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Chair
Cabinet Social Policy Committee

BUDGETING SERVICES FUNDING REVIEW

Proposal

- 1 This paper reports on the Budgeting Services Funding Review, as requested by Cabinet, and seeks agreement, subject to Budget 2014 Four Year Plan processes, to increase support for community / non-government (NGO) budgeting services.

Executive summary

- 2 Family budgeting advice is an important community social service that assists people to better manage their finances when they are struggling to do so.
- 3 Budgeting services funded through the Family and Community Services (FACS) arm of the Ministry of Social Development (MSD) are provided by community-based agencies / NGOs at no charge to the user and generate significant financial and social gains to users, taxpayers and therefore society at large.
- 4 Under our Future Focus reforms, Work & Income (W&I) now refers frequent users of welfare hardship assistance to community providers for budgeting help. Existing funding does not properly fund this increased referral level or the time required to help clients with complex problems and other difficulties (including psychiatric conditions and intellectual disability).
- 5 Community budgeting service providers are struggling to provide services to meet the on-going levels of demand. In some areas this has resulted in long waiting lists, bottlenecks and service gaps. Working families seeking support have also been impacted, as beneficiary demand crowds out other users. To address these pressures in the short-term, Government agreed to a one-year injection of \$1.5 million additional funding in Budget 2013 (bringing the MSD total to \$10.5m), and to review on-going funding and report back to SOC in November 2013 [CAB Min (13) 10/12 refers].
- 6 The Future Focus reforms achieved substantial fiscal savings from the reduced use of non-recoverable hardship grants, with no detrimental impact on beneficiary 'hardship' measures. The rate of return on budgeting services for high users of hardship grants costs is significant in welfare savings alone. When downstream savings and gains to children and families through reduced stress and hardship are added, returns are likely to exceed 100%.
- 7 However, without more support, family budgeting providers report they will be unable to meet current and future demand for assistance. This in turn would put at risk the social and financial gains of the Future Focus reforms and further squeeze out working families seeking help.
- 8 I therefore propose Cabinet approve, subject to Budget 2014 provision, an increase sufficient to ensure one to one advice and seminars are available for clients referred by Work and Income, and in doing so, that budgeting help is available for working and retired New Zealanders who choose to use it.
- 9 I further note my intention through the Social Development Four Year Plan for Budget 2014 to seek an increase to the budgeting advice appropriation to $\$$ This is $\$$ more than provided in 2013/14 (including our one-year top-up), or $\$$ over the previous baseline (excluding our top-up).

- 10 Following Cabinet consideration, I intend to engage the community budget advice sector, taking an Investing in Services for Outcomes (ISO) approach to:
- ensure best use of the MSD administered total Government investment in budgeting advice to the general public and welfare recipient. This will ensure best outcomes for users of such services, and best value for hard-working tax-payers from the total investment, not just the proposed increase
 - explore options to improve the quality of referral and information required when welfare clients are recommended to seek budget advice
 - ensure that the service mix includes:
 - sufficient one-to-one (1:1) budgeting advice places for the general public & W&I referred clients (complementing the work of the Commission for Financial Literacy and Retirement Income)
 - preventative seminars for carefully-selected cohorts of beneficiaries (e.g. families with higher costs who find themselves without work for a first time). Timely budgeting advice can help such people cope with a sudden change in income, prevent hardship and speed return to work
 - money management for a small number of people requiring more support than budget advice can provide (e.g. people with severe intellectual disability).

Background

- 11 Budgeting advice is a longstanding and valued service that assists low income families to better manage their finances. Since the late 1970s, the Government has provided financial support for budgeting services by funding community service providers.
- 12 In recent years, demand for budgeting services has increased significantly, driven by a range of factors such as increased debt levels associated with the global financial crisis (GFC); recession, and consumer behaviour; easier access to credit; and greater recognition of the benefits of budgeting services in assisting families to manage their finances.
- 13 Our 2010 Future Focus welfare reforms, which included a requirement for frequent users of benefit hardship assistance to undertake budget activities, also significantly increased demand for community based 1:1 budgeting advice.
- 14 With this in mind we previously agreed a one-year funding increase, bringing total funding to \$10m per annum, with a formal funding review prior to the start of the 2014/15 Budget year.
- 15 This paper responds to that commitment for a report back to SOC in November 2013 [CAB Min (13) 10/12, refers].

Funding and demand 2007/08 to 2013/14

- 16 The following tables summarise the funding levels, contracted client volumes and the service demand faced by the 153 MSD funded community providers, where this is available.

- 17 The tables below include baseline Budgeting Services funding alongside additional top-up or time limited grants provided by this Government, and the Community Response Funding (CRF) we provided to help community agencies cope during the GFC, 2009-2012.

Year / \$ millions	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Budgeting Services Baseline	\$4.3m	\$8.2m	\$8.7m	\$9.0m	\$8.9m	\$9.0m	\$9.0m
Budgeting Top-up grants	-	-	-	-	\$0.6m	-	\$1.5m
Budgeting Services Total	\$4.3m	\$8.2m	\$8.7m	\$9.0m	\$9.5m	\$9.0m	\$10.5m
Funded 1:1 client volume	25,427	24,392	24,158	24,440	24,120	24,663	28,191
Client demand (reported)	39,994	34,999	32,845	42,039	52,422	50,579	Not yet available

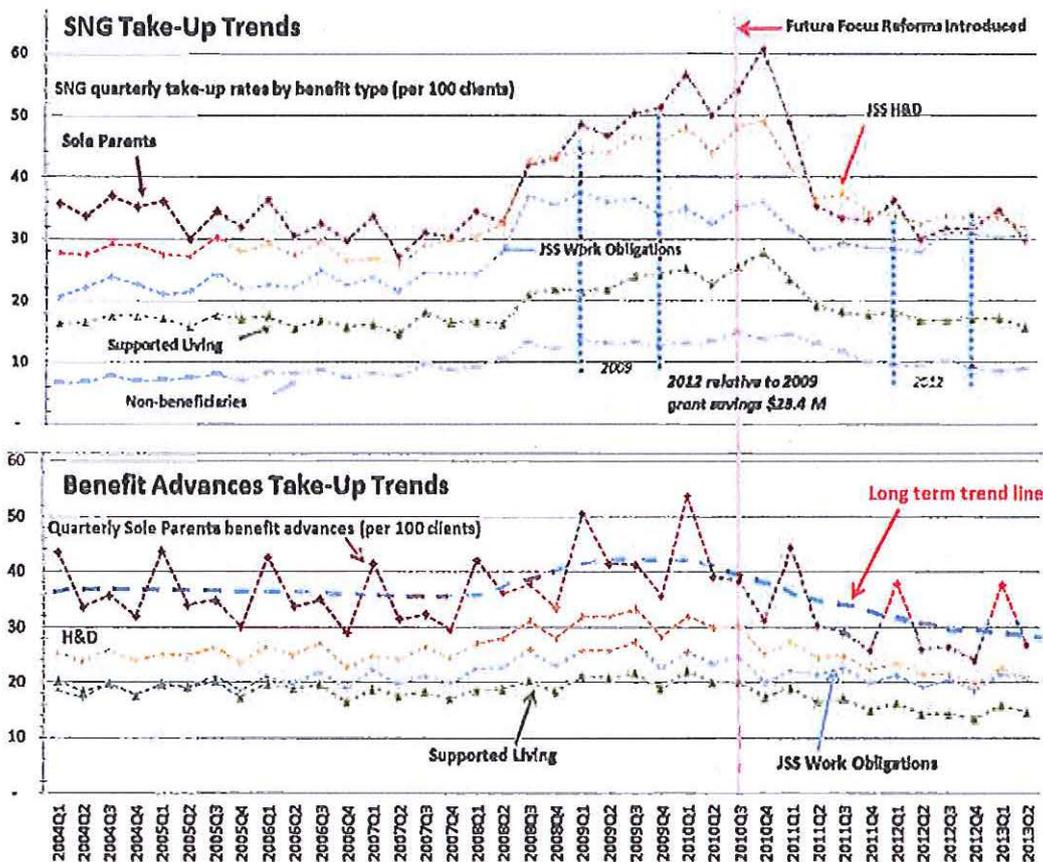
Year / \$ millions	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Community Response Fund (CRF) Budgeting	-	-	\$1.5m	\$3.9m	\$3.7m	-

- 18 With the conclusion of the CRF and the on-going demand lift associated with Future Focus, community budgeting services report that they are struggling to meet the on-going demand. This is compounded by a reduction in commercial support and greater pressure on philanthropic / alternative funding sources since the start of the GFC.
- 19 The imbalance between existing funding and actual demand is now at a level that is preventing or delaying many needy families from accessing budgeting services. This is weakening the impact of the Future Focus reforms and resulting in working families' access to support being squeezed-out by beneficiary demand. This is reflected in figures provided by the Federation of Family Budgeting Services which show nearly 80 per cent of service users are beneficiaries, compared with around 50 per cent prior to the GFC and welfare reform.
- 20 Recognising the benefits of budget advice services to families and society, and the increased demand for the services, this Government agreed to review on-going FACS funding for budgeting services before the start of the 2014/15 Budget year.

Budget Services and Welfare Reform gains

- 21 The Future Focus reforms introduced a requirement for high users of welfare hardship assistance¹ to undertake budget activities. This has driven a sustained increase in beneficiary demand for such services and a significant reduction in demand for hardship assistance.
- 22 The reductions can be seen on the following chart of the main Hardship Assistance categories, non-recoverable Special Needs Grants (SNGs), Benefit Advances (BAs) and Recoverable Assistance Payments (RAPs).

¹ The main hardship grants are special needs grants (SNGs) and benefit advances (BAs).



- 23 The reforms focused strongly on clients requiring high multiple grants in a 12 month period. This has resulted in a reduction in high multiple hardship events in excess of 45% over the period 2009-2012.
- 24 The Future Focus reforms contributed to:
- 176,000 fewer hardship episodes, and
 - a \$23.44million reduction in Hardship Assistance expenditure over the year to December 2012 (compared with a 12 month period prior to the introduction of Future Focus).
- 25 With the impact of the GFC now greatly moderated, the on-going Future Focus SNG savings alone are estimated at \$4.6 million per annum. Note: recoverable assistance and advances reductions were entirely excluded from the savings calculation as these result in a debt to the Crown (an asset), rather than a benefit payment.
- 26 This is a highly conservative estimate, with the reduction limited and directly linked to welfare reform and increased referral to budget advice (with 37,000 - 42,000 W&I completed referrals per annum -- up from around 25,000 previously). This was achieved despite growing budgeting service supply constraints, increased average SNG grant values, and excluding any administrative or other non-benefit down-stream savings.
- 27 Investment in budgeting service reduces high multiple hardship assistance requests during a client's time on benefit. The average benefit duration of sole parent clients is 3.5 years, supported living clients 9 years, jobseekers with a health issue or disability 2 years, and other jobseekers 9 months. High use hardship grant clients average benefit durations are typically longer than the client group average.
- 28 Taking into account the benefit duration of clients with high use of hardship grants, along with the reduction in hardship grants arising from budgeting service investment and down-stream

benefits, it is estimated that the return on 2012/13 budgeting service funding is greater than 100%. A similar level of return is expected for on-going investments of this type².

- 29 Another way of exploring impact is provided by the Taylor Fry actuarial valuation of the working-age benefit system. This estimated a present value financial liability of \$2.85 billion associated with the provision of non-recoverable hardship assistance over the working-age lifetime of 2011/12 clients. Investment in budgeting services will progressively help reduce this liability.
- 30 Actual expenditure on Hardship Assistance was significantly lower than Taylor Fry predicted in previous estimates, representing one of the larger benefit expenditure variances in the most recent valuation, reinforcing the significant positive impact of our welfare reforms.
- 31 The chart above also demonstrates that one of our key objectives in designing our welfare reforms has been achieved. The chart shows that reduction in non-recoverable SNGs has not led to an increase in advances or recoverable assistance. In other words hardship has not been "displaced" from one form of benefit assistance to another. Instead people are considering and seeking advice on how best to manage their finances, and considering whether can earn additional income through employment.
- 32 Further, prior to, through and following the GFC, many beneficiaries only infrequently sought recourse to hardship assistance. For example approximately:
 - 40% of working age beneficiaries typically do not seek a SNG in a year
 - 30% typically only require one SNG
- 33 However, at present:
 - approximately 6% of beneficiaries require four or more SNGs in one year
 - under 2% require six or more SNGs.
- 34 Although not robust measures, the following indicators largely support the view that reforms did not 'displace hardship' into other areas:
 - bottom decile household incomes increased marginally and child poverty rates were flat (from 2009-2012) on all standard measures;
 - published demand at Salvation Army food banks, the country's largest provider, stabilised in 2011/2012, after increasing sharply during the peak of the GFC. In October 2013 the Salvation Army "Business Reporter" showed 56,707 food parcels distributed in the year to 30 June 2013, down slightly from 59,033 the previous year. However, demand at a number of smaller food banks has continued to increase³.

Securing and Building on the Gains

- 35 The simplified budgeting services intervention logic diagram set out below summarises the possible range of budgeting related services that could be provided to assist beneficiaries, low income working families, or households experiencing difficulty, to better manage their finances.

² For example: a 2013 study for the Welsh Assembly estimated that every pound spent on budgeting advice returned £2.98 to the state through reduced welfare, social services and preventable health expenditure

³ The literature (for example: Foodbank Demand and Supplementary Assistance Programmes: A Research and Policy Case Study, Ross Mackay 1995) indicates that food-bank demand can continue to increase despite improving economic conditions and increases in hardship grant expenditure.

	Early Intervention to achieve better outcomes & save in the future		Intervention to assist people experiencing difficulties now	
	A: Self Help	B: Target at risk cohorts	C: Budgeting Advice	D: Money Management
Key objectives	Improve awareness of benefits of financial & budgeting skills	Improve budgeting ability	Improve budgeting skills & assist preparing a budget	Ensure that benefit is applied to meet household needs
Key service(s)	General publicity - self help resources (e.g. web based)	Budgeting seminars, voluntary direct debit	1:1 Budgeting advice or budgeting seminar	Money management; from payment card to total
Key target groups	Households seeking to manage better	People at high risk e.g. newly unemployed, large family	High multiple hardship assistance users	Clients with intellectual or other impairment who need money management
Delivery organisations	Community servs + Commission for Financial Lit & Retirement	Community budget service providers, Banks or W&I	Community budget service providers	Specialist community budget service providers
2013/14 MSD funded client volumes	Not specified ^[1]	Not specified ^[2]	28,191 (self reported actual over 50k)	Not specified ^[3]
Estimated demand	Not applicable	<ul style="list-style-type: none"> • 2-3k seminar amenable • 30k direct debit (at Aus take-up rate) 	<ul style="list-style-type: none"> • 37-42k welfare "hardship" • 10-25k self refer working & non 	<ul style="list-style-type: none"> • 6-8k payment card • 500-2k total money management

Notes:

- MSD funding supports national groups such as the Federation of Family Budgeting Services who operate nationwide help lines and web resources. However, FACS/MSD performance reports historically focus on 1:1 advice rather than other functions or activities
- Budget advice is an element of targeted W&I case management seminars. The proposal here is for community budgeting expert seminars to a more tightly targeted group likely to gain most from such an intervention
- Money management is a strong element of Youth Services. The proposal here is to target vulnerable adult working age welfare recipients who lack capacity to manage their own affairs and offer them, and any caregiver, practical assistance.

Provision of 1:1 budgeting advice to people experiencing difficulties (column C: Budgeting Advice)

- At present, the only service volume ascribed to FACS administered budgeting funds is the provision of 1:1 budgeting services at an agreed average unit cost of approximately \$350. Despite this, funding is also provided to support important functions such as the provision of a Web-based resources and nationwide helplines by key budgeting organisations.
- The 1:1 budgeting service predominately requested and supplied by NGOs supports clients to prepare a workable budget, develop a payment plan to reduce debt, and provides support, advice and encouragement. In a small number of cases attending a budgeting seminar may be sufficient.
- In 2013/14 FACS funded 28,191 client places. 15% of these places (4,230 places) have been financed by the top up which is not available in following years.

- 39 In 2014/15 it is estimated that W&I will complete 37,000 to 42,000 referrals to budgeting services, mainly for 1:1 support following frequent hardship events⁴. The Federation report that nearly 80 per cent of the people they see post Welfare Reform are beneficiaries (though some will be self-referrals, not associated with W&I Hardship Assistance provisions).
- 40 Community budget service providers also support self-referred clients, predominately low income working families. Funding for these services is provided by a mix of community donations, sponsors, providers' financial resources, and staff who volunteer their services.
- 41 The current baseline funding of \$9.0 million p.a. funds approximately 25,000 budgeting service places at an average cost of \$350 per client. This average unit cost was formulated and agreed with providers in 2008.
- 42 While this "gap" between current funded volume and self-reported delivery is of the order of 26,000 places, or \$9.1 million in services, it should be noted that there has always been a strong voluntary element to budgeting services delivery.
- 43 Volunteers greatly outnumber paid staff in most budgeting providers, and the longest established agencies with the best reputations tend to be those who work with volunteers. In this area, and the NGO sector generally, paid and "professional" are not synonyms.
- 44 I do not propose to undermine the voluntary ethos which is so important to their success.
- 45 However, community providers do not have the resources to continue to fund services to W&I clients so far in excess of government contract funded client volumes.
- 46 I therefore propose we lift Government funding to this vital sector to Σ or over 42,000 funded 1:1 places. As noted below, I intend to use an outcomes based approach to modernise and refine contracting in this area. This will also ensure that referral volumes and client outcomes are more closely monitored. This will allow us to quickly identify and capture any efficiency gains, savings or spare capacity, for example if our successful welfare reform model results in a shrinking pool of W&I referrals.
- 47 In the meantime, I am confident that with this significant increase the sector can and will continue to offer services to New Zealand families well in excess of contracted volumes.

Early investment in budgeting related services to make future savings (columns A & B)

- 48 Lack of financial literacy is strongly associated with poor financial decisions; households with low financial literacy are less likely to have an emergency fund or retirement plan, and more likely to take pay-day loans, pay only the minimum balance on a credit card, take on high-cost debt, have higher debt to income levels, and be debt delinquent.
- 49 The Commission for Financial Literacy and Retirement Income is an autonomous crown entity that works to improve the financial wellbeing of all New Zealanders throughout their lives. The Commission already provides a very popular free web based resource "Sorted".
- 50 It would be worthwhile to further promote this website to beneficiaries and low income working families, and to ensure there are calculators tailored and targeted to the needs and circumstances of lower income families. I have directed my officials to work with the Commission to achieve this within existing budget baselines.
- 51 In Australia around 10 per cent of welfare clients use a direct debit service called "Centrepay" to pay their housing and core utilities. This system ensures the client's most important bills are

⁴ The "complete" referrals estimate nets out the majority of "incomplete" referrals where W&I clients recommended to attend community budget services do not seek or attend services

met, and landlords and providers can be assured they are paid, reducing the risk of taking on beneficiary clients. In Australia the party receiving the payment meets the administration cost of the direct debit (and may offer a further discount or incentive to encourage clients to use the system). I will direct my officials to discuss this approach with major core utility providers and private rental associations or representatives to test appetite here.

- 52 It is estimated that approximately 12% of the around 44,000 clients per annum who enter the benefit system for a first time are at risk of high hardship grant rate use in the future.
- 53 Gains could be made by targeting expert, community agency delivered, budgeting seminars to selected clients in high risk cohorts as they first enter the benefit system. Clients would be targeted on both risk and amenability to seminar style delivery - such as newly unemployed clients with children who have the necessary skills to properly utilise such learning.
- 54 Proactively offering budgeting seminars to such groups is likely to foster the early adoption of sound budgeting practices and habits, help avoid the accumulation of debt through poor spending decisions and thereby reduce the need for hardship grants in the future.
- 55 I propose to work with sector leadership as part of the Investing in Services for Outcomes (ISO) approach to explore how such preventative seminar services could be delivered, from within the newly increased budgeting advice funding pool.

Specialist Money Management Services (column D)

- 56 There are a small number of W&I clients who have very high hardship grant use.
- 57 For example, in August 2013 around 0.2 % of working age beneficiaries had used twelve or more non-recoverable hardship grants in the past year with an average annual value of \$1,400 per client. Many of these clients are also high users of recoverable assistance grants.
- 58 Beneficiaries with very high hardship use typically have an incapacity, such as substance abuse, psychiatric condition, or intellectual disability, which significantly impairs their ability to make use of standard budgeting advice to better manage their financial affairs.
- 59 Some people in these circumstances could benefit from a more specialist service, such as either a restricted payment card or a money management service. A restricted card payment service option could make use of the existing W&I payment card system. Money management services could be provided by specialist community budget service providers⁵.
- 60 A money management service would provide a reliable means of ensuring that a client's benefit is applied to essential household needs and expenses. Such a service could be offered to high use hardship grant clients on a voluntary participation basis for as long as required.
- 61 I propose to work with sector leadership and W&I as part of the Investing in Services for Outcomes (ISO) approach to ensure people who require it have access to appropriate money management assistance, be that by payment card or total money management. Again I am confident the sector can and will want to achieve this within the newly increased budgeting advice funding pool.

Consultation

- 62 The Treasury has been consulted in the preparation of this paper. Confidential consultation has also occurred with a small number of budgeting sector experts.

⁵ A number of quality budgeting providers already offer a money management service.

63 Extensive Investing in Services for Outcomes engagement is proposed, following Cabinet consideration of this paper, to work with the sector to ensure the total funding quantum is used to best effect and reviewed at regular intervals to identify possible savings.

Financial implications

64 This paper signals my intention, subject to Budget 2014 processes, to seek to increase funding for community / NGO budgeting advice services to $\$$ an increase of $\$$ per annum to the baseline, as shown in the following table:

Initiative name	\$ million increase (decrease)				
	2014/15	2015/16	2016/17	2017/18	2018/19 and outyears
Budgeting Services "Strong Families" NDOC increase	$\$$				
Total operating	$\$$				

Human rights implications

65 This paper does not have any human rights implications.

Legislative implications

66 This paper does not have any legislative implications.

Regulatory impact and compliance cost statement

67 This paper does not require a regulatory impact statement.

Gender implications

68 This paper does not have any gender implications.

Disability perspective

69 This paper is consistent with the New Zealand Disability Strategy. The proposed money management service, which would disproportionately benefit people with disability, is designed as a voluntary service available to selected clients should they wish to use it.

Publicity

70 Decisions in this paper are an input to Budget 2014/15 and ISO engagement with the sector.

Recommendations

71 It is recommended that the Committee:

- 1 **note** that community budgeting services offer long standing and vital social service to help New Zealanders better manage their finances;

- 2 **note** that this Government's welfare reforms have significantly increased demand for budgeting advice, and that this has resulted in reduced benefit expenditure and fewer Hardship Assistance events;
- 3 **note** existing Government annual funding of \$10.5m (including our \$1.5 million one-off top up), funds 28,500 1:1 places, while around 40,000 Work & Income clients complete referral, and a grand total of over 50,000 families a year gain from 1:1 budgeting advice;
- 4 **note** that despite the strong and vital voluntary ethos in the sector, providers cannot continue to provide services to W&I clients so far in excess of funded volumes;
- 5 **note** that, subject to Budget 2014 provision, I propose to increase support for community budgeting advice services to ensure funded one to one advice and seminars are available for clients referred by Work and Income, and in doing so, that budgeting services are available for working and retired New Zealanders who choose to make use of them;
- 6 **note** that, following the "Budgeting Services Funding Review" requested by Cabinet [CAB Min (13) 10/12 rec 10 refers], I propose to seek provision through the Vote Social Development Four Year Plan for Budget 2014 to increase funding for community / NGO budgeting services from \$9.0 million per annum (excluding our one off injection in 2013/14) to as set out in the table below:

Initiative name Budgeting Services	\$ million increase (decrease)				
	2014/15	2015/16	2016/17	2017/18	2018/19 and outyears
Current baseline	\$9.0m	\$9.0m	\$9.0m	\$9.0m	\$9.0m
Increase	<input type="checkbox"/>				
New baseline	<input type="checkbox"/>				

- 7 **note** that I will work with the budgeting advice sector, taking an Investing in Services for Outcomes approach, to ensure the total government contribution to budgeting advice services is used to best effect, any savings are identified, captured and returned, and services are available to:
 - 7.1 maintain and strengthen the social and financial gains made through welfare reform;
 - 7.2 offer targeted preventative seminars where appropriate;
 - 7.3 offer money management to clients beyond the capacity of 1:1 advice to assist;
- 8 **note** I have also directed MSD officials to work with the Retirement Commissioner to explore options to increase use of Sorted by lower income families, and with major utility providers and private rental housing leadership to explore direct debt approaches, costs and incentives.



Hon Paula Bennett
Minister for Social Development

14 / 11 / 2013