

The Treasury

Ministry of Social Development Baseline Review Information Release

June 2019

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
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Treasury/MSD Report: MSD Baseline Review Interim Report

Date:	4 December 2018	Report No:	T2018/3357
		File Number:	BM-2-7-2018 (Treasury), A10990007 (MSD)

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	Note the contents of this report Provide feedback on the MSD Baseline Review Interim Report	Tuesday 11 December 2018
Minister for Social Development, Minister for Disability Issues (Hon Carmel Sepuloni)	Note the contents of this report Provide feedback on the MSD Baseline Review Interim Report	Tuesday 11 December 2018

Contact for Telephone Discussion (if required)

Name	Position		Telephone	1st Contact
Emily Fulford	Senior Advisor, Baseline Review	[7]	n/a	✓
James Messent	Team Leader, Baseline Review	[7]	n/a (mob)	
Mark Frew	Manager, Strategy and Performance, MSD	[7]	[7]	

Actions for the Minister of Finance's Office Staff

Return the signed report to Treasury.

Minister of Finance's Office to refer the report (once both Ministers have signed the report) to the Minister of Housing and Urban Development, the Minister of Revenue, the Minister for Veterans, the Minister for Seniors, the Minister for Youth/Associate Minister for Social Development, and the Minister of Employment.

Note any feedback on the quality of the report

Enclosure: Yes (slide pack attached)

Purpose of Report

1. The Treasury and the Ministry of Social Development (MSD) are jointly undertaking a baseline review of MSD. As part of the process, the review team is delivering an interim report to you in late November/early December and a final report by 31 January 2019.
2. This joint report is a covering note for the attached interim report slide pack. It provides a brief overview of the baseline review, the process undertaken so far and specific points that officials would like you to consider ahead of a meeting on 11 December 2018 to discuss the interim report.

Overview of Baseline Review

3. The objectives of the baseline review are to understand current spending, develop a picture of the future baseline requirements for MSD and to enable it to have adequate resources, in the right places, to deliver on its strategy and the Government's wellbeing priorities. The review will advise on:
 - a. value for money and the effectiveness of expenditure (including services both delivered by the Ministry and contracted out to third party providers)
 - b. alignment of baseline expenditure to MSD's strategy and the Government's wellbeing priorities
 - c. cost pressures over the next few years and their alignment to strategy and priorities (including workforce issues, ICT functions and general overheads), and
 - d. options to manage within different funding paths.
4. The scope of the review is \$1.4 billion of Vote Social Development, which includes MSD's departmental and non-departmental operating expenditure and departmental capital expenditure. Benefit expenditure, New Zealand Superannuation, Student Loans and Recoverable Assistance are out of scope.

Process Undertaken for the Review

5. The review is being carried out in several phases, as outlined below.

Building an understanding of MSD (see slides 5-6 of the interim report for more information)

6. The initial focus of the review was to build an understanding of MSD through information gathering and targeted meetings between MSD, the review and Vote teams. This included how MSD's scope, baseline and cost drivers have changed over time, and how MSD has managed cost pressures (given that MSD's funding has declined slightly in real terms over the last ten years).
7. This included developing 'client' and 'activity' views of MSD's baseline. These show how much resource is spent on specific client groups (e.g. working-age, seniors etc.), or on specific activities (e.g. administration and delivery of the welfare system).

Investigating areas of Focus (see slides 8-13 of the interim report for more information)

8. In order to maximise the value of the review within the available timeframe, the review team followed three steps to identify areas of focus:
 - a. using the 'activity-view' of MSD's baseline, and choosing a dimension of analysis best suited for the drivers of each activity (i.e. effectiveness or efficiency)
 - b. removing appropriations that are subject to an existing review, or unlikely to warrant deep analysis, and
 - c. applying a materiality threshold of \$1.5 million to appropriations.
9. The areas of focus are:
 - a. administration and delivery of the welfare system (efficiency analysis)
 - b. community and employment outcomes (effectiveness analysis), and
 - c. data and policy (effectiveness analysis).
10. The review team has also focused on two cross-cutting themes:
 - a. remuneration and overheads
 - b. technology and capital.
11. For each area of focus, the review team has undertaken detailed analysis and developed preliminary conclusions.

Future direction (see slide 15 of the interim report for more information)

12. The review team is developing a picture of where MSD is going and what it needs to deliver its new strategic direction, Te Pae Tawhiti, and the Government's priorities.

Links to Budget 19 and developing a four-year view (see slides 17-20 of the interim report for more information)

13. For this phase, the review team has:
 - a. identified key themes, drawing on the common threads from the previous three phases of the review (see slide 3)
 - b. determined which Vote Social Development Budget initiatives would warrant an agreed funding path for the next four years, and
 - c. worked with MSD to develop indicative prioritisation options for Budget 2019 and over the medium term.

Discussion Points for Meeting with Officials

14. You are meeting with Treasury and MSD officials on 11 December 2018 to discuss the Baseline Review Interim Report and provide feedback ahead of the Final Report.
15. At this meeting, officials would like to focus on discussing the following key points and questions:
 - a. The key themes from the interim report.
 - b. What is the Government's willingness to provide four year funding¹ for MSD's non-discretionary cost pressures?

¹ In this case, four-year funding means funding the full cumulative increase over the forecast period rather than one-year increases that have been flat lined.

- c. What is the Government's appetite for MSD developing a business case to seek investment in Budget 2020 to deliver Te Pae Tawhiti?
- d. What role does the Government see MSD playing across the social sector. For example:
 - i. what is MSD's role in achieving outcomes in communities, and how does this intersect with the role of other social sector agencies?
 - ii. what is MSD's role in providing policy advice in terms of core welfare system policy versus wider social/community development policy, and also its role in providing cross-sector policy advice?
- e. What kind of options do you want to see in the final baseline review report?

Impact on Other Portfolio Ministers

- 16. The baseline review takes a departmental view. Therefore, it covers all Ministerial portfolios funded by Vote Social Development.
- 17. For portfolio Ministers, the main difference between the normal Budget 2019 process and the baseline review, is the prioritisation process. Rather than each portfolio Minister identifying 1% of their lowest value spend for potential prioritisation, the Minister of Finance has agreed that 1% can be identified from across MSD's whole operating baseline (T2018/2535 refers). This means that the 1% will not be pro-rated across each Ministerial portfolio.

Next Steps

- 18. The review team will take on board your feedback and incorporate this into the final report. The team will also continue to work with MSD and the Vote team to develop options, to be presented in the final report delivered by 31 January 2019.

Recommended Action

We recommend that you:

- a **note** the contents of this report
- b **note** that you are meeting with Treasury and MSD officials on 11 December 2018 to discuss the MSD Baseline Review Interim Report and provide feedback ahead of the Final Report
- c **provide feedback** on the attached MSD Baseline Review Interim Report, and

d **refer** (via the Minister of Finance's office):

i. the Minister of Housing and Urban Development (Hon Phil Twyford)

Refer/not referred

Hon Grant Robertson

Refer/not referred

Hon Carmel Sepuloni

ii. the Minister of Revenue (Hon Stuart Nash)

Refer/not referred

Hon Grant Robertson

Refer/not referred

Hon Carmel Sepuloni

iii. The Minister for Veterans (Hon Ron Mark)

Refer/not referred

Hon Grant Robertson

Refer/not referred

Hon Carmel Sepuloni

iv. The Minister for Seniors (Hon Tracey Martin)

Refer/not referred

Hon Grant Robertson

Refer/not referred

Hon Carmel Sepuloni

v. The Minister for Youth/Associate Minister for Social Development
(Hon Peeni Henare)

Refer/not referred

Hon Grant Robertson

Refer/not referred

Hon Carmel Sepuloni

vi. The Minister of Employment (Hon Willie Jackson)

Refer/not referred

Hon Grant Robertson

Refer/not referred

Hon Carmel Sepuloni

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Hon Grant Robertson
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