Inquiry into how public expectations for social services can be balanced against likely rising costs for these services

Recommendation

The report of the Social Services Committee makes the following recommendations to the Government:

- that improvements be made to government communication strategies regarding entitlements and changes to social services so that the public may better manage their expectations
- that the Government consider an increase in Goods and Service Tax, and whether GST could be removed from some food products
- that the age of eligibility for New Zealand Superannuation be reviewed
- that the Government consider expanding its recent purchase cards reforms to all beneficiaries
- that free healthcare for people under the age of 18 years be introduced
- that an inquiry into the availability of social services for migrants be initiated
- that more investment be put into helping young people (between the ages of 16 and 18 years) transition from school to work
- that further funding for apprenticeships be provided to reduce youth unemployment, and increase youth skill levels and opportunities
- that additional funding be targeted towards career advice facilities and financial literacy training in secondary schools
- that the Government conduct an inquiry into revoking the youth wage.

Introduction

The purpose of this report is to summarise the issues we considered in our inquiry into how public expectations for social services can be balanced against likely rising costs for these services.

Cost of social services

The Government is responsible for both providing social services and managing government expenditure. The cost of these services has been increasing with time in response to rising operational costs and an ageing population. Public social spending went from 19 percent of Gross Domestic Product in 2007 to 22 percent of GDP in 2012. In Budget 2013 approximately $23.6 billion or 33 percent of Crown expenditure has been allocated for social security and welfare alone.

Ageing population

People are having fewer children and living longer, which means that in the future a larger percentage of people will be aged over 65 years. Statistics New Zealand predicts that percentage will increase from the current 14 percent to around 26 percent by 2060.

With an ageing population the cost of social services, particularly those associated with health care and New Zealand Superannuation, will continue to increase. As tax revenue is likely to remain steady throughout the same period of time, we accept that the Government will need to look at ways to improve the fiscal sustainability of these types of social services.

Managing public expectations

The public have expectations when it comes to the delivery of social services. These expectations are based on differing views, values and beliefs about the Government's role in society. Reaching a consensus can often be difficult.

Many members of the public expect the Government to provide social services and that those services will be the ones that the public believes it wants and needs. Although meeting public expectations is important, our view is that through consultation public expectations need to adapt to accommodate the rising costs of social services and the restrictions this places on the Government. The public cannot expect the same level of social services to continue indefinitely, or that all current social services will always exist. Many can often agree that money should be targeted to those most in need, but how exactly this is to be done can be contentious.

If more efforts are made to consult, involve, and inform the public in the Government's decision-making processes it is likely that the public will have a better understanding of the need for the decisions being made, and the limits and constraints posed by the costs of these decisions. More involvement and participation will be likely to result in more realistic public expectations and in turn more satisfaction with the outcome of the Government's decisions. We consider that improving communication strategies to manage public expectations better would be invaluable.

Managing rising costs

We accept that the costs of social services are rising and are likely to continue to rise in the future. We also accept that the Government needs to manage these rising costs. Three ways to do this are to:

- increase the Government's revenue
- introduce strategies to support the Government's efforts to spend Crown revenue more efficiently
- review the types and numbers of social services that are available to ensure that money is spent where most needed.

Increasing revenue

By increasing Crown revenue the Government may be able to manage the rising costs of social services. The Treasury notes that increasing GST to 17.5 percent is a way to increase revenue. But to counter the effect this may have on lower socio-economic groups we consider that GST could be removed from some food products. We would support the Government initiating a review of GST.

Increasing efficiency

We heard about some initiatives to introduce efficiency measures to reduce the costs of social services. One measure would be to increase the use of online services, which would in turn reduce operating costs. Another was to encourage social service agencies to work more closely together to increase their cooperation, again with the aim of reducing operational costs.

Submitters told us that increasing spending in one area may have flow-on effects in other areas. For example, increasing spending for warmer, drier home initiatives may reduce the cost of health services. We heard from the Ministry of Social Development that an "investment approach" for young people can reduce their long-term risk of being unemployed and needing to go on to a benefit. We discussed whether the introduction of free health care for all children up to the age of 18 years would keep young people healthy and allow them to focus more in school and be better prepared for adult life. We believe that the benefits of such initiatives would have long-term financial benefits in addition to the health benefits.

Changing the eligibility criteria for specified social services can allow the Government to reduce the cost of these services. For example, the Treasury notes that one option is to change the eligibility criteria for accessing New Zealand Superannuation costs to manage the costs of this policy. Raising the age of eligibility to 67 years would see costs reduced, with the added incentive of encouraging older people to work for longer, thus increasing revenue. Some of us support this initiative. Others of us recommend that the Government look into a flexible retirement age.

We were supportive of recent government initiatives to ensure that young people budget and manage their benefits appropriately, which included ensuring that rent and power are paid directly out of benefits and providing cards for young beneficiaries to purchase food from authorised providers. This will reduce the likelihood these young people will be unable to meet their regular costs, thereby saving money by reducing the likelihood of their seeking emergency benefits or supplementary assistance. The Government could consider expanding this policy to all beneficiaries.

Our view is that initiatives like these will have long-term benefits for society while also helping to reduce the costs of social services. We support such initiatives.

Reducing costs

We note that in Australia, New Zealanders are not automatically entitled to access many basic social services. We are of the view that reviewing the eligibility criteria for migrants to access social services in New Zealand may be a viable way to reduce the costs of some of these services. We would support the Government initiating an inquiry into this area.

We accept that youth unemployment is a serious issue that needs addressing. We are aware that the long-term costs associated with youth unemployment have been a target of recent welfare reforms being implemented by the Ministry of Social Development. The ministry accepts there is no "one size fits all" approach, but considers that targeting spending towards support structures, like budgeting and parenting courses, and work training and seminars, will contribute greatly to helping young people to get into work and off the benefit, and will reduce the amount that would have had to be spent had these initiatives not been put into place. This will also encourage young people to take personal responsibility and become more independent.

We consider that more can still be done. We consider that teaching financial literacy and providing more intensive career advice before young people leave school would be greatly beneficial. Likewise, increasing the funding for apprenticeships and other training initiatives aimed at getting young people into work would also be beneficial for recent school leavers.

Income equality and the youth wage

The New Zealand Council of Social Services told us that income equality was the largest factor in poverty and the greatest driver for social services. It stated that the way to manage the rising costs of social services is to address inequalities, like poverty, and not to introduce punitive welfare reform. Its view is that the youth wage could be seen as a disincentive to young people, and that abolishing it could encourage more young people to get work experience and gain the skills necessary for the work force, instead of going on the unemployment benefit. Most of us were of the view that the youth wage should be revoked. We recommend that the Government conduct an inquiry into revoking the youth wage.

Appendix

Committee procedure

The committee met on 16 and 17 July 2013 to consider the inquiry. The committee received three written submissions, from the Ministry of Social Development, the New Zealand Council of Social Services, and Professor Gemmell, Chair in Public Finance, Victoria University of Wellington. We heard oral evidence from the Ministry of Social Development and the New Zealand Council of Social Services. Advice was received from the Ministry of Social Development.

Committee members

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Kate Gardner

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