings, while still achieving your objectives)

- The feasibility assumes implementation of Digital Employment Service in November 2025, and Budget 2024 Accommodation Supplement Boarders Contribution Initiative in March 2026.
- This does not show Budget 2025 initiatives from other Votes that we may implement – e.g. WFF and Student Loan changes. We consider we can implement the ones in play in addition to the below.
- These timeframes do not allow for any other changes that may be considered within the Social Development and Employment portfolio for 2025 to 2027.

	Budget 2025 process					**NEW**	**Baseline Savings Process**	
	1. ADM remediation	2. Jobseeker Support – tightening eligibility for 18-19-year-olds	3a. Accommodation Supplement (AS) – adjusting boundaries	3b. AS – increasing entry threshold for homeowners	4. Employment Invest to Save	5a. Income charging Part 1 - Additional integrity checks of MSD payments	5b. Income charging Part 2 – using and automating payday filing information	s9(2)(f)(iv) [redacted]
Net impact per year ($m) Refer to attached year-by-year breakdown for more detail	(101.101) Irregular years – savings begin in 2025/26, figure based on 2028/29	(83.838) Irregular years – savings begin in 2026/27, figure based on 2028/29	7.520 Irregular years – figure based on 2028/29	(17.500) Irregular years – savings start from 2026/27, figure based on 2028/29	(153.324) Irregular years – savings start from 2027/28, figure based on 2028/29	TBC	(300) Savings begin in 2028/29 This remains an early estimate – further work is required to refine this	
Implementation/go live	Rolling from March 2026 to August 2027	July 2027	1 April 2027	1 April 2027	Rolling from July 2025 to October 2025	July 2025	July 2028	
Legislation structure and timing	s9(2)(f)(iv) [redacted] Amendment Bill (introduced 2025, commencement 2026).	Budget 2025 Initiatives Bill (introduced 2026, commencement 2027).	NEW legislative bid would be required to cover these initiatives.		Welfare Programme for Welfare that Works – Bonus Payments (timing TBC).	N/A	Social Security Amendment Bill: Income Charging (introduced 2026/27).	
Would it negatively impact the JS Target, or Child Material Hardship measure?	No	No	No		No	No – however will establish overpayment debt for some households.	TBC for potential impacts on child material hardship.	
Feasibility	High complexity given volume of changes, but is MSD critical.	High complexity/ difficulty which shapes the timeframes.	Medium complexity.		Low complexity.	Low complexity – no system changes required.	High complexity/ difficulty for legislation and IT changes.	
Comments	The timing is based on the main effort going towards mandatory reviews (via Boarders Contribution initiative), Food, Dental and TAS changes. We will need to delay implementation of some of the smaller changes (e.g. End of School Year, Sustainable Employment Trial) to deliver other initiatives. We have not yet recast any impacts on savings for this. Cabinet paper due to SOU on 5 March.		Implementation of these initiatives will be 13 months after the Boarders Contribution initiative (go live 2 March 2026). Because of reprioritisation for boundaries, we have assumed that AS initiatives need to be implemented in same financial year. These would need to be delayed if Ministers wanted to progress 4b, or could be deferred to a future Budget.		For the first two financial years the costs of this initiative outweigh the savings, however from year three (2027/28) savings begin to significantly outweigh the costs. Main changes to the bid: • Reducing Welfare that Works package from four years to two years. This allows savings in years three and four to be recognised for investment in years one and two. Would allow for B27 bid post evaluation. Including funding for the Skills for Industry programme across two years. To be more targeted towards JS cohorts and in particular increased investment for JS-HCD clients who have a high return on investment for the programme.	Would involve additional FTE for integrity processes (via Integrity Centre) to increase the number of matched records reviewed from the Inland Revenue Information Share (IRIS) for benefits. We think this would have a meaningful reduction in BoRE savings as people will be getting the correct entitlement. Will see some establishment of overpayment debt. This would be a time-limited initiative ahead of income charging changes.	With phasing of initiatives, savings could be delivered in 2028/29. Would need to be built in existing systems. MSD will provide further advice in March. Will need support of Inland Revenue and Minister of Revenue to progress.	

Report

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Date: 19 March 2025 **Security Level:** BUDGET SENSITIVE

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

Reference: REP/25/3/187

Budget 2025 – Draft submission letter for Income Charging Parts One and Two

Purpose

1 This report provides you with a draft Budget 2025 submission letter for Income Charging Parts One and Two. It also provides an updated A3 view of your Budget 2025 package.

Recommendations

It is recommended that you:

1 **note** that, as discussed at your bilateral meeting with the Minister of Finance (MoF) on 5 March 2025, Income Charging Parts One and Two are now part of your Budget 2025 savings package

2 **note** the Ministry of Social Development (MSD) submitted savings templates to the Treasury for each of these initiatives on Tuesday 18 March 2025

3 **note** that you are required to provide a submission letter to MoF regarding these initiatives, and a draft letter is attached as Appendix One

4 **note** that an updated Budget 2025 A3 is attached as Appendix Two

5 **discuss** this report at your Officials' meeting on 24 March 2025.

19/3/25

Sacha O'Dea
Deputy Chief Executive, Strategy and Insights

Date

20250323

Hon Louise Upston
Minister for Social Development and Employment

Date

The Aurora Centre, 56 The Terrace, PO Box 1556, Wellington
- Telephone 04-916 3300 - Facsimile 04-918 0099

Draft letter

2 At your bilateral meeting with MoF on 5 March 2025, you discussed bringing the following initiatives into your Budget 2025 package:

- *Income Charging Part One – additional integrity checks of MSD payments*, and
- *Income Charging Part Two – sharing Inland Revenue's income data with MSD to improve the accuracy of assistance MSD pays clients.*

3 MSD submitted savings templates to the Treasury for each of these initiatives on Tuesday 18 March 2025.

4 To support these templates, you are required to provide a submission letter to MoF. This was initially due on 18 March 2025, however you indicated that you would send your letter to MoF after you return to the country.

5 A draft submission letter is attached as Appendix One.

Updated Budget 2025 package

6 As previously advised, MSD will need to take a phased approach to implement the savings in your Budget 2025 package.

7 The savings estimates previously indicated were based on initiatives being progressed individually, given uncertainty around which initiatives were likely to progress. Following your discussion with MoF, we have been able to update cost and savings estimates for the following initiatives, based on the phasing outlined in our advice to support the bilateral (REP/25/2/105 refers):

- Jobseeker Support – tightening eligibility for 18-19 year olds
- Automated Decision-Making, and
- Accommodation Supplement (new spending and savings components).

8 The total net impact of these changes on your Budget package is a $4.413m reduction of savings (in relation to what was submitted in December 2024).

9 These latest figures are included in the updated Budget 2025 A3 attached as Appendix Two. Other changes to the A3 include updates to savings for:

- Income Charging Parts One and Two (in line with what was submitted to the Treasury on 18 March), and
- your employment invest-to-save initiative (we will brief you on these changes at the Officials' meeting).

Next steps

10 We will continue to provide information to the Treasury ahead of Cabinet Budget decisions on 14 April 2025, and will keep you and your office updated as this progresses.

Appendices

Appendix One – Draft submission letter for Income Charging Parts One and Two

Appendix Two – Budget 2025 on a page

Responsible manager: Sacha O'Dea, Deputy Chief Executive, Strategy and Insights

Appendix One – Draft submission letter for Income Charging Parts One and Two

[Refer to attached letter]

Appendix Two – Budget 2025 on a page

[Refer to attached A3]

SENSITIVE

Vote Social Development - Budget 2025 on a page

Costs / savings are over the forecast period unless otherwise specified.

New spending

Ministerial Priorities ($34.434m)

- Food Secure Communities – Funding to Respond to Demand for Food Support ($15m in 25/26 only).
- Accommodation Supplement - Adjusting Area Boundaries ($17.416m).
- Child and Youth Strategy – Delivering on the Government's Priorities (continuing Govt contribution to KickStart Breakfast and KidsCan distribution of jackets) ($2.018m).

Disability Support Services ($1.010b)

- Disability Support Services Cost Pressures – Supporting Disabled People ($760m).
- High and Complex Framework Funding Pressures ($10m).
- Pre-commitment – Adjustment to Residential Care Funding ($240m).

Crown Response to Abuse in Care ($394.087m)

- Addressing the Wrongs of the Past – Redress System Changes and Provision of Redress for Abuse in Care ($384.632m)
- Making the Care System Safe - Recognising and Responding to Abuse of Disabled People in Care ($8.800m)
  - *Provides funding to audit Disability Support Services providers, and deliver improvements for the critical incidents and complaints process.*
- Recordkeeping to Improve Quality, Quantity, Capacity, Access and Whānau Connections ($0.500m in 25/26 only)
  - *Provides funding to develop and implement new and consistent recordkeeping practices and standards and support improved recordkeeping in small contracted disability support service providers*
- Making the Care System Safe - Building a Diverse, Capable and Safe Care Workforce ($0.155m in 25/26 only)
  - *Provides funding for initial policy and development work to deliver core training and ongoing development, and workforce screening and safety.*

MSD is also contributing to three cross-agency initiatives.

Savings proposals

Invest to Save ($178.813m)

- Employment Services – Investing in Frontline Staff and Employment Programmes (net savings $147.255m).
- Income Charging – Phase 1 – Additional Integrity Checks of MSD Payments ($31.558m).

Targeted Policy Savings ($564.833m)

All savings are net

- Housing Subsidies – Increasing the Accommodation Supplement Entry Threshold for Some Homeowners ($36.593m).
- Jobseeker Support – Tightening Eligibility for 18-19-year-olds ($163.704m).
- Income Charging – Phase 2 – Using Inland Revenue Data to Improve the Accuracy of MSD Payments ($364.536m).

Other savings ($1.239b)

- Automated Decision-Making (ADM) - Updating ADM Use in MSD Processes (net savings $157.879m).
- Pre-commitment – 26-Week Reapplications for Jobseeker Support ($37.885m).
- Emergency Housing – Recognising Savings ($1.027b).
- Growing Up in New Zealand (GUiNZ) Study - Recognising Savings ($6.820m in 24/25 only).
- Tagged Contingency Saving – Funding for CYPC and Strengthening the Oversight of the Oranga Tamariki System ($10.171m)

Other relevant initiatives:

- Working for Families
- Tertiary Education – Increased Fees ($174.907m increase in Student Loans)
- Social Investment Package, including the Child and Youth Strategy Parenting Support Programmes.

Technical initiatives

Ongoing funding ($171k per annum) for the social worker investigative function. This function is proposed to be transferred from MSD (administered by Te Kāhui Kāhu) to SWRB.

Multi-year Budget strategy

Budget 2024

- Total net savings $710m
- Further reduction in expenditure from Emergency Housing (see "other savings" from B25).

Future Budgets

- Invest to Save TBC
- Policy Savings
  - s9(2)(f)(iv) [redacted]
  - s9(2)(f)(iv) [redacted]
- Other Savings

MSD – services for the future programme

s9(2)(j) [redacted]

s9(2)(j) [redacted]

Report

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Date:	19 March 2025	**Security Level:**	BUDGET-SENSITIVE
To:	Hon Louise Upston, Minister for Social Development and Employment		
File Reference:	REP/25/3/174		

Tightening Jobseeker Support eligibility for 18 and 19 year olds

Purpose of the report

1 This report seeks confirmation on key policy parameters of the Budget 2025 targeted savings initiative '*Jobseeker Support: tightening eligibility for 18 and 19 year olds*'.

Executive summary

The initiative tightens eligibility for single 18 and 19 year olds

2 A Budget 2025 targeted savings proposals for Vote Social Development is to tighten eligibility for Jobseeker Support for single people aged 18 and 19 by requiring them to meet a parental support gap test from July 2027. This will reduce the number of single, unemployed 18 and 19 year olds who will be eligible for Jobseeker Support. The test will be similar to the one currently used for Youth Payment, although further work will be done to ensure it is appropriate for this group.

3 People aged under 20 who are married, in a civil union or a de facto relationship will not be subject to a parental support gap test as they are expected to rely on their partner or spouse for financial support.

4 The settings for Emergency Benefit for single 18 and 19 year olds will need to be tightened to prevent them from accessing it if they do not meet the parental support gap test.

There is a range of impacts and risks with the initiative

5 It is estimated that 17,800 people aged 18 and 19 will lose eligibility for Jobseeker Support over five years as a result of this policy. Māori aged 18 and 19 will be disproportionately affected as they represent approximately 30 percent of that age group on Jobseeker Support.

6 Financial incentives to work will be strengthened due to the increased gap between employment income and any supplementary or hardship assistance that this cohort may be eligible for.

7 As 18 and 19 year olds who do not have a parental support gap will not receive main-benefit assistance, they will not have work obligations. However, the Ministry of Social Development (MSD) may be able to provide limited employment support.

8 Not all parents or guardians (referred to hereafter as parents) will be well placed to support their 18 and 19 year olds. As 18 and 19 year olds will not be considered to be dependent children, no financial support will be available for parents/caregivers in respect of that 18 or 19 year old, including via Working for Families tax credits.

9 Those who do not receive support from their parents may face increased financial hardship and there could be increased pressure on foodbanks as well as increased poverty and homelessness. s9(2)(f)(iv) [redacted] s9(2)(f)(iv) [redacted]

10 There is potential for New Zealand Bill of Rights Acts 1990 implications and also flow-on impacts for student support, as well as perverse incentives for 18 and 19 year olds such as entering or staying in relationships to avoid the parental support gap test.

The savings have increased

11 The total savings estimate has increased to $186.359 million over five years, due to a change in formula assumptions that lowers the expected take up of hardship assistance for people who become ineligible for Jobseeker Support.

Recommended actions

It is recommended that you:

1 **note** that one of the Budget 2025 targeted savings proposals for Vote Social Development is to tighten eligibility of Jobseeker Support for single people aged 18 and 19 years by introducing a parental support gap test

2 **agree** that the policy objective is to make it clear that 18 and 19 year olds are expected to support themselves or be supported by their parents or guardians

AGREE / DISAGREE

3 **agree** that single, unemployed 18 and 19 year olds will be required to meet a parental support gap test to be eligible for Jobseeker Support (Work Ready and Health Condition, Injury or Disability) and Emergency Benefit

incl. means test

AGREE / DISAGREE

4 **agree** that 18 and 19 year olds who are married, in a civil union or de facto relationship will not be subject to a parental support gap test for Jobseeker Support, consistent with the expectation in the Social Security Act 2018 that clients in a relationship should rely on their partner or spouse for support (rather than on their parents)

AGREE / DISAGREE

5 **note** that the settings for Emergency Benefit for 18 and 19 year olds will need to be tightened

6 **note** that the parental support gap test will be similar to the one currently used to assess eligibility for Youth Payment and that MSD will do further work to ensure it is appropriate for 18 and 19 year olds

7 **note** that the parental support gap test will be administered by the Ministry of Social Development and the initiative seeks funding for additional FTE

8 **agree** that, as per existing policy, 18 and 19 year olds who do not meet eligibility criteria for Jobseeker Support will continue to be able s9(2)(f)(iv) [redacted] s9(2)(f)(iv) [redacted] s9(2)(f)(iv) [redacted]

AGREE / DISAGREE

9 **note** that there is a range of impacts and risks resulting from this initiative, most of which are inherent in the policy design

10 **note** that the planned implementation date for this initiative is July 2027

11 **note** that further advice will be provided on s9(2)(f)(iv) [redacted] s9(2)(f)(iv) [redacted] and the timing of the required changes to primary legislation

12 **note** that the total estimated savings resulting from this initiative have increased by approximately $13 million over five years ($186.359 million, up from $173.388 million over five years).

19/3/2025

Bede Hogan
Policy Manager – Income Support Policy

Date

20250401

Hon Louise Upston
Minister for Social Development and Employment

Date

It is proposed that eligibility for Jobseeker Support is tightened for 18 and 19 year olds

12 One of the Budget 2025 targeted savings proposals for Vote Social Development is to tighten eligibility for Jobseeker Support for 18 and 19 year olds by introducing a parental support gap test. This will reduce the number of single, unemployed 18 and 19 year olds who will be eligible for Jobseeker Support.

13 Following your discussion with the Minister of Finance on Wednesday 5 March 2025, we need to confirm your agreement to some key policy parameters. Changes to any of these will affect the estimated savings.

The policy objective

14 The overall policy objective is to make it clear that 18 and 19 year olds are expected to support themselves or be supported by their parents or guardians.

15 This expectation will apply to single 18 and 19 year olds and their parents, regardless of income.

How eligibility settings will change for 18 and 19 year olds

16 Single 18 and 19 year olds will be required to demonstrate that they have a parental support gap to be eligible for Jobseeker Support - Work Ready and Jobseeker Support - Health Condition, Injury or Disability (JS-HCD).

17 People aged under 20 who are married, in a civil union or a de facto relationship will not be subject to a parental support gap test. This is consistent with the current settings for the Youth Payment and Young Parent Payment and is consistent with the expectation in the Social Security Act 2018 that clients in a relationship should rely on their partner or spouse for support (rather than on their parents). If both people in the relationship are unemployed, they may be eligible for Jobseeker Support.

18 In order to prevent people from accessing Emergency Benefit in the place of Jobseeker Support, the settings for 18 and 19 year olds for Emergency Benefit will need to be tightened.

19 The parental support gap test will be similar to the one currently used for Youth Payment and will be administered by the Ministry of Social Development (MSD). Due to the requirements for administering the test at scale, funding for additional staff has been included in the Budget bid.

20 Currently, a young person is considered to have a parental support gap for Youth Payment purposes when:

- each of their parents (or guardians) is unable to support them financially e.g. because they are deceased, in prison, in hospital or overseas

- the relationship with their parents has broken down and they are not prepared to support the young person
- transitioning from care under the Oranga Tamariki Act 1989, or
- the young person cannot reasonably expect to be financially dependent on their parents, e.g. because they have been subject to physical, psychological, emotional, or sexual violence in their parent's or guardian's home.

21 MSD will undertake further work to ensure the parental support gap is designed suitably for 18 and 19 year olds and provide you with advice later in 2025.

22 As per existing policy, 18 and 19 year olds who do not meet the test will s9(2)(f)(iv) [redacted] s9(2)(f)(iv) [redacted]SD will continue to assess these clients as part of its existing services for non-beneficiaries.

There is a range of impacts and risks associated with this initiative...

The policy incentivises people to find employment or to rely on parental/other support

23 MSD estimates that, over five years, 17,800 people aged 18 or 19 will lose eligibility to Jobseeker Support as a result of this policy. We expect this to result in a number of impacts, including:

- Financial incentives to work will be strengthened. As most of the cohort will be ineligible for main benefit assistance, the gap between employment income and payments from MSD will increase. However, it should be noted that this cohort currently has one of the strongest incentives to work as they have the lowest weekly benefit rates. To support their cost of living, people may be incentivised to enter work.
- Some people may not have a parental support gap but will also not be financially supported by their parents (e.g. because they do not have enough money to do so). This cohort will need to either enter employment s9(2)(f)(iv) [redacted] s9(2)(f)(iv) [redacted]:o meet their living costs until they turn 20 and qualify for Jobseeker Support. This may increase financial hardship, food insecurity, pressure on foodbanks, poverty and homelessness.
- Those not receiving main benefit assistance will not have any work obligations. Some may be incentivised to enter employment without MSD

intervention. MSD may still offer these people non-beneficiary supports to help them improve their skills or find employment.[1]

Not all parents/caregivers will be well placed to provide this support

24 There could be increased strain on parent(s) resulting from having to financially support their child(ren), without any corresponding increase in the parents' income or benefit rate. 18 and 19 year olds will not be considered dependent children, meaning that the parent will not receive any financial support in respect of that 18 or 19 year old (including via Working for Families tax credits).

Māori young people will be disproportionately impacted

25 This initiative is likely to have a disproportionate impact on Māori aged 18 and 19 who, as at 28 February 2025, represented approximately 30 percent of 18 and 19 year olds on Jobseeker Support. Māori make up 18 percent of New Zealand's population.

There may be New Zealand Bill of Rights implications

26 New Zealand Bill of Rights Act 1990 and human rights implications may arise due to the age and relationship status aspects, and these will need to be justified.

There could also be perverse incentives

27 By tightening eligibility for Jobseeker Support, and requiring reliance on family support there could be perverse incentives to:

- apply for Student Allowance or Student Loan with no intention to complete study for which they remain eligible[2]
- enter or stay in relationships to avoid being subject to a parental support gap test, and/or
- not seek to repair a parental relationship to remain eligible for Jobseeker Support.

[1] There may be limited employment support available for this cohort including work brokerage and access to some community-based providers, however key employment support generally comes through case management. Other employment supports may also be unavailable or limited due to being tied to a person's benefit status.

[2] Note that that eligibility for Student Allowance is dependent on parental income for this age group, albeit with a different means test.

The total estimated savings have increased due to a change in assumptions s9(2)(f)(iv) [redacted]

28 At the time of your meeting with the Minister of Finance, the total estimated savings of this initiative were $173.388 million over five years. MSD has continued to refine the assumptions behind this figure and now considers the estimated savings to be greater by approximately $13 million over five years. This results in savings of $186.359 million in operating expenses over five years.

29 This revised figure is due to both a change in:

- implementation date, from April to July 2027
- assumptions underpinning the modelling of impacts s9(2)(f)(iv) [redacted] s9(2)(f)(iv) [redacted]

30 Costings had originally assumed 1 April 2027 as the implementation date, however, due to overlap with the Annual General Adjustment, MSD considers July 2027 to be a feasible implementation date.

s9(2)(f)(iv)

31 [redacted]

32 [redacted]

33 There are capital impacts due to IT costs and increased take up of recoverable assistance. With refining the s9(2)(f)(iv) [redacted] assumptions above, the total capital impact has reduced by approximately $44 million, with a total capital impact of $116.512 over ten years.

34 The full funding profile of impacts on operating and capital expenditure is attached at **Appendix One**. MSD will work with the Treasury to include the revised figures in the Budget 2025 package.

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

Implementation

39 The planned commencement is July 2027, to allow sufficient time for detailed policy design to be confirmed, and the legislative, IT and operational changes that will be required.

MSD will work out timing for legislative changes

40 Primary legislative change will be required to implement this initiative. s9(2)(f)(iv) [redacted] s9(2)(f)(iv) [redacted]

41 [redacted] s9(2)(f)(iv) [redacted] we will continue to work on detailed timing across all the required legislative changes in the Budget 2025 package and report back to you on a proposed approach.

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

Next steps

42 Subject to your agreement, the decisions made in this report will be considered via the Budget 2025 Cabinet paper. The Budget 2025 Cabinet paper will also seek agreement to delegate any further decisions to you.

43 Some outstanding areas of this initiative will not be resolved in time for the Budget 2025 Cabinet paper. MSD will provide advice over the course of 2025 on:

- how the parental support gap test will apply to 18 and 19 year olds
- s9(2)(f)(iv) [redacted]
- transitional arrangements, including how people will transition off Jobseeker Support once the policy commences in July 2027 (if they are no longer eligible)
- any other issues that arise during the detailed design stage.

File ref: REP/25/3/174

Appendix One – Funding profiles (operating and capital expenses)

Table 1: Operating expenditure impacts

Operating expense category	2025/26	2026/27	2027/28	2028/29 & outyears	Total
Benefit or Related Expenses – Jobseeker Support and Emergency Benefit	-	-	(146.246)	(144.818)	**(291.064)**
s9(2)(f)(iv) [redacted]					
Debt write-off appropriation	-	-	5.052	4.920	**9.972**
Depreciation and/or capital charge	0.009	0.086	0.429	0.429	**0.953**
Net FTE funding	0.433	2.799	11.404	11.146	**25.782**
Net contractor/consultant funding	-	-	-	-	-
Net FTE and contractor/consultant overhead funding	0.140	1.014	4.427	4.327	**9.908**
Project Delivery communication costs	-	0.084	0.006	0.006	**0.096**
Total ($m)	**0.582**	**3.983**	**(95.549)**	**(95.375)**	**(186.359)**

Table 2: Capital expenditure impacts

Capital expense category	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34*	Total
Project Delivery – MSD IT	-	0.172	1.545	-	-	-	-	-	-	-	1.717
Non-Departmental Capital Expenditure - Recoverable Assistance	-	-		16.389	16.401	16.401	16.401	16.401	16.401	16.401	114.795
Total ($m)	-	**0.172**	**1.545**	**16.389**	**16.401**	**16.401**	**16.401**	**16.401**	**16.401**	**16.401**	**116.512**

Follow up questions on REP/25/3/174 - Tightening Jobseeker Support eligibility for 18 and 19 year olds

Paragraph 17: Does the exclusion of 18 and 19 year olds who are in a relationship create a loophole?

- As discussed in paragraph 27, there may be perverse incentives to enter or stay in relationships to avoid being subject to a parental support gap test.
- However, these clients will remain subject to MSD's test of relationship status. There are three types of relationship:
  - Marriage
  - Civil Union
  - De facto relationship.
- Clients who are married or in a civil union and are living together are considered a couple unless it is clear the relationship has ended. When determining if a client is in a de facto relationship, MSD considers several aspects of the relationship, including whether:[1]
  - they have an emotional commitment to each other. The relationship must demonstrate a degree of companionship and a level of emotional commitment that is ongoing.
  - they are financially interdependent. This includes the sense of at least a willingness to support the other person if that person cannot support themselves. This does not mean that the financial support already exists, but that it would if needed.
- MSD can undertake further work on how couples aged 18 and 19 could be subject to a parental support test as part of the detailed policy design phase for this initiative (after Budget 2025 announcements). Including couples would likely have a positive savings impact, as a greater number of people would be subject to the parental support gap test.

Paragraph 20, second bullet: Request for more information the relationship breakdown element of the parental support gap test

- MSD currently considers people to have a parental support gap when a person's relationship with their parents has broken down and their parents are not prepared to support the young person financially.
- The relationship breakdown must be serious to be considered a parental support gap. Serious situations include:
  - issues of health and safety
  - sexual, physical or emotional abuse
  - situations where the young person or their family would be at risk if they were to return home.

[1]See appendix for further detail on MSD's test of relationship status.

- A person is not considered to have a parental support gap if they have the option of living with a parent or guardian but chooses not to, and MSD is satisfied that there are no good and sufficient reasons for the young person not to be living with that parent or guardian.

Para 23: Will people enter training?

- Some people may enter training/study as a result of being ineligible for Jobseeker Support, but as noted in paragraph 27, they may not have an intention to complete training/study.
- Behavioral outcomes of the policy, such as decisions to enter work or training/study due to being ineligible for Jobseeker Support, cannot be quantified.

Page 7, footnote 2: How does the parental income test for Student Allowance differ to the proposed parental support gap test for 18 and 19 year olds?

- Entitlement to Student Allowances for students who are under 24 years old with no supported children, is assessed on their parents' **income**.[2] This test is based on parental income only – generally, no other elements of parental support are considered.[3]
- In comparison, the parental support gap test does not impose a parental income test. Rather, the parental support gap test considers whether a parent is able to **support** their child, including:
  - the ability of the parent to support their child financially – if the parent is deceased, in prison, in hospital, or overseas, they are generally considered unable to provide financial support.
  - whether the relationship has broken down (see explainer for question 2).
  - whether the child is transitioning from Oranga Tamariki care.
  - the young person cannot reasonably expect to be financially dependent on their parents (e.g. due to family violence in their parents' home).

[2] Parental income must not exceed $124,922.46 for students living at home, and $134,2014.31 for students living away from home.
[3] In exceptional circumstances, MSD may pay the student an Independent Circumstances Allowance if MSD considers it would be unreasonable for the student to live with their parents and receive financial support from their parents.

Appendix 1 - MSD considerations for whether a client is in a de facto relationship

For a de facto relationship to exist the client and the other adult must have a relationship that has similar characteristics to a marriage or civil union. This can include:

Emotional commitment

When considering if a client is in a de facto relationship MSD needs to determine whether they have an emotional commitment to each other. The relationship must demonstrate a degree of companionship and a level of emotional commitment that is ongoing.

MSD considers the following when determining emotional commitment:

- client perception - the client and the other adult see their relationship as a relationship in the nature of marriage or civil union; they consider the relationship is likely to continue
- public perception - they are viewed as a couple by their community (this may include their family, local church, sports clubs etc)
- history - the length of time the client and the other adult have known each other and/or have resided at the same address; shared children
- extent to which their lives are merged - socialising together and how often this occurs; going out as a family; belonging to and attending the same clubs/sports teams or interest groups together; having meals together as a couple/family; their sleeping and sexual relationships
- shared responsibilities - arrangements for domestic duties such as gardening, cleaning, cooking; the caring arrangements for any children including when children are sick; joint decision making and plans together
- support - the emotional support that the client and the other person provide to each other; the nature of any companionship and support that the client and the other person provide to each other

Financial interdependence

When considering if a client is in a de facto relationship, MSD needs to determine if the client and the other person are financially interdependent. This includes the sense of at least a willingness to support the other person if that person cannot support themselves. This does not mean that the financial support already exists, but that it would if needed.

MSD considers the following when determining financial interdependence:

- joint bank accounts, assets or joint loans/credit
- joint ownership of real estate or other major assets and any joint liabilities e.g. both the client and the other adult own a rental property
- significant pooling of financial resources especially in relation to major financial commitments eg saving for a house, car or holiday
- legal obligation owed by one person in respect of the other person eg the other adult is the guarantor for a TV hire purchase
- joint ownership of a car. Do they both use it?

- items the other adult pays for, if any? eg SKY television rental, internet broadband
- arrangements for paying bills or for groceries
- the sharing of day to day household expenses.