

5 February 2009

Hon Bill English
Minister of Finance
Parliament Buildings
WELLINGTON

Dear Minister

Value for Money and Budget 2009

- The Ministry is **absorbing costs of \$254.8 million** over the next four years – there will be no Budget bids to meet these increased costs
- I am **offering savings of** *[deleted – confidentiality of advice]* over four years – with the prospect of more savings to come from further value-for-money work
- I am **submitting bids of** *[deleted – confidentiality of advice]* for my policy priorities over four years
- I am **submitting Budget bids of \$473.6 million** over four years **for our pre-election commitments** on NZ Super and Fresh Start, to be funded from the operating allowance of \$1.75 billion

This letter responds to your letter to Ministers (17 December, 2008) entitled “Value for Money and Budget 2009”.

I fully appreciate the magnitude of the fiscal challenge we face given the deterioration in the global and domestic economic position. Therefore I have prepared a savings and value-for-money package that, over the next three years (2009/10-2011/12), will:

- deliver up to *[deleted – confidentiality of advice]* (gross operating) and \$5.0 million (gross capital) in savings (over four years) out of departmental and non-departmental funding in Vote Social Development for Budget 2009
- ensure that, in the Votes for which I am responsible, all policy settings and programmes are providing taxpayers with value for money and are aligned with our government’s priorities – I expect that further savings will be achieved as a result of this work over 2009/10 and heading into Budget 2010

- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- support New Zealanders through a difficult economic period by maintaining high-quality social services and an appropriate welfare safety net
- ensure that the delivery and administrative services of the Ministry of Social Development are efficient and effective

Across government, Ministers are being asked to manage a range of cost pressures including remuneration and other departmental pressures for our agencies.

I can inform you now, based on the advice I have been given by the Chief Executive of the Ministry of Social Development (MSD), that the Ministry has committed to meeting any increase in departmental cost pressures (i.e. salary, accommodation/property rentals, maintenance, IT systems costs and business-as-usual service volumes) for 2009/10, 2010/11 and 2011/12.

This effectively means that you will not receive any bids from me for wage and price increases. This is a significant achievement. Based on market data used to forecast cost pressures over the next three years this represents around \$254.8 million I would have had to bid for if the department had not committed to find ways to manage these cost increases.

The Ministry is able to manage these cost increases because it is implementing an extensive departmental VFM Review work programme to lift productivity and efficiency and reduce overhead costs. *[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]*

The reduction in staff numbers will be managed in a way that does not adversely impact on services for clients and so represents a real productivity gain for the Government . More information on this work is provided in the body of this letter.

I understand that there is no guarantee that savings identified in a Vote will return to that Vote given the fiscal position the Government finds itself in at this time. Therefore, I am submitting all my savings bids and Budget bids for consideration against all other priorities the Government has for Budget 2009.

I do need to tell you upfront that there will be significant service volume pressures across the Ministry if economic conditions worsen further. Officials advise me that, if Unemployment Benefit (UB) recipients exceed 60,000, the Ministry will require additional funding to manage beneficiary entitlements and continue to support people into work. As UB numbers rise, tough choices are already being made in terms of reprioritising resource to manage these numbers.

I would like to discuss the question of Work and Income service levels with you when we meet for our upcoming Budget bilateral. I will also seek your views as to how these potential risks should be managed as part of the Budget 2009 process.

I also have similar concerns relating to service pressures on Child, Youth and Family (CYF) and the NGO sector as the economy worsens.

Overview and Structure

This letter and its accompanying annexes provide my comprehensive response to address Budget 2009 and Value-for-Money issues in respect of the Social Development and Employment, Youth Development and Disability Issues portfolios.

The letter is structured as follows:

- **Section One “Budget 2009”** sets out the savings package I have developed and the Budget bids I am submitting to enable our Government to meet its election commitments
- **Section Two “Improving Value for Money in Crown expenditure”** outlines the ongoing work associated with managing and improving value-for-money across the Crown (non-departmental) expenditure in Vote Social Development
- **Section Three “Managing departmental cost pressures over 2009/10-2011/12”** details ongoing work to manage and improve value-for-money in the departmental expenditure in Vote Social Development, including more information on the Ministry’s Value-for-Money Review (VFM Review), and plans to keep improving departmental efficiency and productivity

There are five annexes attached to this letter with further detail supporting the proposals set out in this letter. These are:

- **Annex One “Time limited initiatives in Vote Social Development”** sets out the time limited initiatives (programmes and services) in Vote Social Development
- **Annex Two “Short-term savings proposals for budget 2009”** provides further details on savings options and proposals
- **Annex Three “Specific fiscal risks”** summarises the fiscal risks position
- **Annex Four**
[deleted – confidentiality of advice]
- **Annex Five “Departmental Value for Money review”** provides further information on the departmental VFM Review undertaken by the Ministry of Social Development over the last 12 months

SECTION ONE: BUDGET 2009

This section sets out:

- three sets of Budget bids:
 - Government commitments on NZ Superannuation and Fresh Start
 - bids to meet policy priorities in *[deleted – confidentiality of advice]* teen parents and volume pressures in Child, Youth and Family *[deleted – confidentiality of advice]*
 - time-limited initiatives for which I seek funding for 2009/10
- the savings package I am proposing

Budget bids – Vote Social Development

Government commitments

I am submitting two Budget bids to meet our election commitments for this portfolio that I understand can be met from the \$1.75 billion operating allowance for new initiatives:

- Maintaining New Zealand Superannuation at 66% of the average wage. The latest forecasts estimate the net cost to be \$13.688 million in 2009/10, \$72.690 million in 2010/11, \$128.126 million in 2011/12 and \$135.625 million in 2012/13 and out years
- The Fresh Start youth justice reforms tackling serious and repeat offending. This was considered by Cabinet Business Committee on 2 February with a direction that revised costings be provided for the package

Policy Priorities

To assist me in delivering on the key policy priorities for this portfolio – which are set out in my letter of today's date to the Prime Minister - I am also submitting the following bids:

- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- extending the Young Parent Childcare Payment giving 30 hours early childhood education to those young parents not receiving any other financial assistance – this will ensure that lack of childcare is not a barrier to young parents attending secondary school. The latest forecasts estimate the net cost to be \$0.300 million in 2009/10 and out years
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Volume Pressures

In addition to the increase in people seeking Unemployment Benefit, two other service lines in the Ministry, Child, Youth and Family [*deleted – confidentiality of advice*] have been experiencing significant increases in volume numbers.

Since Child, Youth and Family was merged with the Ministry in 2006, notifications of child abuse and neglect have increased steadily, from 66,210 in 2005/06 to 89,461 in 2007/08 - a 35% volume increase. In recognition of this increase, extra funding of \$6.8 million was provided for 2006/07, 2007/08 and 2008/09 only. Notifications for the 2008/09 year to-date have continued to increase meaning the Ministry is seeking \$6.8 million ongoing to manage volumes at current levels.

[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

I will continue to work with the Ministry's Chief Executive to understand these volume pressures and how we can manage down the forecast expenditure.

I am submitting a Budget bid to manage these service volume pressures.

Time-limited initiatives

There are a number of programmes which receive time-limited funding which now expires. These programmes meet our Government's priorities including the focus on the early years of childhood, youth offending and addressing family violence. I am seeking funding for one year only. This will allow me to fully assess the individual programmes and to decide whether they should continue. Further information on these time-limited funding pressures is attached as **Annex One**.

The table below sets out the summary position for all budget bids. Additional information on all Budget bids for this portfolio is included in the full Budget bid templates that have been submitted to your office and the Treasury.

BUDGET BIDS 2009

in \$million				
Initiative	2009/10	2010/11	2011/12	2012/13
Government Priorities				
New Zealand Superannuation	13.688	72.690	128.126	135.625
Fresh Start ¹ (operating)	17.969	31.229	35.880	35.894
Fresh Start (capital Police & Courts)	2.540			
Policy Priorities				
<i>[deleted – confidentiality of advice]</i>				
Teen Parent Childcare Payment	0.300	0.300	0.300	0.300
<i>[deleted – confidentiality of advice]</i>				
Time limited pressures				
Programmes focusing on the early years of childhood, youth offending and addressing family violence	5.295	-	-	-
Service Delivery Volume Pressures				
Child Youth and Family volume pressures	6.800	6.800	6.800	6.800
<i>[deleted – confidentiality of advice]</i>				
TOTAL (operating)				
TOTAL (capital)	2.540	-	-	-

Short-term Savings for Budget 2009

The savings I have identified at this point represent funding which can be withdrawn from the Vote without compromising service delivery or entitlements for New Zealanders. I expect more savings options to emerge as value-for-money work progresses across all policy areas and programmes over the next 12 months.

I directed my officials to prepare savings options from inefficient and low value expenditure that can be realised in time for Budget 2009. The structure of the Votes I oversee means that much of the spending (around 94%) is focused on Benefit and Other Unrequited Expenditure, capital appropriations and non-departmental outputs and other expenditure. For ease of reference this type of spending is referred to as “Crown expenditure”.

I specifically directed officials not to review options that would affect:

- New Zealand Superannuation

¹ This was considered by Cabinet Business Committee on 2 February with a direction that revised costings are provided for the package. It currently excludes the \$2.540 million for capital that relates to Police and Courts.

- main demand-driven benefit entitlements including Domestic Purposes Benefit, Invalid's Benefit, Sickness Benefit and Unemployment Benefit
- associated supplementary assistance such as Disability Allowance and Temporary Additional Support

This is because I believe it would not be consistent with our approach as a Government. We have committed to maintaining an appropriate safety net as economic conditions worsen over the forecast period.

My officials are still working on the detail of how the savings identified would be phased as there may be a need, for example, to continue providing current recipients with services and support until their entitlements expire.

[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]

The table below sets out the broad scope of savings which could be made, with more detail on the programmes in **Annex Two**.

SAVINGS FOR BUDGET 2009

in \$ million						
Proposal	2008/09	2009/10	2010/11	2011/12	2012/13	Five year total
Training Incentive Allowance – restrict access to Level Four and below	-	5.0	5.0	5.0	5.0	20.0
Remove subsidy from Enterprising Communities Programme	-	5.6	8.0	9.3	9.3	32.2
Phase out Bonded Merit and Step Up Scholarships	-	7.5	15.3	23.2	27.5	73.5
Return Health and Innovation Fund Underspend for 2008/09	3.0	-	-	-	-	3.0
<i>[deleted – confidentiality of advice]</i>						
One-off capital dividend from reprioritisation of MSD capital expenditure programme	-	5.0	-	-	-	5.0
Total operating savings						
Total capital savings		5.0				5.0
Grand Total (operating and capital)						

Further value for money initiatives being considered for Budget 2009

The above savings represent funding that can be realised in time for Budget 2009 without breaking existing contracts and/or obligations with providers and service recipients. I expect further savings across the Votes for which I am responsible to be identified over the next 12 months as a full review of all policies and programmes progresses.

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Overall position – savings package and Budget proposals

I understand that there are no hard-and-fast rules about how savings will be allocated as part of the Budget 2009 process. I also understand that you may wish to allocate savings to meet other government priorities, emergency pressures or for the repayment of debt.

Keeping this in mind I provide below a summary of the overall position of my savings proposals relative to the policy priority Budget bids I am submitting:

OVERALL BUDGET PROPOSALS

In \$million						
	2008/09	2009/10	2010/11	2011/12	2012/13	Five year total
Savings proposals (operating)		18.1				
Savings proposals (capital)		5.0	-	-	-	5.0
Policy priorities (excluding NZ Super & Fresh Start election commitments)						

Please note I have *excluded* Social Development election commitments for the purposes of this overall position as I understand these are being considered against the Government's operating allowance for new initiatives in Budget 2009.

Other Budget 2009 matters

Finally, I can confirm that all Specific Fiscal Risks in the Votes for which I am responsible can be closed. These are summarised in **Annex Three**. I also note that all contingencies in these Votes have been closed and any savings in out years have been returned to the Crown.

SECTION TWO: IMPROVING VALUE FOR MONEY IN CROWN EXPENDITURE

This section of the letter updates you on:

- improving value-for-money across Crown expenditure
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Crown VFM Review

The savings for Budget 2009 were largely identified as a result of a Crown VFM review in the first part of 2008/09. The availability of evaluation information meant that this review was narrowly focused to examine Employment Assistance programmes and some Child, Family and Community programmes.

As part of my ongoing value-for-money focus I will be extending this review approach to cover all areas of expenditure in the Crown spend except:

- New Zealand Superannuation
- demand-driven benefits and associated financial assistance

These programmes total nearly \$12 billion or close to 70% of all funding in Vote Social Development. This limits the scope for significant additional savings but I believe there are areas where we will identify inefficiencies so that we can redirect money to services better aligned with our Government priorities.

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SECTION THREE: MANAGING DEPARTMENTAL COST PRESSURES OVER 2009/10-2011/12

This section provides further detail on:

- the departmental Value-for-Money Review (VFM Review) which has been underway within the Ministry for some years
- how the department is managing the ongoing cost pressures
- the ongoing departmental service and volume pressures the Ministry will be managing as economic conditions worsen

Departmental VFM Review

The Ministry's Chief Executive has advised me that all departmental cost pressures will be managed for the period 2009/10-2011/12. My officials have briefed me on the work undertaken over the past 12 months to review the departmental spend in Vote Social Development. I can confirm that this work is consistent with our Government's goal to develop a more focused, efficient and productive state sector.

The Ministry faces a forecast \$254.8 million of unfunded cost pressures for the period 2008/09-2011/12. Of these pressures, \$56 million falls in 2009/10 and this rises to nearly \$100 million in 2011/12. The detail of these cost pressures is attached as **Annex Five** which also provides more information on key aspects of the departmental VFM Review.

I am advised that the Ministry, in conjunction with the Treasury and private sector advisors, submitted a final report on its departmental VFM Review to the previous Cabinet on 8 September, 2008 [CAB Min (08) 35/3 refers]. In summary the Ministry has identified sufficient gains from efficiency and productivity improvements to offset

80%² (or approximately \$208 million) of its projected cost pressures. There is further work to be undertaken, discussed below, to ensure that all cost pressures are managed for the next three years.

It is my expectation that further departmental savings will emerge over the next three years as the wider review of all departmental policy settings and programme areas continues. I note as well that the Ministry has committed to report back to Cabinet as part of the normal Budget process on its progress in meeting its departmental VFM Review targets. These report backs could be considered part of our Government's ongoing Value for Money activity.

Managing the shortfall in departmental cost pressures

The Ministry has an ongoing work programme to ensure that it manages all its departmental cost pressures over the next three years. This includes undertaking and completing a full review of all policy and programmes to ensure alignment with the Government's priorities and releasing resources where there is misalignment.

The Ministry's Chief Executive and I are committed to embedding a culture of Value for Money in the Ministry and continually improving efficiency, productivity and effectiveness. To assist in this, he has established a small dedicated VFM Programme Unit attached to his office. He is also advised by an independently chaired VFM Advisory Board. This Board will meet five times a year and includes in its membership private sector advisors and a Deputy-Secretary to the Treasury.

Reducing the size of the Ministry

Implementation of departmental VFM plans will result in a reduction in staff numbers. My officials advise me that these reductions, wherever possible, will be achieved through attrition as productivity gains are bedded in.

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Over the longer term I expect the Ministry to increase the proportion of staff who are engaged in delivering frontline services. At this point I am informed that the Ministry has at least 70%³ of its staff focused on frontline activities. Current departmental VFM plans will increase this proportion, albeit only slightly, by 1-2%.

Whilst the Ministry has a strong focus on reducing its national office numbers there are also substantial plans to automate frontline services for clients through the use of online and other IT solutions. *[information deleted in order to maintain the current*

² The major residual cost pressures still to be resolved stem from unfunded service volume pressures facing Child, Youth and Family and rental pressures for the Ministry's accommodation across New Zealand.

³ Using the staff classification system provided by the State Services Commission for use across government agencies.

constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

I will be monitoring the progress of these plans regularly with the Ministry's Chief Executive.

Managing service volume pressures driven by the economic recession

As I stated earlier, it is my expectation, subject to significant increases in demand for services as the economic recession worsens, that there will be no requests for new funding from the Ministry for any departmental cost pressures over the first term of our Government,

Work and Income

As I indicated at the commencement of this letter, I have been informed by the Chief Executive that the Ministry, through Work and Income, can manage up to 60,000 recipients of the Unemployment Benefit (UB) from existing funding. This would be an approximate doubling of the current number of New Zealanders receiving this benefit.

The Ministry is also managing and providing services for a total of 254,000 other working-age beneficiaries including Domestic Purposes Benefit, Sickness Benefit and Invalid's Benefit recipients.

As the number of UB recipients increases towards 60,000, which is highly likely given the downside forecasts used by the Treasury in its December Economic and Fiscal Update, there will be a series of tough decisions to be made about how this volume increase is managed. Beyond 60,000 UB recipients the Ministry will require additional funding.

I consider new funding from the government to be the absolute last resort for managing increases in UB recipient numbers – but it would not be prudent to ignore this possibility. I am sufficiently concerned about this matter to raise it with you now. I would like to discuss this with you further and, if you think appropriate, provide more formal advice to our Cabinet colleagues on how to manage this pressure.

Next steps

I understand that the proposals discussed in this letter will be considered by the Expenditure Control Committee Officials' Group shortly. I look forward to hearing the results of these discussions. I will also be happy to provide you, your office and the Treasury with any further information you require to consider my proposals.

I look forward to discussing our shared Budget 2009 priorities at our bilateral discussion.

Yours sincerely

Hon Paula Bennett

Minister for Social Development and Employment

cc: Chair of the Officials' Group of the Expenditure Control Committee (the Secretary to the Treasury)

Annex One: Time limited initiatives in Vote Social Development

Set out in the table below are a number of programmes, and volume pressures where the funding ceases on 30 June 2009. From my initial review, I believe these programmes should be continued for one further year to enable me to fully assess the individual programmes and to decide how any level of ongoing spending should be managed.

Initiative	\$million
Child, Family and Community Programmes	
Reducing Youth Offending Programme	1.400
Kauri centre	0.251
Early Years Service Hubs	1.015
Teenage Parent Co-ordinators	0.529
<i>[deleted – confidentiality of advice]</i>	
<i>[deleted – confidentiality of advice]</i>	
Family Violence Communication Campaign	1.000
<i>[deleted – confidentiality of advice]</i>	
TOTAL	

Child, Family and Community Focused Programmes

Reducing Youth Offending Programme

The Reducing Youth Offending Programme is a programme for serious youth offenders in Auckland. It is based on a therapy framework which focuses on the young person and their school, family, peers and community. It provides community-based rehabilitation for those aged 10 to 16 years who are at high risk of progressing to chronic adult offending. The programme provides places for 80 young people.

The Kauri Centre

The Kauri Centre has been in operation in Hamilton since February 2004 and is jointly funded by Ministry of Education and Child, Youth and Family. It provides, over a short period of time, support for children and young people in care with high-intensity needs, and reintegrates them into mainstream schooling, training or employment. It provides teaching and support services alongside comprehensive social, education and mental health assessments, and the development of individualised education, life skill and social development plans for each child or young person.

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Early Years Service Hubs

The thirteen Early Years Service Hubs co-ordinate services for children in vulnerable communities. The Hubs are established in Whangarei, Manukau City, Murupara, Dunedin, Tokoroa, Mt Roskill, Taita, Dargaville, Papakura, Tauranga, Christchurch, Levin, Tararua (Dannevirke/Pahiatua). Located in already existing community-based facilities, they provide a central point where families can access a range of services including ante-natal care, Well Child health checks, immunisation programmes, and quality childcare and education for under fives.

Teenage Parent Co-ordinators

Teenage Parent Co-ordinators are tasked with ensuring that teenage parents and their children can access the services and support that they need. The Co-ordinators are based in areas where there is the highest proportion of teenage parents: Hastings, Rotorua/Kawarau, Christchurch, Whangarei, Auckland, Mangere, Manurewa, and Gisborne. This bid provides for the continuation of the nine existing Service Co-ordinators for Teenage Parents and their Children in 2009/10 only.

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Family Violence Campaign

The four year campaign is a major initiative of the Taskforce for Action on Violence within Families. The campaign aims to change the way people think and act about family violence. The campaign was launched in September 2007.

The Campaign for Action on Family Violence aims to change New Zealanders' attitudes and behaviours towards family violence. The Campaign includes a series of television advertisements.

There is currently no funding to air the existing television advertisements during 2009/10. The funding being sought through this bid would enable the existing advertisements, which cover attitudes and behaviour and intimate partner violence, to be aired for ten weeks during 2009/10.

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Annex Two: Short term savings proposals for Budget 2009

Initiative	\$million
Training Incentive Allowance	5.0
Health Innovation Fund	3.0
Enterprising Communities	5.6
Step Up Scholarships and Bonded Merit Scholarships	7.5
TOTAL	21.1

Training Incentive Allowance

Nature of the Programme:

Training Incentive Allowance (TIA) is paid to people receiving Domestic Purposes Benefit and Invalid's Benefit to help them improve their skills and chances of work. In this financial year TIA is capped at \$25 million and this is on target to be spent. In 2007/08 the original capped amount was \$40 million but this was reduced to \$29 million in the context of the increase in other study support.

TIA is paid for the actual costs of attending a course (including childcare and transport related costs) up to a maximum of \$93.40 a week or \$3,736.00 a year (as at 1 October 2008). If the costs exceed this amount, the client may be able to access a Student Loan to cover the rest of their costs and/or fees. The course undertaken must be employment-related, and enhance and improve the client's work skills.

In the 2008 calendar year 12,712 people received TIA.

The student support system has been significantly enhanced since the introduction of TIA, with the introduction of student loans and allowances. Other changes such as the introduction of the Childcare Subsidy and free early childhood education may also have undermined the original rationale for TIA.

Proposed Savings:

Restricting TIA to courses up to level 4 on the National Qualifications Framework (school and basic trade level with study above that funded by student loans) would save around \$5 million a year.

Implications:

It is anticipated that more student loans will be taken up to fund courses above level 4.

Health Innovation Fund

Nature of the Programme:

This fund was established in April 2007 to trial the purchase of health services (such as mental health and pain management) from other government-funded agencies to help beneficiaries get back into work.

Contingency funding of \$5 million in 07/08 and \$10 million a year until 2012/13 was agreed but not included in MSD baselines.

In total 1,638 people have been referred to Innovation Fund services over this financial year. The services purchased have focused primarily on supporting people with mild to mental health issues and those awaiting medical treatment. Of these, 770 completed their treatment. This is a new programme and there is little information at this stage as to whether this has led to improved employment outcomes.

The services purchased through this fund are the responsibility of Ministry of Health and ACC. Should the fund be stopped, people will still be able to access these funds if they meet the related Ministry of Health and ACC eligibility criteria.

Proposed Savings:

Withdrawing the fund and thereby entering in to no new contracts this year would save \$3 million.

Implications:

This is not likely to have a significant impact given the low number of referrals and the Ministry's commitment to:

- work collaboratively with the Ministry of Health and with ACC to explore ways of prioritising access for our clients to their services
- continue to fund existing programmes that provide access to health and disability services, such as Providing Access to Health Solutions (PATHS), and other supported employment services

Enterprising Communities

Nature of the Programme:

The aim of this programme is to help community organisations design and implement projects that help disadvantaged people and communities increase their employment opportunities. This is achieved by giving grants to non profit organisations to set up community enterprises which aim to become self-sustaining businesses, enabling them ultimately to employ more people directly. Funding is available for up to three

years (with milestones monitored annually) and projects are expected to be financially independent after that time.

From April 2005 to December 2008, a total of 261 grants were approved to assist a range of community enterprises. As at 31 December 2008, 108 projects were operating. These projects are forecast to create a total of 1725 full time positions, 302 part time positions and 741 temporary / casual positions.

Proposed Savings:

The annual budget has been capped at \$9.3 million since 2006. As at January 2009 the budget for this financial year is 70% committed and on track to be fully spent by 30 June. \$3.7m is committed for 2009/10 and \$1.3m is committed for 2010/11.

If no new contracts were entered into potential savings of \$5.6M could be realised for 2009/10, \$8m for 2010/11 and \$9.30m for 2010/12 and out years.

Step Up Scholarships and Bonded Merit Scholarships

Nature of the Programme:

We have been advised that the Minister of Education is proposing to disestablish the Bonded Merit and Step Up Scholarships from 1 January 2010. The funding for these scholarships sits in Vote Social Development because they are paid through the benefit system but policy responsibility rests with the Minister of Education.

- Step Up Scholarships are available to young Student Allowance recipients to pay fees for degree-level study in areas of skill shortage. Recipients must remain in New Zealand for a period equivalent to the tenure of the scholarship. There were 626 new scholarships granted in 2008. The scheme has been substantially over-subscribed, and is targeted to low-income students.
- Bonded Merit Scholarships recognises academic achievement in a student's first year of a bachelor degree. From the second year of study the Scholarship pays a maximum of \$3,000 per year for course fees for up to four years, or \$12,000 (over unlimited years) if a student is approved as limited full-time due to illness or disability. At present 1,460 students currently receive a Bonded Merit Scholarship. There are 1,500 Bonded Merit Scholarships available in 2009. Recipients of Bonded Merit Scholarships are bonded to remain in New Zealand upon the completion of their qualification.

Study Link administers the two scholarships on behalf of the Ministry of Education and receives an appropriation for both the programme costs (the scholarships) and the costs of administration.

Ending these scholarships is being recommended because:

- Bonded Merit Scholarships are targeted at students who would continue to achieve regardless of receiving the support
- Step-Up Scholarships do not appear to influence the decision to study given alternative support mechanisms (Student Allowances and Student Loans)
- Both schemes are expensive to manage relative to the size of the spend

Savings Proposal:

The proposal is for the scholarships to be phased out gradually so current recipients can retain their entitlements over the next four years. Ministry of Education is forecasting savings of \$73.5 million over the four years from 2009/10.

Note: Not all the policy parameters are agreed yet, and these have operational impacts. For example, whilst the Step Up and Bonded Merit Scholarships will be stopped from 1 January 2010 by closing off new applications, current recipients will be allowed to retain their entitlements.

MSD will be receiving \$1.3-\$1.4m a year from 2009/10–2012/13 to manage Bonded Merit and Step Up Scholarships. If the Scholarships are disestablished, MSD will need to retain some level of funding to administer the grand-parenting process.

Annex Three: Specific Fiscal Risks

Risk	Quantified?	Can this risk be closed?
Children, Young Persons and their Families Act	Unquantified	Yes – <i>[deleted – confidentiality of advice]</i>
Energy Subsidy for SuperGold Card Holders	Unquantified	Yes – this is not a Government priority and no further work will be undertaken.
Five Year Action Plan for Out of School Services	Unquantified	Yes – <i>[deleted – confidentiality of advice]</i>
Working New Zealand – Work-focused Support	Unquantified	Yes – this is not a Government priority and no further work will be undertaken.
Youth Court Sentencing Orders	\$12 million operating and \$4 million capital.	Yes – these proposals will be dealt with through the Government's Fresh Start package for Youth Justice package to be funded from the Budget 2009 allocation.

Annex Four

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Annex Five – Departmental Value for Money review

The goal of the departmental VFM Review is to ensure that the Ministry manages all its departmental cost pressures over the next three years including forecast increases in service volumes⁴ without seeking new funding from the government.

	\$ millions					Year Four as % 2008/09 departmental baseline
	2008/09	2009/10	2010/11	2011/12	Total	
Remuneration pressures	13.12	33.50	47.95	68.01	162.60	5.89
Service delivery pressures	1.44	9.01	12.77	14.02	37.23	1.21
Property and systems pressures	6.41	14.07	17.12	17.41	55.01	1.51
Total	20.97	56.58	77.84	99.45	254.84	8.61

This is to be achieved by improving efficiency and productivity and reducing overhead costs.

Achieving the gains to offset cost pressures will involve the application of considerable resource, leadership and capability but will directly lead to the Ministry lowering its headcount [*deleted – confidentiality of advice*] over time.

The commitment to manage cost increases from within baseline is consistent with how the Ministry has managed cost pressures in the past. For example, over the period 2001/02-2008/09 I am advised that the Ministry has self funded around \$200 million of wage and other cost pressures.

The approach for undertaking the departmental VFM Review is set out below:

⁴ This is at the time of the Pre-Election Economic and Fiscal Update 2008 and does not include the downside scenarios for Unemployment issued at the time of the December Economic and Fiscal Update 2008.

[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]

The projected gains from efficiency and productivity improvements are set out below:

	\$ millions					
	2008/09	2009/10	2010/11	2011/12	Total	% of projected pressures
Realisable	17.79	44.21	56.34	69.75	188.10	73.81
At Risk	3.17	1.84	6.12	9.13	20.25	7.95
Remaining	0	10.52	15.38	20.59	46.49	18.24
Total	20.97	56.57	77.84	99.47	254.84	