

# The Treasury

## Budget 2013 Information Release

### Release Document

July 2013

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- [1] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.



## Minute of Decision

*This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.*

### Welfare Reform Phase Two: Implementation, Costs and Funding

**Portfolios:** Social Development / Finance

On 19 November 2012, following reference from the Cabinet Social Policy Committee (SOC), Cabinet:

#### Background

- 1 **noted** that in October 2011, Cabinet agreed the direction of a package of welfare reform staged over two years [CAB Min (11) 39/8];
- 2 **noted** that two phases of legislation give effect to the above decision, with the first phase including:
  - 2.1 the Youth Package, which came into effect on 20 August 2012 [CAB Min (11) 44/9];
  - 2.2 sole parent welfare reform changes agreed in February 2012, which came into effect in October 2012 [CAB Min (12) 5/9];
- 3 **noted** that in July 2012, Cabinet took final policy decisions on the second phase of welfare reform, to be implemented from July 2013 [CAB Mins (12) 26/11.1 – 11.5];
- 4 **noted** that the Ministry of Social Development (MSD) estimates that the service delivery model set out in the paper under CAB (12) 654 will deliver between \$0.992 billion and \$1.609 billion in savings from 2012/13 to 2016/17;

#### Implementation of welfare reform

- 5 **noted** that the Youth Package successfully commenced on 20 August 2012;
- 6 **noted** that Work and Income service delivery changes to implement the October 2012 policy changes for sole parents have commenced;
- 7 **noted** that MSD has further developed the welfare reform service delivery model and implementation plan for the remaining changes taking effect from July 2013;
- 8 **noted** that MSD is working with the Accident Compensation Corporation and the Labour Group in the Ministry of Business, Innovation and Employment to further consider the

adaptation of the Clinical Review of Fitness for Work Service as an independent clinical review of work ability for some beneficiaries;

- 9 **noted** that MSD and the Ministry of Education (MoE) will work together closely on the implementation plan for the introduction of the early childhood education (ECE) social obligation;

### Financial implications of phase two of welfare reform

- 10 **noted** that the indicative costs of the second phase of welfare reform known at this time total \$231.609 million between 2012/13 and 2016/17;
- 11 **noted** that \$32.537 million of the costs in paragraph 10 above relate to 2012/13 and require funding now, while the balance will be addressed through Budget 2013;
- 12 **noted** that in June 2012, Cabinet agreed in principle that up to \$25 million of any remaining 2011/12 underspend in Vote Social Development will help to fund 2012/13 welfare reform phase two [CAB Min (12) 22/12];
- 13 **noted** that 2011/12 underspends of \$20.856 million will be available to be applied to 2012/13 welfare reform phase two costs, to be confirmed through the October Baseline Update;
- 14 **noted** that welfare reform phase two costs of \$11.681 million remain in 2012/13 once Vote Social Development underspends from 2011/12 have been applied;
- 15 **agreed** to the overseas pension collection initiative, which will generate net savings of \$17.772 million between 2012/13 to 2016/17;
- 16 **agreed** that the overseas pension collection savings referred to in paragraph 15 above be applied to welfare reform phase two costs between 2012/13 and 2016/17;
- 17 **noted** that giving effect to the decision in paragraph 16 above will result in net savings of \$11.681 million from overseas pension collection being applied to welfare reform phase two costs in 2012/13, with the remaining \$6.091 million in net savings to be applied to 2013/14 to 2016/17 welfare reform phase two costs, to be confirmed through Budget 2013;
- 18 **agreed** to increase expenditure to provide for welfare reform phase two costs in 2012/13 and for the overseas pension collection initiative, with no impact on the Between Budget Contingency as shown below:

### Summary of Initiatives

#### Operating Initiatives (Impact on Operating Balance)

Ref.	Vote Social Development	\$m – increase/(decrease)				
		2012/13	2013/14	2014/15	2015/16	2016/17 & Outyears
	<b>Vote Social Development</b>					
14	Welfare Reform Phase Two Implementation	11.681	-	-	-	-
15 & 16	Overseas Pension Collection	2.172	1.719	(3.681)	(7.221)	(10.761)
	<b>Total Operating</b>	<b>13.853</b>	<b>1.719</b>	<b>(3.681)</b>	<b>(7.221)</b>	<b>(10.761)</b>

- 19 **agreed** to increase expenditure to provide for welfare reform phase two costs in 2012/13 and the overseas pension collection initiative, with the following impact on the operating balance:

Vote Social Development	\$m – increase/(decrease)				
	2012/13	2013/14	2014/15	2015/16	2016/17& Outyears
Operating Balance Impact No Impact	13.853	1.719	(3.681)	(7.221)	(10.761)
Capital Receipts	(0.026)	(2.324)	(6.041)	(9.759)	(13.477)
Underspend	20.856				
<b>Total</b>	<b>34.683</b>	<b>(0.605)</b>	<b>(9.722)</b>	<b>(16.980)</b>	<b>(24.238)</b>

- 20 **approved** the following changes to appropriations to provide for welfare reform phase two costs in 2012/13 and the overseas pension collection initiative:

Vote Social Development Minister for Social Development	\$m – increase/(decrease)				
	2012/13	2013/14	2014/15	2015/16	2016/17& Outyears
Departmental Output Expenses: Tailored Sets of Services to Help People into Work or Achieve Independence (funded by revenue Crown)	29.057	-	-	-	-
Social Policy Advice MCOA Research and Evaluation (funded by revenue Crown)	3.480	-	-	-	-
Income Support and Assistance to Seniors (funded by revenue Crown)	2.197	3.931	2.071	2.071	2.071
Benefits and other Unrequited Expenses: New Zealand Superannuation	(0.051)	(4.536)	(11.793)	(19.051)	(26.309)
<b>Total Operating</b>	<b>34.683</b>	<b>(0.605)</b>	<b>(9.722)</b>	<b>(16.980)</b>	<b>(24.238)</b>

- 21 **agreed** that the changes to appropriations for 2012/13 above be included in the 2012/13 Supplementary Estimates, and that in the interim, the increases be met from Imprest Supply;
- 22 **noted** that welfare reform costs known at this time of \$199.072 million in 2013/14 and outyears will be sought as part of Budget 2013 and will be charged against any welfare reform allocation, subject to:
- 22.1 Cabinet's agreement to the Budget 2013 operating allowance;
  - 22.2 Cabinet's agreement to Key Performance Indicators for MSD in mid-March 2013;
  - 22.3 Budget Ministers' decisions on the Budget 2013 welfare reform package;
  - 22.4 any additional savings initiatives;
  - 22.5 other pressures faced by Vote Social Development which may require funding within the limited allocation of funding in paragraph 22.3 above;

- 23 **noted** that \$24.969 million of the \$231.609 million total indicative welfare reform phase two cost over five years until 2016/17 will provide for changes to IT systems, for which a single stage business case has been prepared outlining the strategic, economic, commercial, financial, and management rationale;
- 24 **noted** that the State Services Commission (SSC) will carry out project monitoring of the welfare reform IT solution to deliver phase two of welfare reform until it is delivered on 15 July 2013;
- 25 **noted** that further work is being carried out in the following areas, for which additional funding for welfare reform may be sought in Budget 2013:
- 25.1 contracting (including outcome focused contracting for sick or disabled people);
- 25.2 employment services and other levers (focused on flexibility, effectiveness and adequacy of the mix and funding of the current work focused programmes and services);
- 26 **noted** that MSD will report to the Minister for Social Development in November 2012 on progress with the health and disability assessment tool, and that the costs will be finalised by Budget 2013;
- 27 **noted** that in February 2012, Cabinet agreed that the flow-on costs from the welfare reforms which support the 98 per cent ECE participation target (i.e. additional ECE costs for children aged three and four years) will be met through Vote Education [CAB Min (12) 26/11.5], and that the ECE social obligation costs are one of these flow-on costs;
- 28 **directed** MSD, MoE, and the Treasury to report to the Minister for Social Development, the Minister of Education, and the Minister of Finance in February 2013 on the implementation plan and costs of implementing the ECE social obligation policy related to Vote Education;
- 29 **noted** that any additional costs associated with increased ECE participation may not be able to be met from within the indicative Vote Education Budget allocation, and so will need to be considered as part of Budget 2013;
- 30 **noted** that MSD and the Ministry of Health will report to the Minister for Social Development, the Minister of Health, and the Minister of Finance in February 2013 on the costs of pre-employment drug testing related to Vote Social Development and Vote Health [CAB Min (12) 26/11.4];
- 31 **directed** MSD and the Ministry of Justice to report to the Minister for Social Development, the Minister of Justice, and the Minister of Finance in February 2013 on the costs of implementing the warrants to arrest policy related to Vote Justice;

### **Savings initiatives to fund welfare reform**

- 32 **agreed** that savings of \$6.242 million between 2013/14 and 2016/17 resulting from the transfer of recipients of Widow's Benefit and Domestic Purposes Benefit for Women Alone to Jobseeker Support will be available to partly fund welfare reform, and will be considered as part of the Budget 2013 process;

- 33 **directed** MSD to report to the Minister of Finance and the Minister for Social Development by September 2014 on savings reflected in forecasts up to 2013/14 from the overseas pensions collection, and whether MSD is on track to deliver the savings agreed between 2014/15 and 2016/17;
- 34 **noted** that further savings initiatives will be developed by MSD and the Treasury for Budget 2013;

### Funding and accountability arrangements under the Investment Approach

- 35 **directed** MSD, the Treasury, and SSC to report to the Minister of Finance, the Minister for Social Development, and the Minister of State Services by the end of February 2013 on funding, accountability, and transparency arrangements for the Investment Approach with:
- 35.1 the details of appropriations to be reallocated;
  - 35.2 evidence of the effectiveness of programmes and services delivered under existing appropriations, and the adequacy of existing funding;
  - 35.3 the process for introducing a Multi Category Appropriation to give MSD the ability to reprioritise expenditure across appropriations;
  - 35.4 details of the new key performance indicators;
  - 35.5 the process for considering longer-term options around reinvestment of savings against the future liability;
- 36 **invited** the Minister of Finance, the Minister for Social Development, and the Minister of State Services to report to SOC by mid-March 2013 to note the new key performance indicators and to agree to the new flexible funding arrangements;

### Changes to disability appropriations for pharmaceutical co-payment

- 37 **noted** that changes in Budget 2012 to increase the Pharmaceuticals Co-Payment [CAB Min (12) 13/3 (15) refers] did not allow for an adjustment of appropriations to reflect the fact that Disability Allowance and Temporary Additional Support expenditure will rise as people claim higher disability-related costs when pharmaceutical charges increase;
- 38 **approved** the following changes to appropriations to provide for the increased pharmaceutical charges from 1 January 2013, with a corresponding impact on the Between Budget Contingency:

Vote Social Development Minister for Social Development	\$m – increase/(decrease)				
	2012/13	2013/14	2014/15	2015/16	2016/17 & Outyears
Benefits and Other Unrequited Expenses:					
Disability Assistance	2.911	5.794	5.783	5.787	5.787
Hardship Assistance	0.066	0.131	0.131	0.131	0.131
<b>Total Operating</b>	<b>2.977</b>	<b>5.925</b>	<b>5.914</b>	<b>5.918</b>	<b>5.918</b>

39 **agreed** that the changes to appropriations for 2012/13 above be included in the 2012/13 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply.

Secretary of the Cabinet

Reference: CAB (12) 654

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