

The Treasury

Budget 2022 Information Release

August 2022

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Treasury Report: Advice on Minister Sepuloni Budget 2022 Post Bilateral Package

Date:	3 March 2022	Report No:	T2022/402
		File Number:	SH-3-7-1

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance		7 March 2022

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Jane Bunworth	Graduate Analyst, Welfare And Oranga Tamariki	[39]	N/A (mob)
Keiran Kennedy	Manager, Welfare & Oranga Tamariki, Welfare And Oranga Tamariki	N/A (wk)	[35]

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: Yes (attached)

Treasury Report: Advice on Minister Sepuloni Budget 2022 Post Bilateral Package

Executive Summary

Following your meeting with Minister Sepuloni on 22 February 2022, you asked officials to provide further advice on potential Vote Social Development Budget 2022 packages based on an envelope of \$2 - \$2.2 billion. Minister Sepuloni provided you with a letter outlining a revised package. This report provides advice on the risks of funding Minister Sepuloni's revised package, and proposes two alternative packages which both involve trade-offs.

The initial Treasury draft package discussed at the bilateral provided \$1.967 billion in funding. Providing full funding for the additional initiatives you indicated support for during the bilateral would require additional funding of approximately \$1.4 billion. This means that it is challenging to form a package that funds all of the initiatives Ministers have indicated support for within the envelope provided.

Ministers have agreed that disability investment is a flagship area for the Vote Social Development package. *DSS Cost Pressures* seeks funding of [33] and *Disability Support System Transformation – National Implementation of the Enabling Good Lives approach (EGL)* seeks [33] in funding. We see this as a critical choice for the package as it will be challenging to fund both significant initiatives within the current envelope.

[34]

which enables funding to be allocated to the flagship area of Disability Issues portfolio, income support through funding *Child-Support-Pass-on (CSPO)* and increasing funding in a number of other initiatives.

Our proposed alternative packages provide you with two options. The first option (Package 1) is building on Minister Sepuloni's revised package but with some scaling to create some headroom to enable Ministers to make further decisions. The second option (Package 2) is an alternative to Minister Sepuloni's package building on the draft Treasury package again with some headroom to enable Ministers to make further decisions.

The key features of the Treasury package 1 are:

<i>Initiative</i>	<i>Supported Funding (million)</i>
DSS Cost Pressures	\$735.000
EGL	[33]
Child Support Pass on (CSPO)	\$354.266
Communities portfolio	[33]
Total Package	

The key features of the Treasury package 2 are:

<i>Initiative</i>	<i>Supported Funding (million)</i>
DSS Cost Pressures	[33]
EGL	\$0.000
Child Support Pass on (CSPO)	\$354.266
Communities portfolio	[33]
Total Package	

Recommended Action

We recommend that you:

- a **Indicate** your preference for the package you wish to take to Budget Ministers 4

Minister Sepuloni's revised package *Treasury Package 1* *Treasury Package 2*

- b **Indicate** whether you need further advice on any aspects of the packages

Yes/No.

- c **Discuss** this advice with Minister Sepuloni

Agree/ Disagree



Keiran Kennedy
Manager, Welfare & Oranga Tamariki

Hon Grant Robertson
Minister of Finance

Treasury Report: Advice on Minister Sepuloni Budget 2022 Post Bilateral Package

Purpose of Report

1. This report provides further advice on the Vote Social Development Budget 2022 package.
2. Following your bilateral meeting on 21 February 2022, Minister Sepuloni has proposed a revised Vote Social Development Budget 2022 package. This report highlights risks associated with her proposed package, and provides two alternative packages for Vote Social Development.

Background and context

3. We provided previous advice on a package which provided \$1.967 billion in funding. Our advice noted that we only support critical cost pressures and time sensitive Manifesto commitments that are implementation ready. We outlined significant capacity constraints within the Ministry for Social Development (MSD) and the public sector more broadly, and investment in MSD should be considered in this context [T2022/299 refers].
4. You met with Minister Sepuloni on 21 February 2022 to discuss her proposed Vote Social Development Budget 2022 package. At the bilateral, you indicated support for additional initiatives, these were:

Initiative name(s)	Full funding sought (\$m)
Child Support Pass On	\$354.3
Disability Support System Transformation – National Implementation of the Enabling Good Lives approach (EGL)	[33]
[33]	
The Communities Package, in particular 'Relational approach and building partnership with Māori' initiatives	
The two Seniors initiatives	
Total	

5. Providing full funding for the additional initiatives you indicated support for during the bilateral would require additional funding of approximately \$1.49 million. There will be scaling options. You asked officials to come back with a proposed new package that included the above initiatives. You also subsequently indicated an \$2 - \$2.2 billion envelope. As you are aware, Ministers face decisions about relative priorities. It is very challenging to fund all the initiatives you have signalled support for, fund only implementation ready initiatives, demonstrate appropriate fiscal management and fit within the \$2 - \$2.2 billion envelope.

6. Minister Sepuloni has written to you with her proposed new package. This report outlines risks with her proposed package and provides two alternative packages. Each package requires trade-offs. Annex 1 provides you with a breakdown of the various packages by initiative.

Analysis of proposed Vote Social Development Package

7. Minister Sepuloni has opted in her revised package to scale two large initiatives (*DSS Cost Pressures* and *Improving support for dental treatment for low-income New Zealanders (Dental SNG's)*) which enables funding to be allocated to the Disability Issues portfolio, income support through funding *Child-Support-Pass-on (CSPO)* and increasing funding in a number of other initiatives.
8. Key features Minister Sepuloni' revised package are:

Initiative	Funding Sought (m)	Change from Treasury Initial Package (m)
DSS Cost Pressures	\$735.0	[33]
EGL	[33]	
Establishing the new Ministry for Disabled People	[33]	
Dental SNG's	\$125.8	
CSPO	\$405.9 ¹	+\$405.9
Permanently increasing hardship assistance income limits	[33]	[33]
Communities portfolio		
Te Pae Tawhiti – Designing the Ministry of Social Development's Future Operating Model (TPT)		
Total Package		

Risks with accepting this revised package

9. Scaling DSS Cost Pressures to provide funding for [33] presents a significant fiscal risk. The cost pressures are genuine [33] While DSS cost pressures have been funded through every Budget since 2004, we consider there to be advantages in shifting away from this approach. [33]
10. We have worked with MSD and Ministry of Health (MOH) to develop viable options for the Enabling Good Lives rollout. Because of the timing of when work was completed, the costings in Minister Sepuloni's letter [33] are now out of date. The approach to rollout has shifted from funding a full national rollout in one Budget to a region-based, phased rollout over more than one Budget. We propose providing an envelope of [33] which could provide for a rollout to both the [33]

Final decisions on the rollout (including which regions are selected) should

¹ This figure has been revised to \$354.266, however, this is the figure in Minister Sepuloni's letter to you. This will bring the total package amount down to \$2,148.086.

be made once the Ministry for Disabled People has been established, meaning this funding would need to be held in contingency.

11. [33]

12. [34]

13. We recommend providing funding of \$55.981m instead of [33] for Permanently increasing hardship assistance income limits (Hardship Assistance). Our initial package supported \$55.981m to ensure coherency of the income support system. This option supports the couple rate being 1.6 times the single rate which aligns with other benefit rates such as Jobseeker. There is no clear rationale to support the couple rate being twice the single rate as advanced in the [33] option.
14. We understand Ministers are supportive of more funding for the Communities portfolio, in particular for initiatives that come under 'Relational approach and building partnership with Maori'. This package sees significantly more funding for Communities than package 1 and largely aligns with Minister Sepuloni's revised package. However, we do not support providing full funding Te Hiku or any funding for Relational approach and building partnership with Māori - Implementation of iwi relationship agreements. Funding for iwi relationship agreements has a precedential risk which may have ongoing fiscal implications. If the government wants to support this, an all of government approach should be led by Te Arawhiti. However, to mitigate any expectation of funding, we have supported scaled funding for Te Hiku.
15. We do not support the additional funding for TPT [33] because we do not consider the [33] recommended to be realistic given current timelines. It is noted that the [33] is scaled up from the [33] which Ministers discussed at the bilateral. [33] funds [33] FTE and contractors, all of which are in place. This initiative funds only the initial stages of TPT and there will be significant pressures on future allowances to fund this business transformation in full.
16. Additionally, if you support the Improving MSD's Housing Support Products to Better Support Homeless, Housing Insecure, and Low-income New Zealanders (HSP) initiative the cost may change from \$42.003m to [33]. This proposed package does not leave room in the envelope to fund the full [33] should Ministers decide to pursue this option. We understand Minister Woods' would like to discuss this at Budget Ministers 4.
17. There are other smaller discrepancies between Minister Sepuloni's revised package and this package 1 that are detailed in annex 1. The fundamental difference is that we support a greater percentage of the Vote Social Development package being spent on disability. Minister Sepuloni's revised package opts for reduced investment in disability, with more funding for other areas.
18. We understand that Ministers are concerned about the number of FTE funded, not only within MSD but across the public service more broadly. Minister Sepuloni's proposed package sees an increase in number of FTE (and/or contractors) compared with the initial Treasury draft package. The following initiatives see the most FTE funded: CSPO, EGL, TPT and The Ministry for Disabled People. We have not been able to

provide precise and comprehensive information on FTE for this report but will work with your office to get an updated FTE analysis ahead of Budget Ministers 4..

Treasury proposed Vote Social Development Package

19. We have provided two alternative packages, which are detailed in annex 1. The two packages address, in part, the risks outlined above. Both packages present different risks, and require trade-offs.

Package 1 – Treasury’s response to Minister Sepuloni’s revised package

20. The key features of our package 1 are:

<i>Initiative</i>	<i>Supported Funding (million)</i>
DSS Cost Pressures	\$735.000
EGL	[33]
Child Support Pass on (CSPO)	\$354.266
Communities portfolio	[33]
Total Package	

21. If you agree with Minister Sepuloni’s proposal and [33]

Our package 1 recommendation largely aligns with Minister Sepuloni’s revised package, however there are some differences. We do not support the initiatives that Minister Sepuloni has scaled up post the bilateral discussion (for example TPT and the Ministry for Disabled People). These are outlined at para 9 above and in annex 1 and are discussed above.

22. While it is not prudent to [33] we are providing an alternative package that funds more of the Manifesto commitments you indicated support for at the bilateral. However, we note that this package is likely to place significant pressures on future allowances.

Differences with Minister Sepuloni’s revised package and package 1

23. The key differences between this package 1 and Minister Sepuloni’s revised package are:

<i>Initiative</i>	<i>Minister Sepuloni Package (\$m)</i>	<i>Treasury Package 1(\$m)</i>
EGL	[33]	[33]
Ministry for Disabled People		\$107.859
Hardship Assistance		\$55.981
TPT		[33]
Te Hiku		
Tūhoe SMP	\$3.000	
Iwi relationship agreements	[33]	

Package 2 – Treasury revision of the initial Treasury package

24. Package 2 provides you with an alternative option building on from our initial package and taking into account your comments at the bilateral.
25. The key features of Package 2 are:

Initiative	Supported Funding (million)
DSS Cost Pressures	[33]
EGL	\$0.000
Child Support Pass on (CSPO)	\$354.266
Communities portfolio	[33]
Total Package	

26. The majority of funding goes to [33] However, doing so makes it more difficult to provide funding for everything you indicated support for at the meeting, while keeping within the \$2 - \$2.2 billion envelope.
27. This package defers EGL. This aligns with Treasury view that it is more important to fully fund fewer initiatives, than to fund more initiatives, incompletely. However, we understand that Ministers did want to signal their support for EGL. Regardless, of whether Ministers choose package 1 or 2, [33]
28. Ministers have indicated that a pre-commitment will be sought for CSPO. There is no room to scale funding, therefore both packages see this funded in full.
29. We support scaled funding for TPT to enable MSD to continue work on the transformation programme. We consider this level of funding to strike an appropriate balance between pressure on the envelope, FTE constraints and progressing the transformation programme. Our proposed option provides funding for 107 FTE, all of which are currently in place.
30. We support scaled funding of some of the initiatives in the Communities portfolio. As Ministers indicated their support for the 'relational approach and building partnerships with Maori' package we have supported scaled funding for Relational approach and building partnership with Māori - Te Hiku o te Ika Social Accord (Te Hiku) and the Te Hiku and Tuhoe initiatives. We understand Ministers support providing some funding to build provider capability, and advance Social Sector Commissioning, more broadly, therefore we have supported scaled funding for Provider Capability.
31. There is limited room to support much funding for the Communities portfolio in this package. We supported significantly scaled funding for the communities portfolio in our initial advice as the initiatives had low value for money scores, driven predominantly by implementation readiness (or lack thereof), which justified our recommendations. However, we note there has been significant investment in communities since the resurgence of COVID-19. In the MSD vote alone, funding has been provided for 500 community connectors until June 2023. Furthermore, while we support the problem definition and the role of Social Sector Commissioning, we recommend further work is completed before significant investment in this area to ensure value for money and mitigation of precedential risks.

Potential risks in both packages

32. Budget Ministers have indicated they are concerned about FTE. Compared to the initial draft Treasury package, all revised packages see an increase in FTE funding. However, our package 1 funds less FTE than Minister Sepuloni revised package and our package 2. A package that does not fund [33] sees greater investment in Manifesto commitments, however noting that some manifesto commitments initiatives require significant FTE (for example CSPO).
 33. [34]
-
34. The amount of funding sought for HSPs may change. We have supported \$42 million for the HSP initiative [33]

Next Steps

35. Indicate which package you support to be included for Budget Ministers 4 material.
36. Indicate whether you would like any further advice on the packages.
37. Discuss the above with Minister Sepuloni.

Annex 1 Comparative Table for initiatives

Bid	TSY initial package (\$m)	MSD Option 1 (\$m)	TSY Package 1	TSY Package 2	Treasury comment
Disability System Transformation - new Ministry for Disabled People	107.859	[33]	107.859	107.859	There are many decisions still outstanding with regards to the structure of the Ministry for Disabled People some of which will not be finalised until after its establishment. We consider \$107.859 million to be sufficient to support the successful establishment of the Ministry and its ongoing operating costs. [33]
Disability System Transformation – National implementation of EGL approach - led by MoH	0.000	[33]	[33]	0	[33]
[33]					Final decisions on the rollout (including which regions are selected) should be made once the Ministry for Disabled People has been established, meaning this funding would need to be held in contingency. Additional funding will be required through future Budgets to complete the national rollout.
Cost Pressures for Disability Support Services – led by MoH	[33]	735.000	735.000	[33]	The cost pressures faced by Disability Support Services are genuine and will be faced. [33]
Total	[33]				
Bid	TSY initial package (\$m)	MSD Option 1 (\$m)	TSY Package 1	TSY Package 2	Treasury comment
Child Support Pass-on	0.000	[33]	354.266	354.266	MSD Option 1 is out-of-date. TSY and MSD have agreed the final costings for this, and they are \$354.266m. Noting that the costings for this have moved significantly over a short period of time which exacerbates our concerns with this initiative.
Improving support for dental treatment for low-income New Zealanders	125.804	0.000	0	0.000	We are supportive of this initiative, however we have left enough headroom in package 1 and 2 to include this initiative if Minister's are supportive..
Permanently increasing hardship assistance income limits	55.981	[33]	55.981	55.981	We recommend providing funding of \$55.981m instead of [33] to ensure coherency of the income support system.
Total	[33]		[33]	[33]	
Bid	TSY initial package (\$m)	MSD Option 1 (\$m)	TSY Package 1	TSY Package 2	Treasury comment
Te Pae Tawhiti – Programme	[33]			35.670	We consider MSD's updated amount of [33] to be overly ambitious given the timeframes in which activity needs to occur. To constrain the total FTE funded by the package Treasury's package 2 removes ^[33] FTE (50/50 internal/external split) from the initiative, which offsets the increase brought on by the addition of CSPO. This level of funding will likely have a material impact on the timelines of TPT. Package 1 is less risky and would support MSD to prepare for TPT in line with current timelines.
Te Pae Tawhiti – Corporate Platform	28.518	28.518	28.518	28.518	This is non-negotiable as the projects are already in flight.
Transition to new Children and Young People's Commission	1.640	1.640	1.640	1.640	Support in full
Social Worker Registration Board – supporting Oranga Tamariki	1.528	1.528	1.528	1.528	Support in full
Total	[33]			67.356	
Bid	TSY initial package (\$m)	MSD Option 1 (\$m)	TSY Package 1	TSY Package 2	Treasury comment
Continuing Mana in Mahi expansion	10.908	[33]	10.908	10.908	There are likely Flexi-wage underspends that can be used to fund the year two costs and increase the number of placements from 650 to 800 (which will cost \$10.908m). Further, historically low unemployment means there is not a strong case for full funding.
Māori Trades and Training Programme continuation	54.867	66.202	36.000	36.000	The primary rationale to support this initiative was to continue to trial approaches relating to the Māori Employment Action Plan (MEAP). There is some baseline funding for this initiative from the CRRF until 23/24 already, so this could be deferred or scaled at lower risk.
Equitable access to driver licences	86.486	86.486	86.486	86.486	Support in full
[33]					
Total	152.261	[33]		133.394	

Bid	TSY initial package (\$m)	MSD Option 1 (\$m)	TSY Package 1	TSY Package 2	Treasury comment
Building Financial Capability	[33]	[33]	[33]	0.000	TSY package 2 is constrained by the envelope but reflects, in part, that this initiative continues time limited CRRF funding and it is a choice whether this funding continues.
Disability Community Services				0.000	TSY package 2 is constrained by the envelope [33]
Te Hiku Social Accord	0.000		1.000	1.000	We have supported some funding to accommodate Ministers wishes to signal support.
Tūhoe SMP	0.000	3.000	0.500	0.500	We have supported some funding to accommodate Ministers wishes to signal support.
Kāinga Whānau Ora	2.400	2.400	2.400	0.000	TSY package 2 is constrained by the envelope [33]
Implementation of iwi relationship agreements	0.000	[33]	0.000	0.000	Do not support due to precedential risk. We are supportive of Te Arawhiti leading on an all-of-government approach.
Growing capability	0.000		0.00	[33]	Support noting that conditions could be added to funding to ensure that key risks are mitigated.
Central hub to monitor and evaluate SSC work programme	0.000	2.000	2.000	2.000	Support MSD's position.
Total	[33]	[33]			
Bid	TSY initial package (\$m)	MSD Option 1 (\$m)	TSY Package 1	TSY Package 2	Treasury comment
Improving MSD's housing support products	42.003	42.003	42.003	42.003	[33]
Supporting people on the public housing register	0.000	[33]	0.000	0.000	We understand MSD are undertaking further work to establish efficiencies, and to do so within baseline. Budget 2022 funding should be directed to increasing housing supply.
Total	42.003		42.003	42.003	
Bid	TSY initial package (\$m)	MSD Option 1 (\$m)	TSY Package 1	TSY Package 2	Treasury comment
MSD FV prevention initiatives	37.625	37.625	37.625	0.000	While supportive of this initiative, there is no space in package 2 to support funding.
Family Violence Response Coordination services continuation to support ICR approach	0.000	[33]	0.000	0.000	The value proposition to move from a contracting model to an FTE model is weak. Nor is there clear evidence or analysis to justify expansion.
Total	37.625		37.625	0.000	Note: both FVSV initiatives may be further iterated by Justice Cluster Ministers.
Bid	TSY initial package (\$m)	MSD Option 1 (\$m)	TSY Package 1	TSY Package 2	Treasury comment
Sustainable funding for MYD funded Youth providers (Min Radhakrishnan)	[33]	[33]		15.000	We are supportive of the direction of this initiative. However, we encourage the Ministry to do further work to evaluate the service and make a compelling case for funding.
2 x Implementing Better Later Life action plan - Age Friendly Communities, Entrepreneurship, Home Sharing - digital inclusion (Minister Verrall)	0.290		[33]		We support the MSD package 1. While our initial view was these initiatives lack a clear value for money proposition, we understand Ministers are keen to signal support for Implementing Better Lives, and more funding (than our initial package) is necessary.
Social Cohesion work programme (Minister Radhakrishnan)	[33]				This initiative is not implementation ready. However we understand Ministers may want to signal support. [33]
Total					
Grand total					