

# The Treasury

## Budget 2021 Information Release

### August 2021

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- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
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- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment
- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [40] Not in scope
- [42] 18(d) - information is already publicly available or will be publicly available soon.

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**Treasury Report:** Bilateral on Child Wellbeing, and the Social Development and Employment Portfolio

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<b>Date:</b>	11 December 2020	<b>Report No:</b>	T2020/3574
		<b>File Number:</b>	SH-3-0-4

**Action sought**

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	<b>Action sought</b>	<b>Deadline</b>
Hon Grant Robertson <b>Minister of Finance</b>  Hon Dr Megan Woods <b>Associate Minister of Finance</b>	<b>Note</b> the advice to support your Budget 2021 bilateral discussion on 14 December 2020 about the Social Development and Employment portfolio, and Child Wellbeing.	For your meeting on <b>Monday 14 December 2020</b>

**Contact for telephone discussion (if required)**

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<b>Name</b>	<b>Position</b>	<b>Telephone</b>	<b>1st Contact</b>
Awhi Fleming	Senior Analyst, Welfare and Oranga Tamariki	[39]	N/A (mob) ✓
Keiran Kennedy	Manager, Welfare and Oranga Tamariki	N/A (wk)	[35]

**Minister's Office actions (if required)**

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Return the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** No

# Treasury Report: Bilateral on Child Wellbeing, and the Social Development and Employment Portfolio

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## Executive Summary

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There are two parts to the bilateral discussion: child wellbeing, and the social development and employment portfolio. These are separate but related.

### *Child wellbeing*

One of three Government priorities for this term is to lay the foundations for the future, which includes addressing child poverty. Our view is that significant increases in transfers are needed to address child poverty, and that thought is needed around sequencing, not only for this budget, but also for Budgets 2022 and 2023.

Tackling child poverty will require a broader suite of interventions beyond broad based increases to transfers (e.g. main benefits). This includes initiatives that support people into employment and remove barriers such as childcare issues.

There is a range of levers across government which will help address material hardship for children. Initiatives in education and health, including in-kind provision, are also important. There are initiatives proposed by Minister Sepuloni, which should be discussed in this context to decide whether they should be considered for Budget 2021. These initiatives include funding for the KidsCan and KickStart programmes, for Out of School Care and Recreation (OSCAR) services, for the Office for the Children's Commissioner [33]

There is also the Training Incentive Allowance, which targets support to sole parents (amongst others) to undertake tertiary education.

### *Social Development and Employment*

Minister Sepuloni is proposing a significant package of \$5,836.104m operating over the forecast period and \$299.342m in capital (note: some initiatives are un-costed, some costs are being revised, and some funding is proposed from the CRRF). [34]

The single biggest cost driver is the proposed increase to main benefits (\$2.251b), which represents almost 40% of the funding sought.

Cabinet has agreed to the expansion of Flexi-wage (\$311.000m funded from the CRRF), and to increase abatement thresholds (\$393.980m<sup>1</sup> as a Budget 2021 pre-commitment). Further, when you met on 1 December 2020 with colleagues, including the Prime Minister, Minister Sepuloni and Minister Davis, you also agreed to commission further advice for early 2021 on a main benefit increase for Budget 2021 (\$2.251b).

An increase to main benefits could make a significant contribution towards achieving your Government's priorities and wellbeing objectives, but this would come at a substantial fiscal cost that will limit your choices across the rest of the Budget 2021 package. Compared to an operating allowance of \$2.286b per annum (including pre-commitments), the cost of a main benefit increase is expected to consume almost 25% of the allowance. [34]

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<sup>1</sup> This excludes the increase to the Minimum Family Tax Credit of \$17m.  
T2020/3574 Bilateral on Child Wellbeing, and the Social Development and Employment Portfolio

If you wish to proceed with an increase to main benefits, we recommend that you limit further funding for the Social Development and Employment portfolio.

We therefore propose that you focus your bilateral discussion on agreeing which of the remaining initiatives should be taken forward in Budget 2021. This will help to inform the invitation you send to Minister Sepuloni.

Our view is that the following initiatives should be invited for submission because they are time-sensitive manifesto commitments, or priorities, or critical cost pressures – this equates to \$2,861.832m operating (\$610.432m excluding main benefits) and \$98.244m capital of the submitted costs:

<b>Initiatives to invite</b> (manifesto and cost pressures)	<b>Opex (\$m) 4yr</b>	<b>Capex (\$m) 10yr</b>
<b>Income Support and Welfare Overhaul</b>		
Main Benefit Increase	2,251.400	-
Changes to the Temporary Additional Support Disability Allowance Exception	25.500	-
Changes to the Income Definition for Childcare Assistance	8.100	-
Extended deferral and individually tailored review periods (“medical certificates”)	[33]	-
<b>Communities and Partnerships</b>		
Continuing the KidsCan Programme to Respond to Increased Demand	[33]	-
Continuing the KickStart Breakfast Programme to Respond to Increased Demand		-
<b>Systems and Operations</b>		
Living Wage	[33]	-
Housing Demand		-
Site Safety and Security (guards)	34.926	-
Remuneration	[33]	-
Non-Discretionary Cost Pressures		-
Continuation of Budget 2020 Capital Initiatives		[33]
Oranga Tamariki Corporate Services Separation	[33]	-
<b>Other Organisations</b>		
Office for the Children’s Commissioner cost pressure	1.000	-
NZALS business funding case	-	5.000
<b>TOTAL</b>	<b>2,861.832</b>	<b>[33]</b>
<b>TOTAL (excl. main benefits)</b>	<b>610.432</b>	

We recommend that you discuss the following initiatives (totalling \$2,269.292m operating and \$201.098m capital) with Minister Sepuloni to understand the risks of deferring these to later budgets. Our initial view is that, subject to a discussion with your colleagues, these initiatives could be deferred to later budgets:

<b>Initiatives to defer</b> (manifesto and cost pressures)	<b>Opex (\$m) 4yr</b>	<b>Capex (\$m) 10yr</b>
<b>Income Support and Welfare Overhaul</b>		
[33]		-
		-
		-
Improving Childcare Assistance	[33]	-
[33]		-
		-
		-
		-

Initiatives to defer (manifesto and cost pressures)	Opex (\$m) 4yr	Capex (\$m) 10yr
<b>Employment</b>		
Reinstating the Training Incentive Allowance	[33]	
COVID-19 Demand Employment Services	[33]	-
<b>Communities and Partnerships</b>		
Growing Disability and Accessibility Leadership and Advice		-
[33]		-
Continuation of Kāinga Whānau Ora		-
Ensuring Continued Availability of Out of School Care and Recreation Services		-
<b>Systems and Operations</b>		
[33]		[33]
COVID-19 Demand FTE		-
<b>Other Organisations</b>		
[33]		[33]
<b>TOTAL</b>	<b>2,269.292</b>	

The package above does not include out-of-cycle funding of up to \$20m to respond to a Court of Appeal judgment on means assessment of the Residential Care Subsidy. This is proposed to be submitted for funding from the Between-Budget Contingency.

## Recommended Action

We recommend that you:

- a **note** this advice to support your Budget 2021 bilateral discussion on 14 December 2020 about the Social Development and Employment portfolio and Child Wellbeing.

Keiran Kennedy  
**Manager, Welfare and Oranga Tamariki**

Hon Grant Robertson  
**Minister of Finance**

Hon Dr Megan Woods  
**Associate Minister of Finance**

# Treasury Report: Bilateral on Child Wellbeing, and the Social Development and Employment Portfolio

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## Purpose of Report

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1. This report provides you with advice to support the Budget 2021 bilateral meeting on 14 December 2020. The meeting will cover:
  - **Child wellbeing** – You have invited the Minister for Child Poverty Reduction, Minister for Children and Minister for Social Development and Employment. We understand the focus of this discussion will be initiatives within the Social Development and Employment portfolio, however it has broader cross-Government implications.
  - The **Social Development and Employment (the portfolio)**. This covers initiatives within the Minister's portfolio undertaken by the Ministry of Social Development's (MSD) and the Ministry of Business, Innovation and Employment's (MBIE). It also covers initiatives by [33] Office for the Children's Commissioner (OCC) and for borrowing by the New Zealand Artificial Limb Service (NZALS).
2. The two parts of the meeting are separate but related. This report provides contextual information about child wellbeing and the portfolio upfront, then goes on provide advice about the potential initiatives, according to areas of focus. We have provided you with some key messages (Annex A), and a table of initiatives (Annex B).
3. The Minister for Children has been invited to the Child Wellbeing part of the bilateral. We have not provided an assessment of the Minister's initiatives in this report, however we will be providing you with separate advice to inform your invitations.
4. We note the limitations of our advice as we have not had the opportunity to discuss the detail of the Social Development and Employment initiatives with you. Further, unless otherwise stated, the costs in this report represent operating expenditure over the forecast period.

## Background and Context

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5. Budget 2021 will require even stricter management than usual of on-going spending and there will be difficult choices across Government and within individual portfolios. Cabinet recently agreed to manage spending within the operating allowances of \$2.625b per annum and the Multi-Year Capital Allowance of \$7.8b total for Budget 2021 to Budget 2024 (this excludes pre-commitments). Further, Cabinet agreed that Budget 2021 will be limited to the highest priority manifesto commitments and critical cost pressures. Our advice is provided in this context.

### **Child wellbeing**

6. One of three Government priorities for this term is to lay the foundations for the future, which includes addressing child poverty. As previously advised, a significant income support package will likely be needed at least every term to enable meaningful progress towards the child poverty targets. Income supports measures (discussed below) would need to be fully implemented from 1 April 2022 for these to impact the next round of child poverty targets [T2020/3462 refers].

7. With regard to addressing child poverty, we see three key areas of focus:
  - Given that significant increases in transfers are needed to address child poverty, thought is needed around sequencing, not only for this budget, but also for Budgets 2022 and 2023. The Working for Families (WFF) review, and the broader Welfare Overhaul work programme are opportunities for you to signal your priorities to officials. Officials will provide a joint report on the WFF review in early 2021. [33]
  - Tackling child poverty will require a broader suite of interventions in addition to broad based increases to transfers. Employment, where viable, is one of the most effective routes out of poverty for families. Policy settings should help parents into employment and address barriers to employment such as childcare and/or transport costs. Tackling these barriers is more important given the disadvantages some groups, such as women, may face in the labour market following COVID-19. Rising housing costs are a significant driver of lower-living standards for some families. Addressing housing costs will improve material wellbeing for children.
  - There is a range of levers across government which will help address material hardship for children. Initiatives in education and health, including in-kind provision, are also important. Your budget decisions should balance interventions which impact on children across different portfolio areas.

### ***Social Development and Employment***

8. The Social Development and Employment portfolio encompasses appropriations found in both Vote Social Development and Vote Labour Market, which are administered by the MSD and the MBIE respectively. This section provides an overview of MSD's (and MBIE's) delivery.
9. A number of other portfolios (Youth, Seniors and Disability Issues) have impacts on Vote Social Development and MSD. Therefore, when developing the Social Development and Employment package, MSD's overall capacity to deliver across multiple portfolios needs to be considered.

### ***Ministry of Social Development***

10. At the beginning of 2020, MSD had a number of significant work programmes underway (such as the Welfare Overhaul), placing pressure on their capacity. As a result of COVID-19, MSD operating capacity is strained further. This is due to increasing demand on the benefit system and the number and scale of policy initiatives rolled out in response to COVID-19 (e.g. the Wage Subsidy schemes). MSD were appropriated approximately \$1.364b operating (offset by reprioritisation of \$138m) and \$75m capital in Budget 2019.<sup>2</sup> MSD were appropriated approximately \$1.511b<sup>3</sup> operating through Budget 2020 and the CRRF funding rounds.<sup>4</sup>
11. MSD's work programme and the significant investment through CRRF has led to additional focus on MSD's ability to deliver. MSD was the focus of two Implementation Unit deep dives [T2020/2504 and T2020/2634] which stated:
  - MSD is under significant delivery pressure particularly in the areas of administering the COVID-19 response programmes (e.g. the Wage Subsidies and CIRP) and administering income support; and

<sup>2</sup> This includes cross-agency initiatives.

<sup>3</sup> This excludes funding for the Wage Subsidy Extension, and capital funding of approximately \$38m across the forecast period.

<sup>4</sup> MSD also received funding outside of the standard Budget cycle which is not covered in this amount.

- MSD is taking mitigating action by accelerating parts of their transformation to support more efficient delivery (e.g. increasing digital channels).
12. Following the final Implementation Unit report, MSD continues to signal that the organisation is under pressure.
  13. Excluding the Wage Subsidy Scheme and the COVID-19 Income Relief Payment (CIRP), the last report from the Implementation Unit (information as at 5 October 2020) provides the following information about MSD's spending as an indication of delivery [T2020/3230 refers]. Minister Sepuloni is seeking funding for the two highlighted initiatives in Budget 2021:

Initiative	Funding 4ys (\$m)	Total FY19/20 – FY20/21 spend to date vs allocated (%)
Expand And Strengthen Existing Employment Services To Support More Disabled New Zealanders Into Employment	12.500	57%
Providing Support For Foodbanks, Food Rescue And Community Food Services In The Covid-19 Recovery	32.000	34%
The Construction Accord: Expand Skills For Industry Initiative	59.600	29%
Investing In The Resilience And Recovery Of Communities Affected By Covid-19	36.000	11%
Supporting Offenders Into Employment Phase 2	11.910	11%
Continuing He Poutama Taitamariki For Young People	11.840	10%
<b>Employment And Financial Support Response To Covid-19</b>	<b>250.000</b>	<b>8%</b>
<b>Employment Service Response To Covid-19</b>	<b>150.000</b>	<b>3%</b>
Community Connection Services For High And Complex Needs Clients	41.250	0%
Boosting Building Financial Capability Services To Assist The Recovery Of Individuals And Whanau Impacted	25.210	0%
Investing In The Resilience And Recovery Of Providers Affected By Covid-19	22.000	0%
Responding To Increased Demand For Family Violence Services	12.600	0%
Building Māori Partnerships To Strengthen Social And Economic Wellbeing	10.000	0%
<b>Total</b>	<b>674.910</b>	<b>9.4%</b>

14. Finally, we note that the Minister is seeking out-of-cycle funding ahead of Budget 2021 of up to \$20m from the Between-Budget-Contingency. This is in response to a Court of Appeal judgment that some aspects of the means assessment process previously carried out by MSD for the Residential Care Subsidy (RCS) were inconsistent with the legislation. The funding is to meet the costs of the RCS back-payments arising from implementing the Court of Appeal's judgment.

## I. Income support and welfare overhaul

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*Priority initiatives discussed at the 1 December 2020 Joint Ministers meeting - \$2.546b over forecast period*

15. You met with a number of your colleagues, including the Prime Minister, Minister Sepuloni, Minister Davis, and Minister Parker on 1 December 2020, to discuss income support options for Budget 2021. [33]

16. An increase to main benefits could make a significant contribution towards achieving your Government's priorities and wellbeing objectives (including tackling child poverty). [34]

Compared to an operating allowance of \$2.286b per annum (including pre-commitments), the cost of a main benefit increase is expected to consume almost 25% of the allowance. [34]

There are two complementary changes (**income definition for childcare assistance and changes to the temporary additional support disability allowance exception - \$33.600m**) discussed which we recommend inviting.

17. [33]

*Manifesto commitments - \$772.360m (of which \$393.980m is pre-committed) over forecast period*

18. The Labour Party manifesto committed to three specific income support changes to progress this term. Funding to **increase abatement thresholds<sup>5</sup> (\$393.980m)** has been pre-committed, [33]

19. The Labour Party manifesto also had a commitment to **continue the welfare overhaul and respond to the WEAG recommendations**. Consistent with this commitment, Minister Sepuloni has signalled three initiatives for Budget 2021. These are improving **childcare assistance** [33]

20. [33]

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<sup>5</sup> Note this excludes the cost of the Minimum Family Tax Credit (MFTC) - \$17m. T2020/3574 Bilateral on Child Wellbeing, and the Social Development and Employment Portfolio

<b>Cost pressures - \$397.393m over forecast period</b>
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21. A number of temporary changes to income support settings were made in response to COVID-19 to relieve pressure on the front-line. Minister Sepuloni has signalled that she would like to seek funding through Budget 2021 to make three of these changes permanent.
22. Only one of these, **extended deferral and implementation of individually tailored review periods for subsequent work capacity medical certificate requirements for recipients of JS-HCD (\$97.340m)** is a genuine critical cost pressure. [36]

The implementation of any new practice will take approximately 7 months from policy decisions. Therefore an alternative option is to take a pre-Budget decision on the new 'individually tailored' subsequent medical certificates practice which would allow for the new practice to be in place sooner.

23. [33]

24. In summary:

Initiatives already agreed or discussed for Budget 2021:
<ul style="list-style-type: none"> <li>• Cabinet has agreed to lift abatement thresholds as a pre-commitment in Budget 2021</li> <li>• You have already agreed with Ministerial colleagues to consider a main benefit increase as part of Budget 2021, and two complementary changes (income definition for childcare assistance and changes to the temporary additional support disability allowance exception)</li> </ul>
Initiatives we recommend you invite for Budget 2021:
<ul style="list-style-type: none"> <li>• We recommend that you invite the extended deferral and implementation of individually tailored review periods initiative ("medical certificates") because it is a critical cost pressure.</li> </ul>
Initiatives to defer subject to your bilateral discussion:
<ul style="list-style-type: none"> <li>• All other income support initiatives proposed</li> </ul>

## II. Employment

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25. MSD's employment services are primarily provided under the "Improving Employment and Social Outcomes Multi-Category Appropriation" (Employment MCA). \$537m in funding from the CRRF was appropriated to the Employment MCA for 2019/20-2023/24 to meet additional demand for employment support due to COVID-19. \$471m is time limited funding to 30 June 2022.
26. MSD's employment services have expanded significantly since the onset of COVID-19, both in scale and reach. They consist of a spectrum of interventions, from information services (Connected website), to work readiness programmes (Work Confidence) to training programmes (Training for Work), and hiring subsidies (Flexi-wage).
27. MSD is now providing employment services to anyone who requests assistance, in addition to beneficiaries, and people at-risk of benefit receipt (although eligibility for some services is limited to people receiving a main benefit). MSD are refreshing their Investment Strategy which determines how they allocate funding within the Employment MCA. We understand that this is scheduled to be completed early in 2021.
28. MBIE received over \$200m for employment initiatives through the CRRF and B20, including for He Poutama Rangatahi, Māori Trades and Training, Regional Skills Leadership Groups and Jobs and Skills Hubs. [33]
29. The continued monitoring of demand, implementation challenges, provider capacity, effectiveness and risks is critical. This is especially important given the overlap in purpose and population served between MBIE and MSD-administered or funded programmes. [34]

*Manifesto commitments - \$742.416m operating and \$186.598m capital (of which \$311.000m has been agreed and funded from CRRF) over forecast period*

30. The expansion of **Flexi-wage (\$311.000m)** was agreed by Cabinet [CAB-20-MIN-0493 refers], and is funded from CRRF. In relation to Flexi-wage and employment services more broadly, we recommend an investment approach which targets those who are most disadvantaged in the labour market, reflecting the scope of the MCA, and the government's commitment to an inclusive recovery.
31. The Labour Fiscal Plan allocates **reinstating Training Incentive Allowance (TIA) to higher level courses (\$431.416m operating)** to the CRRF, however this may be more appropriately funded from Budget allowances, given the programme will be ongoing. This will also require an additional \$186.598m in capital over ten years. There is no specific time commitment for expanding TIA and we consider that this could be deferred. We understand that Minister Sepuloni intends to take a Cabinet paper on TIA in early 2021. TIA is targeted to sole parents (amongst others) and may help support child wellbeing objectives.

*Cost pressures - [33]*

32. **COVID-19 Demand Employment Services** [33] is increased funding for the Employment MCA to extend increased service levels over a longer timeframe. PREFU forecasts revised down estimates of the number of people on a working aged benefit

from BEFU estimates, however the recovery is expected to be slower than originally anticipated, with higher than average beneficiary numbers over a longer period.

33. Our initial view is that there is a case to defer this initiative, subject to your discussion with Minister Sepuloni about deferral risks. The additional funding for Flexi-wage and the implementation timeframes are likely to reduce need for other employment programmes.
34. If you did invite the initiative, the costing will need to be updated when the Half Year Economic and Fiscal Update (HYEFU) is released. We note that Minister Sepuloni recently funded additional programmes from existing funding within the Employment MCA, suggesting some additional funding capacity. This included approximately \$4-6m in changes to Seasonal Workers Assistance programme to incentivise take up of seasonal work by former beneficiaries.
35. We note that CRRF funding for the Employment MCA was considered together with capacity funding for MSD in CRRF rounds 1 and 2. The capacity funding was primarily for case workers to meet increased demand for income support and employment support. MSD advised that they would not be able to deliver the programmes without that increased capacity. This interdependency is likely to continue.
36. In summary:

Initiatives already agreed or discussed for Budget 2021:
<ul style="list-style-type: none"><li>• Cabinet has agreed to expand Flexi-wage</li></ul>
Initiatives to defer, subject to your bilateral discussion:
<ul style="list-style-type: none"><li>• Reinstating the Training Incentive Allowance</li><li>• COVID-19 Demand Employment Services</li></ul>

### III. Communities and Partnerships

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37. In Budget 2020, MSD received \$ 295.988m<sup>6</sup> for community/NGO initiatives. This package included continued viability of Out of School Care and Recreation (OSCAR) service providers (\$9.600m), which is proposed as a new cost pressure.
38. A further \$206.062m was provided via CRRF to recognise the importance of the social sector to delivering outcomes for communities during COVID-19 and to enable community-led responses.
39. A number of COVID-19 community investments are time-limited. In line with the original time-limited nature of the funding, the expectation should be to wind-down new programmes and return existing programmes to pre-COVID levels once time-limited funding is spent.

#### *Manifesto commitments - \$54.673m over forecast period*

40. There is a manifesto commitment to work towards a **more effective social service sector** by improving how government commissions and works with social service providers. We understand that the commitment is related to, and will be taken forward through, the Social Sector Commissioning project led by the Social Wellbeing Board. [33]
41. Minister Sepuloni has put forward a package of initiatives from her Disability Issues portfolio for your consideration. The funding is for **growing disability and accessibility leadership and advice** [33] It is related to the broad manifesto commitment to improve accessibility and the participation of disabled people, through an Accessibility for New Zealanders Act and to strengthen the demand for inclusive policy and services through investing in leadership in the disability community and the Office for Disability Issues. The Minister has indicated that this is a manifesto commitment that has no timing constraints for Budget 2021 – we recommend that it could be deferred to later budgets.
42. [33]

#### *Cost pressures - \$44.458m over forecast period*

43. Minister Sepuloni has identified that there are continued cost pressures and risks to service delivery for some community services, and proposes the following:
  - Continuing the **KidsCan programme to respond to increased demand** [33]
  - Continuing the **KickStart Breakfast Programme to respond to increased demand** [33]
  - Continuation of **Kainga Whānau Ora/Te Tihi contract** [33]

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<sup>6</sup> Including \$28.7m held in contingency for the Keeping Community Based Services open for Disabled People. T2020/3574 Bilateral on Child Wellbeing, and the Social Development and Employment Portfolio

- Ensuing continued availability of **OSCAR services** [33]
44. Because of the link to child wellbeing, we propose that you invite the KidsCan and KickStart initiatives for consideration in Budget 21 where we can provide further advice on the criticality of funding needed.
  45. Although the OSCAR services initiative also links to child wellbeing, we recommend that you discuss deferring this to later budgets with Minister Sepuloni. This is because OSCAR services received [33] in Budget 2020.
  46. We also recommend you discuss deferring the Kainga Whānau Ora/Te Tihi contract initiative. We note that there have been recent decisions to fund other partnership initiatives ahead of this one, which suggests this may not be a priority. Funding sources included funding from CRFF for building Māori partnerships to strengthen social and economic wellbeing (\$10m over two years), and there may be other funding sources that could be used to fund this contract.
  47. In summary:

Initiatives we recommend you invite for Budget 2021:
<ul style="list-style-type: none"> <li>• Continuing the KidsCan programme</li> <li>• Continuing the KickStart Breakfast programme</li> </ul>
Initiatives to defer, subject to your bilateral discussion:
<ul style="list-style-type: none"> <li>• Growing Disability and Accessibility Leadership and Advice</li> <li>• [33]</li> <li>• Continuation of Kainga Whānau Ora/Te Tihi contract</li> <li>• Ensuring Continued Availability of OSCAR services</li> <li>• [33]</li> </ul>

#### IV. Systems and Operations

48. In July 2018, you and the Minister for Social Development commissioned a review of MSD baseline,<sup>7</sup> conducted jointly by MSD and the Treasury. Constrained allowances meant that Cabinet agreed to fund a [33] Package through Budget 2019. Funding was scaled predominately from 2021/22 onwards. Some of the cost pressures relate to the [33] package.

#### *Manifesto commitments - \$14.239m operating and \$14.500m capital over forecast period*

49. Minister Sepuloni is seeking funding to meet the manifesto commitment for a **living wage** [33] In August 2020 you and the Minister for Social Development agreed to increase the wage of MSD's security guard workforce to the living wage subject to MSD being able to manage the cost in the 2020/21 year within baselines. MSD now require more funding to continue paying living [33] [33] July 2021. Treasury agrees this policy meets the intent of the manifesto commitment, and that there may be time sensitivity if MSD cannot continue to afford paying security guards' living wage within baselines. We recommend you invite this initiative for further consideration.
50. The Public Service Commission is preparing a paper for Cabinet in the first quarter of 2021 with more detailed design of the roll-out of Living Wage across workforces, including the frequency and size of wage increases, the mechanisms, and the pace of implementation. We will work to ensure Budget proposals are in line with the intended direction of this paper. Ministers have the option at that time to defer roll-out of MSD living wage initiatives if they should wish to slow the pace of implementation. We note that decisions to roll-out Living Wage to MSD-funded workforces is likely to build pressure for a fast implementation pace for wider public sector workforces.
51. [33]

#### *Cost pressures - \$760.689m operating and \$93.244m capital over forecast period*

##### i) Workforce, property and fleet

52. Minister Sepuloni has put forward the following initiatives primarily seeking capacity funding:
- **COVID-19 demand FTE** [33] – this funding would support MSD to maintain the level of frontline staffing required to provide financial assistance and employment focussed activities to more clients, as a result of the economic impacts of COVID-19.
  - **Housing services related to Government's implemented Emergency Housing Special Needs Grant (EHSNG)** [33]
  - **Site Safety and Security (guards)** [33] which provides funding to enhance safety and security, and improve client experience with the Ministry. This has strong ties to the implementation of MSD's interior security fit-out programme.

<sup>7</sup> Funding in scope of the review was approximately \$1.4 billion of Vote Social Development which excluded Benefits or Related Expenditure (BORE), New Zealand Superannuation, Student Loans and Recoverable Assistance.

- There is also a policy advice FTE component covered under the non-discretionary cost pressures initiative discussed below (at para 55).
53. We are recommending that you invite the initiatives for housing services and site safety and security for further consideration. However, we recommend that you discuss deferring the COVID-19 demand FTE initiative with Minister Sepuloni to understand the risks and whether transfers from under-spends from current years or alternative funding options could be used. More information about the total FTE profile, recruitment and wind-down strategy, time-limited nature of initiatives, and delivery of existing capacity funding provided through CRRF (and more recently e.g. the \$10m provided for Flexi-wage capacity) will support the assessment of the initiatives.
54. Minister Sepuloni has also identified **remuneration** [33] as a critical cost pressure. This relates to the time-limited funding provided through the baseline review’s Stabilisation Package, and recent changes to collective agreements. Officials’ advice at the time of the baseline review highlighted the uncertainty of costings in later years and the potential for costs to increase. We recommend you invite this initiative for further consideration.
55. There is a further initiative related to the Stabilisation package, **Non-discretionary cost pressures** [33] which is made up of smaller elements of the core operating model including:
- Loss of economies of scale from the establishment of the Ministry of Housing and Urban Development
  - Inflationary and other pressures that impact occupancy costs (e.g. rent, insurance), policy advice costs (i.e. FTE) and technology costs
56. We recommend you invite this initiative, and officials can work together to understand the costs and funding options.
- ii) Digital infrastructure
57. Minister Sepuloni is seeking funding for critical technology cost pressures titled **Continuation of Budget 20 Capital Initiatives** [33]
- As signalled in the MSD Baseline Review, significant technology investment is needed in the medium-long term given the level of operational risk the organisation is carrying. We recommend you invite this initiative for further consideration.

	Budget 2020 funding	Budget 2021 funding
<b>Corporate platform –</b>	<b>\$6.53m capital (one-year)</b>	[33]
Financial Management Information system (FMIS) and Payroll system replacement <sup>8</sup>	[33] year only, in a joint bid with OT to initiate project activity (e.g. procurement).	

<sup>8</sup> [34]

	Budget 2020 funding	Budget 2021 funding
<b>Service delivery –</b>	<b>\$11m capital (one-year)</b>	[33]
Income Support Modernisation <sup>9</sup>	Single Client View and Knowledge Management components were chosen as initial priority projects.	

58. As noted in the above table, the funding sought is a continuation of time-limited cost pressure funding agreed in Budget 2020 and the need for further funding was clearly signalled. Due to COVID-19 related delays, MSD is currently seeking approval to draw down from these contingencies. However, the projects are already underway and there is a case for further funding.

iii) Separation of Oranga Tamariki and MSD

59. The separation of MSD and Oranga Tamariki (OT) is underway, and Minister Sepuloni is seeking funding for **separation of corporate services provision (\$38.700m)**. At the time of the separation, it was recognised that there were costs associated with it. Some of the costs were known, estimated and accounted for at the time, while others were uncertain or unknown and dependent on future decisions such as the shared services arrangement. We have been discussing the separation with MSD and OT, and intend to provide you advice about the funding implications in early 2021. We recommend you invite this submission.

60. In summary:

Initiatives we recommend you invite for Budget 2021:
<ul style="list-style-type: none"> <li>• Living Wage</li> <li>• Organisational cost pressures: Remuneration, Non-discretionary cost pressures initiative, Site safety and security (guards), Housing services to implement Emergency Housing Special Needs Grant and for housing demand</li> <li>• Continuation of Budget 2020 Capital initiatives: FMIS and payroll; reducing risk of critical service delivery systems</li> <li>• Separation of corporate services provision</li> </ul>
Initiatives to defer, subject to your bilateral discussion:
<ul style="list-style-type: none"> <li>• [33]</li> <li>• COVID-19 Demand FTE</li> </ul>

<sup>9</sup> MSD have identified 5 key components of their Income Support systems which are in need of modernisation. They are: Single Client View, Eligibility and Entitlement, Knowledge Management, Service Performance, and Digital Experience [REP/20/11/1150].

<sup>10</sup> At this stage, Treasury and GCDO are supportive of continuing the approach of funding capital for the service delivery component in one-year tranches to replace or upgrade critical technology assets with a high risk of failure. We are encouraged that the changes within MSD's internal operating model will enable this investment to be focused on delivering value to the organisation and/or clients, rather than being purely technology led. We are working with GCDO to ensure the investment follows good technology stewardship principles (including minimising critical risk), and there is enhanced transparency and accountability around the investment.

## V. Other Organisations

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61. Minister Sepuloni has submitted [33] one initiative for Office for the Children's Commission (OCC). The NZALS, which MSD monitors, is also seeking capital funding.

*Cost pressures - \$37.000m operating and \$5.000m capital over forecast period*

62. [33]

- [33]

- 

- 

63. [33]

- 64.

65. The **Office for the Children's Commissioner (OCC) is also seeking cost pressure funding of \$1.000m** to maintain its existing level of service. We recommend you invite this initiative for further consideration, subject to further work by MSD to understand the OCC's funding needs. We note that the OCC received [33] in Budget 2020.

66. The **NZALS is seeking \$5.000m capital** structured as a Crown loan (as opposed to a capital injection) to replace their Christchurch Centre (which MSD owns) and the roof of the Auckland Centre. The Minister has advised that the state of these buildings poses significant health and safety risks and growing liabilities the longer remedial work is deferred. This requires your approval and you are able to determine the structure and terms of the loan under the Public Finance Act. We recommend that you invite this initiative.

67. In summary:

Initiatives we recommend you invite for Budget 2021:
<ul style="list-style-type: none"><li>• Office for the Children’s Commissioner</li><li>• NZALS business funding case (capital loan)</li></ul>
Initiatives we consider could be deferred, subject to your bilateral discussion:
<ul style="list-style-type: none"><li>• [33]</li><li>•</li><li>•</li></ul>

## Annex A: Talking Points

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### **General Budget 2021 talking points**

- The approach to Budget 2021 will require even greater discipline than usual. Given the constrained fiscal environment, there will be a high bar for new spending and it is important that spending is prioritised effectively and focus is placed on achieving value for money.

### **Child wellbeing**

- An increase in transfers will be necessary for addressing child poverty. An increase to main benefits is the most viable option here, however this will have a significant impact on the budget allowance.
- In addition to increasing transfers, we need to look to other measures. A focus on jobs is core to our economic response. Employment is an effective means out of poverty, and we should support people into jobs and remove barriers to employment such as childcare. Our work on addressing housing costs is also important for addressing child poverty.
- And we need to look across government for contributions to supporting child wellbeing. This includes health, education and Oranga Tamariki.
- There are other proposals on the table that could contribute to child wellbeing. My officials' are recommending that we progress KidsCan, KickStart and OCC initiatives to the invite process, but seek further information about OSCAR [33]  
We should discuss these, and what should be progressed for consideration in Budget 2021 to contribute to this priority.

### **Portfolio-specific talking points**

- In addition to the letter you recently sent to me and Minister Woods, today is an opportunity for you to outline the cost pressures and manifesto commitments you expect to face in the Social Development and Employment portfolio over the next three years. We have three Budgets to meet our commitments, so I encourage you to make a strong case for why I should invite you to submit these for consideration through Budget 2021 (noting that we have already pre-committed \$704.980m to your portfolio to meet manifesto commitments – of which \$311.000m is funded from the CRRF).

### **Income support**

- We've already funded an increase to the abatement threshold and we are interested in a main benefit increase. These have significant funding implications.
- Given our commitment to address child poverty and to overhaul the welfare system, we need to consider our priorities for the next two Budgets.
- I am interested in income support initiatives that are consistent with our focus on employment, which include addressing barriers to work such as childcare. [33]
- I agree that the extended deferral and implementation of individually tailored review periods should be considered in Budget 2021.

- The other two proposals related to permanently adjusting setting [33] are both policy choices – is there a compelling reason these should be considered in Budget 2021? Treasury's initial advice is that these can be deferred.

### *Employment*

- The Training Incentive Allowance does not have a specific time commitment – what are the risks or lost opportunities if we defer this?
- You are seeking a further \$466.440m for employment services, in addition to Flexi-Wage and the Training Incentive Allowance.
  - How is delivery of existing CRRF-funded programmes progressing?
  - Is there an option to fund employment services from reprioritisation of existing funding?
  - What are the constraints for further employment services funding?
- How does MSD intend to ensure that it allocates MCA funding between different cohorts (long term beneficiaries, newly unemployed, those at risk of unemployment)? How will you avoid the risk that employment support goes to those who need it the least, at the expense of those who need it the most?

### *Communities and Partnerships*

- (Note: suggested talking points above under Child Wellbeing related to KidsCan, KickStart and OSCAR services initiatives).
- What are the risks of deferring the Disability Issues portfolio initiatives (growing disability and accessibility leadership and advice, [33])
- What are the risks of deferring the Kainga Whānau Ora/Te Tihi initiative?

### *Systems and Operations*

- How many FTE overall are you seeking through your initiatives and what are the constraints on this?
- What is the risk of not funding the COVID-19 demand FTE, and are there other options for funding?

[33]

- [33]

Annex B: Table of initiatives (with Treasury Comment)

Initiative (manifesto and cost pressures)	2020/21	2021/22	2022/23	2023/24	2024/25	Opex Total	Capex Total	Treasury comment
<b>Income Support and Welfare Overhaul</b>	26.144	865.604	936.039	942.852	945.550	3,716.189		
<b>Joint Ministers - Main Benefit Increase</b>	-	573.400	559.000	559.500	559.500	2,251.40	-	✓ Invite - further advice to follow
[33]								
<b>Joint Ministers - Changes to the Temporary Additional Support Disability Allowance Exception</b>	-	5.600	6.100	6.900	6.900	25.500	-	✓ Invite - further advice to follow
<b>Joint Ministers - Changes to the Income Definition for Childcare Assistance</b>	-	1.900	2.000	2.100	2.100	8.100	-	✓ Invite - further advice to follow
<b>Manifesto - Increasing Abatement Thresholds</b>	24.451	103.473	93.050	86.503	86.503	393.980	-	✓ Agreed - B21 pre-commitment
[33]								
<b>Manifesto - Improving Childcare Assistance</b>	-	[33]				[33]	-	Defer - with option to commission further advice
[33]	[33]							[33]
[33]	[33]							
<b>Cost Pressure - Extended deferral and individually tailored review periods ("medical certificates")</b>	-	35.933	21.987	19.586	19.834	97.340	-	✓ Invite - critical cost pressure
[33]	[33]							[33]
<b>Employment</b>	30.786	[33]					186.598	
<b>Manifesto - Expanding Flexi Wage</b>	30.786	135.945	144.269	-	-	311.000	-	✓ Agreed - funding from CRRF
<b>Manifesto - Reinstating the Training Incentive Allowance</b>	-	[33]						Defer
<b>Cost Pressure - COVID-19 Demand Employment Services</b>	-	[33]				[33]	-	Defer
<b>Communities and Partnerships</b>		19.006	28.904	26.364	24.857	99.131		
<b>Manifesto - Growing Disability and Accessibility Leadership and Advice</b>	-	[33]				[33]	-	Defer
[33]	[33]							
<b>Cost Pressure - Continuing the KidsCan Programme to Respond to Increased Demand</b>	-	[33]					-	✓ Invite - link to child wellbeing
<b>Cost Pressure - Continuing the KickStart Breakfast Programme to Respond to Increased Demand</b>	-						-	✓ Invite - link to child wellbeing
<b>Cost Pressure - Continuation of Kāinga Whānau Ora</b>	-						-	Defer
<b>Cost Pressure - Ensuring Continued Availability of Out of School Care and Recreation Services</b>	-						-	Defer - link to child wellbeing
<b>Systems and Operations</b>		118.461	175.817	216.057	264.593	774.928	107.744	
[33]	[33]							
<b>Cost Pressure - COVID-19 Demand FTE</b>	-	[33]					-	Defer
<b>Cost Pressure - Housing Demand</b>	-						-	✓ Invite
<b>Cost Pressure - Site Safety and Security (guards)</b>	-	[33]					-	✓ Invite
<b>Cost Pressure - Remuneration</b>	-	21.158	[33]				-	✓ Invite
<b>Cost Pressure - Non-Discretionary Cost Pressures</b>	-	12.125	15.688	[33]		[33]	-	✓ Invite
<b>Cost Pressure - Continuation of Budget 2020 Capital Initiatives</b>	-	[33]				[33]		✓ Invite
<b>Cost Pressure - Oranga Tamariki Corporate Services Separation</b>	-	9.675	9.675	9.675	9.675	38.700	-	✓ Invite - further advice to follow
<b>Other organisations</b>		10.000	9.000	9.000	9.000	37.000	5.000	
[33]	[33]							
[33]								
<b>Cost Pressure - Office for the Children's Commissioner cost pressure</b>	-	1.000	-	-	-	1.000	-	✓ Invite - link to child wellbeing
<b>Cost Pressure - NZALS business funding case</b>	-	-	-	-	-	-	5.000	✓ Invite