

The Treasury

Budget 2012 Information Release

Release Document

June 2012

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Treasury Report: Welfare Reform: Implications for Budget 2012

Date:	6 March 2012	Report No:	T2012/358
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Note the contents of the report	None

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Ben Gleisner	Senior Analyst	[3]	
Fiona Carter-Giddings	Team Leader	[3]	

Minister of Finance's Office Actions (if required)

None.

Enclosure: No

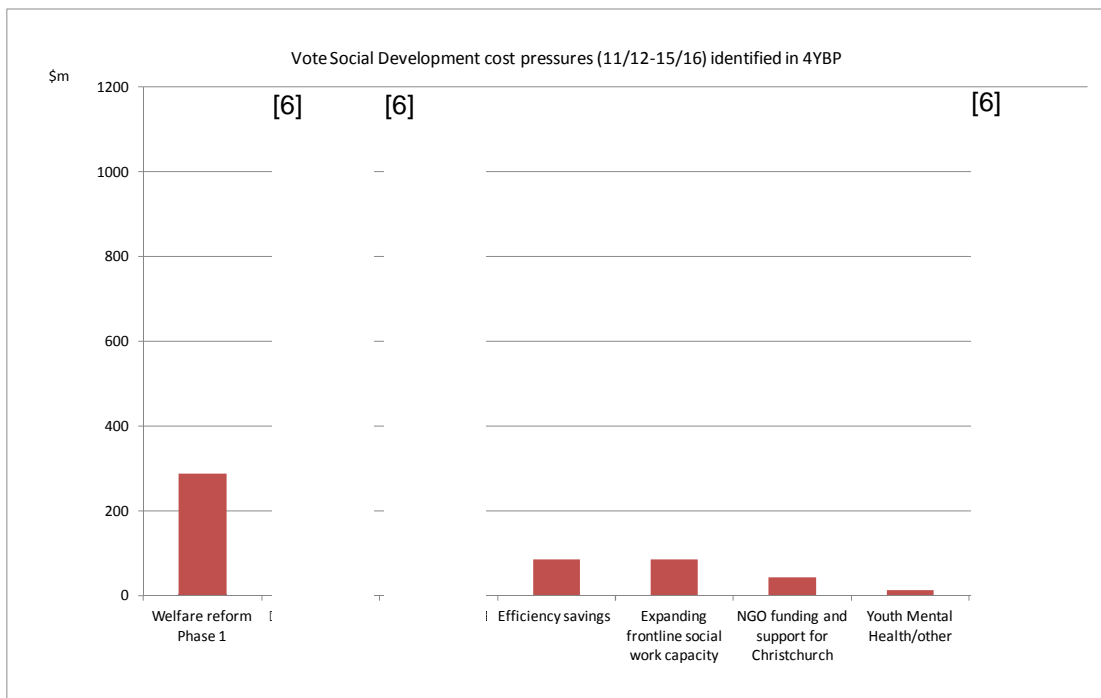
Treasury Report: Welfare Reform: Implications for Budget 2012

Purpose of Report

1. This report provides:
 - an overview of Vote Social Development’s cost pressures and how they could be funded (including a potential call on the Budget 2012 operating allowance), and
 - an explanation of how the costs and forecast benefit savings from welfare reform could affect the return to surplus by 2014/15.

Cost pressures, reprioritisation options, and potential call on Budget 2012

2. The most recent figures received from the Ministry of Social Development (MSD), identify more than [6] of cost pressures over the period 2011/12-2015/16. As illustrated below, a large part of these pressures relate to welfare reform (approximately [6] over the period).

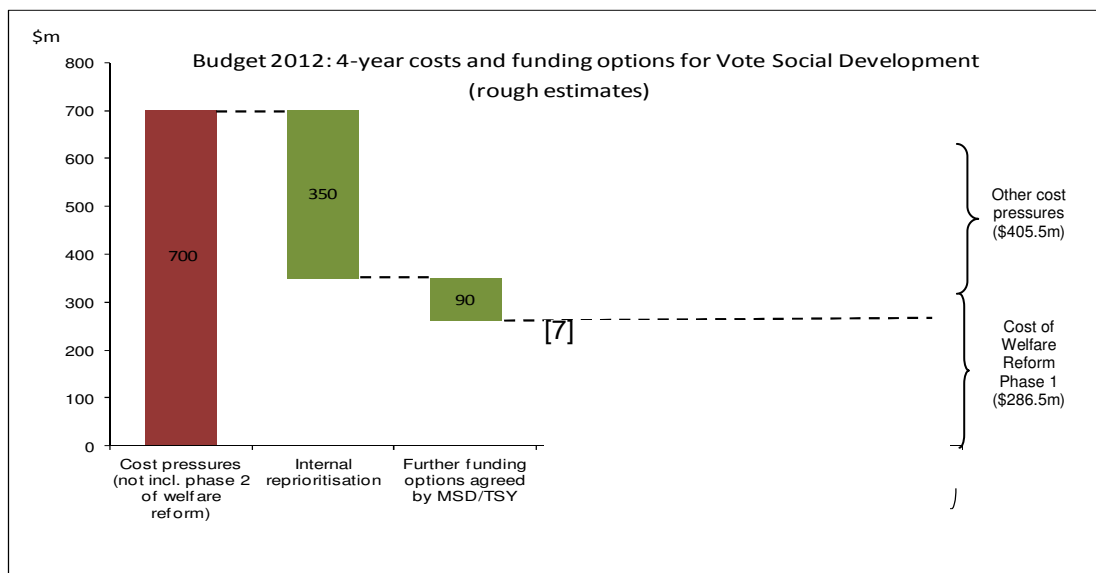


3. The Vote also faces several unquantified cost pressures, including costs associated with work on vulnerable children.
4. The costs associated with phase 1 of the reforms, as outlined in the following table, are relatively certain and will be sought in Budget 2012. The costs of phase 2 (approximately [6] over the 4 years) are less certain and require further policy work. More accurate cost estimates, and possible options to fund the costs of phase 2 through reprioritisation will be provided to Ministers in July when Bill 2 decisions are made.

Phase One Costs (sought in Budget 2012)						
\$m	2011/12	2012/13	2013/14	2014/15	2015/16	Total
Total Youth Package (excluding IT)	0.0	28.2	42.2	40.3	39.4	150.1
Total Youth Pipeline (excluding IT)	0.0	19.4	19.4	19.4	19.4	77.7
Youth Pipeline/ Package ongoing IT	0.0	0.4	0.4	0.4	0.4	1.8
Work and Income staff	0.0	16.9	12.9	12.6	12.8	55.2
Work and Income Board	0.1	0.3	0.3	0.3	0.3	1.1
Long Acting Reversible Contraception	0.0	0.1	0.2	0.2	0.2	0.6
Total Bill One Costs	0.1	65.4	75.4	73.2	72.5	286.5

Note: numbers may not add up exactly due to rounding.

5. As illustrated in the following graph, of the \$700m of costs pressures that need to be funded in Budget 2012 (i.e. all but Bill 2 costs) the Ministry of Social Development have identified \$350m of savings internally. The Ministry have found these savings largely through
1. investing in online services,
 2. improving existing processes and increasing efficiencies, and
 3. getting better value for money from procurement.
6. A further approximate \$90m of savings has subsequently been agreed by MSD and Treasury (and discussed at the recent joint-Ministers meeting). These savings are detailed in appendix A and Annex 1. There are a number of options for funding the remaining \$260m of costs. [7]



7. [6]

8. The next section of the report discusses how the various scenarios above in terms of costs, and forecast benefit savings, could impact on OBEGAL in 2014/15.

Implications of welfare reform on operating surplus

9. The recent Budget Policy Statement (BPS) 2012 included a forecast, for the year ending 30 June 2015 (2014/15), for the Operating balance before gains and losses (OBEGAL) of \$370 million. We have estimated a scenario of the impact of welfare reform on OBEGAL as follows (see graph below):

- [6]

- [6]

- [6]

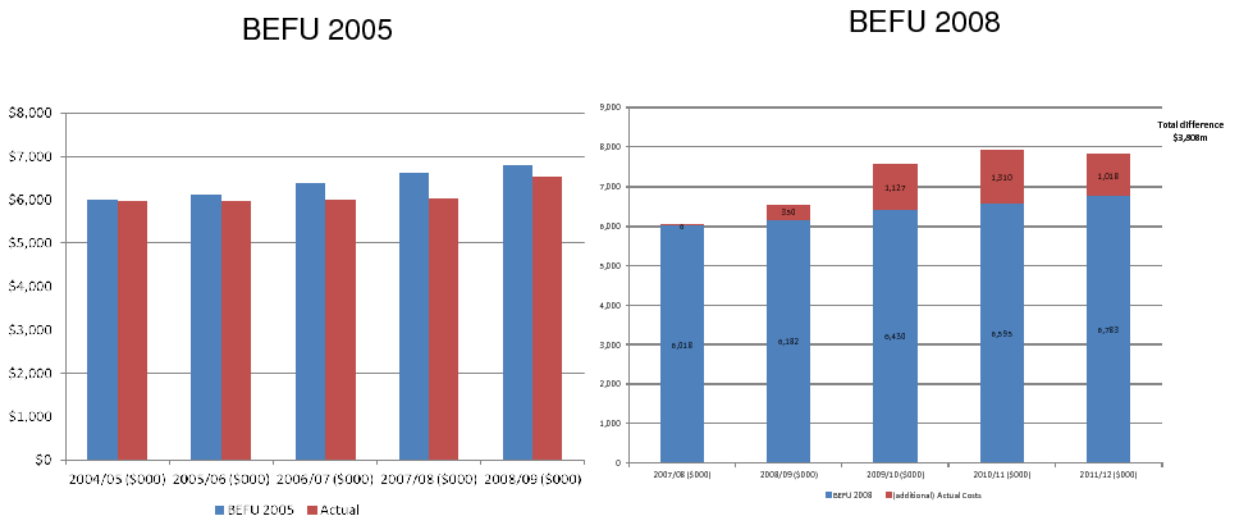
- [6]

[6]

Uncertainty in forecast benefit savings

As with any forecasts, there is considerable variation in the expected costs of the benefit system relative to actual experience. As illustrated in the graphs below, the forecast benefit expenditure in 2005 was approximately \$1,400m higher over the forecast period than actual experience, and in 2008 it was \$3,808m lower over the forecast period than actual experience. While the later example occurred during the Global Financial Crisis, it illustrates the inherent uncertainty in forecasts. There is, however, no systematic bias in the benefit forecasts over a longer period of analysis.

Estimated Benefit Costs Relative to Actual Costs



Recommendation

We recommend that you **note** the contents of the report

Fiona Carter-Giddings
Team Leader, Labour Market and Welfare

Hon Bill English
Minister of Finance

[6]

Previous savings options presented

Treasury and MSD agreed savings (assumed at \$90m in previous analysis)

Table One: MSD and Treasury recommended funding options for Budget 2012 (\$m)						
Name/Description	2011/12	2012/13	2013/14	2014/15	2015/16	Total
Transfer of Youth Transition Services and Ministry of Youth Development funding*		(14.7)	(14.7)	(14.7)	(14.7)	(58.8)
Application of remainder of existing Welfare Reform tagged contingency		(12.5)				(12.5)
Balance sheet cash		(8.0)				(8.0)
Departmental underspend	(6.5)					(6.5)
Subtotal	(6.5)	(35.2)	(14.7)	(14.7)	(14.7)	(85.8)

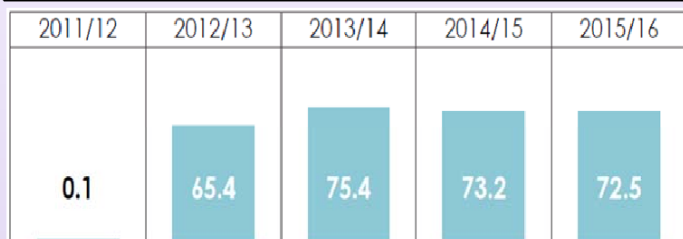
Further Treasury recommended funding options

Name/Description	2011/12	2012/13	2013/14	2014/15	2015/16	Total
[6]						
Redirect W&I programme spend		[6]				
Reduce FACS's QSI fund		[6]				
[6]						

Vote Social Development: Costs and Savings

Budget 2012

Welfare Reform Phase 1: \$286.5m



Other costs pressures: \$405.5m

These 'other' cost pressures largely comprise of:
 • wage pressures [redacted] and
 • volume and price pressures [redacted] and
 • NGO funding and ongoing support to Christchurch (\$43.0m)

\$344.6m of these pressures will be met through:

online services improving existing processes and increasing efficiencies getting better value for money from procurement

\$60.9m needs to be met through Budget 2012:

July 2012 & Budget 2013

Options for funding Phase 2 Costs:

The expectation is that MSD will come back in July 2012 with options for funding the costs of phase 2. **We recommend Budget Ministers signal the importance of MSD developing a range of feasible options to meet the costs of phase 2.**

It will be important that by July 2012 MSD have reviewed the effectiveness of current spending .. so viable savings options can be presented

Options for funding shortfall of \$347.4m in Budget 2012 (welfare reform costs & remaining 'other' costs)

Description	2011/12	2012/13	2013/14	2014/15	2015/16	4 Year Total	Commentary on Savings Options
Treasury/MSD Agreed							
Transfer of Youth Transition Services		14.7	14.7	14.7	14.7	58.8	
Remaining Welfare Reform Contingency funding		12.5				12.5	
Balance Sheet Cash		8.0				8.0	
Underspend	6.5					6.5	
Other Options							
Redirect Work and Income Spend							
Reduce FACS QSI fund							
TOTAL							

Work and Income Spend includes –

1. [redacted]
2. [redacted]
3. [redacted]
4. [redacted]
5. [redacted]

FACS QSI - [redacted] should be used to fully offset the remaining [redacted] of 'other cost pressures' in Vote SD (mostly NGO pressures)

Note: Numbers may not add up due to rounding