

30 May 2013

Members
Social Services Committee

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

The Social Services Committee has been asked to conduct an inquiry into: “how can public expectations for social services be balanced against likely rising costs for these services?” This paper has been prepared to assist the Committee with its examination. The paper identifies issues and provides possible lines of inquiry for the Committee to consider. The Committee may also wish to raise these matters with the witnesses who have been asked to appear before the Committee to give evidence on this inquiry.

Introduction

The public has expectations about the coverage and availability of social services, particularly health, welfare and education. However, the availability of these services is accompanied by increasing costs for them, and current provision is happening in a period of financial and economic uncertainty. Within a limited budget, no government can meet all of the public’s expectations for social services, and it needs to decide how, and to what extent, it will use public funds for these services.

Decisions about entitlements to social services, or what support the government should provide, are influenced by values and political judgements. Views of both the public and government will differ and change over time on what is affordable, necessary, an entitlement, a human right, a risk or a need. In addition, as technology advances, different expectations emerge. For example, public services are becoming more accessible online which people, particularly youth, use on a daily basis. Regardless of how services are provided or which services are provided, governments can only do so much. Careful thought is required about how to best use resources within financial constraints to respond to public expectations for social services.

This paper looks at ways that governments can work to balance public expectations for social services against rising costs for them. First, this paper defines ‘social services’ and discusses the kinds of services available to young people. It then provides information about factors that are causing some of these costs to increase. Third, this paper discusses how the rising costs of social services can be managed and how the public’s expectations of these services may be influenced.

Social services available to young people

Some social services are available to everyone. Others are provided depending on a person's specific circumstances. For example, all New Zealanders have access to general health care, and all children are required to attend primary and secondary education which is mostly paid for by the government.

A number of social services are provided to help young people. For example:

- Youth One Stop Shops provide access to a range of services for young people in youth-friendly settings, including health, social, education and/or employment services at little or no cost to young people. The most common health services provided include general health/primary care, sexual and reproductive health, family planning and mental health services. Services ensure individual needs are addressed in a seamless and coordinated way.
- the government also subsidises health services for children, for example, visits to the doctor for children under 6 are free
- the government subsidises dental care for people under the age of 18
- primary and secondary education in New Zealand state schools is mostly paid for until the age of 19, and the government provides student allowances and loans to eligible young people so that they can access tertiary education
- the government also provides eligible 16 and 17 year olds with the opportunity to complete a range of vocational courses free of charge to help them get a job and go on to further education or training.

Are the costs for social services increasing?

One reason the cost of social services is increasing is an ageing population. Statistics New Zealand estimates that our population of 4.4 million will reach around 6 million by 2061. Families are having fewer children than before, and people are living longer on average. In the future more of the population will be aged 65 years or more. Statistics New Zealand estimate that over-65s will make up 26 per cent of the population in 2060 (currently they are about 14 per cent). Older people may be healthier and remain in the workforce for longer, but may also mean less tax revenue for the Government.

Health costs are also expected to increase as the population ages, and the wages of health workers have risen at a faster rate than other sectors. Increased future spending on older people may have impacts on what can be provided to, and what must be paid for.

How much do social services currently cost?

According to the Organisation for Economic Cooperation and Development (OECD), public social spending increased to an estimated 22 per cent of Gross Domestic Product (GDP) on average across OECD countries in 2012, up from 19 per cent in 2007.

In 2012, public social spending in New Zealand¹ accounted for 22 per cent of GDP (approximately \$45 billion²).

¹ Included in the OECD's estimates of New Zealand's public social spending is: ACC, New Zealand Superannuation, Family Tax Credits and Child Tax Credit, Housing New Zealand Corporation.

² The estimated figure for GDP in 2012 has been multiplied by 0.22 based on estimates from the OECD (of \$206,523 million).

In Budget 2013:

- a total of \$72 billion is expected to be spent and \$68 billion of revenue collected.
- \$24 billion was allocated for social welfare spending for 2013/14. The lifetime cost of the current beneficiary population has been estimated at \$NZ78 billion. Of this, the Government spends about \$10 billion a year on retirement income or superannuation, but this cost is predicted to rise significantly – from 4.8 per cent in 2013/14 to 7.8 per cent by 2059/60 of New Zealand’s national income or Gross Domestic Product (GDP) – due to our ageing population.
- \$12 billion was set aside for education spending in 2013/14
- \$15 billion was allocated for health spending. Health spending makes up a large proportion (21 per cent) of the government’s spending and has been growing faster than other costs for many years. Health costs could rise from around seven per cent of GDP in 2012 to around 11 per cent by 2060. According to 2010 OECD figures, New Zealanders paid for 10.5 per cent of their own healthcare while government contributed 83.2 per cent³.

Refer to Appendix 1 for further information on core Crown expenditure and revenue.

Should governments just manage rising costs?

There are various ways of dealing with rising costs, which can be separated into three groups: increasing the amount of money government collects and invests; using government money more effectively; and reducing spending.

Increasing the amount of money government collects and invests

Increasing how much money a government collects would assist to manage rising costs. This could be done through borrowing money or by increasing taxation levels.

Another way to increase the amount of money a government may have in the future is to establish a fund such as the Natural Disaster Fund or New Zealand Superannuation Fund. In this situation, money is invested and attracts interest creating a larger pool of money to be spent at a future time.

Using government money more effectively

There are a number of ways a government can use public money more effectively. Improving the way social services are run to gain the maximum value from every dollar spent is one way. An example of this is using online services to reduce the overall costs of providing services. Social services can also be integrated so that the overall cost of running the services can be shared and reduced. For example, locating similar services together in one place can save on accommodation costs and also allow easier access to services for the public (such as with Youth One Stop Shops or health and other social services provided in schools).

Ensuring that the areas a government invests in achieve the greatest social outcomes for the money spent is another way of using government money more effectively. Spending more in some areas can have positive flow on effects in other areas. For example, improving the quality of housing, may have significant positive impacts on people’s health by making houses warmer and drier and thereby preventing illness. This can lead to lower health costs in the long run. Helping young people at risk of coming on to a benefit may reduce the likelihood of them coming onto a benefit in the first place and of them staying on a benefit for a long time.

³ Private insurers contribute about 4.5 per cent, according to the Health Funds Association.

Reducing or reprioritising spending

Reducing spending can be done through reprioritisation, that is reducing spending in some areas and using this money to pay for social services elsewhere. In addition, a government can place constraints on how much is spent on certain types of social spending. For example, set budgets mean a government needs to prioritise the social services it will provide, and how these will be provided, i.e., at full cost or subsidised. The disadvantage of this is that set budgets can lead to limited funding for particular social services, which arguably can lead to social problems elsewhere. Another way to reduce spending is to redefine the scope of services that are funded. Evidence on how effective various services are can help to determine whether they are worth investing in. Removing some social services altogether is another option.

Or should public expectations be managed?

It can be difficult to balance the public's expectations for social services against the need to manage costs for them. Often expectations come down to a person's views, values and beliefs about the government's role in society. The nature of our democratic society takes into account people's varying views about how, for example, government funds should be redistributed. Some people believe that government should intervene more; others think government should intervene less and that a person should take responsibility for their own wellbeing.

Managing expectations

The public might have different expectations when they are involved in the government's decision making process, through being part of any consultations the government has when it is reviewing policies or thinking about new ones. When people participate in this process, they may have a better understanding of why governments make the decisions they do.

Managing people's expectations may also reduce the need for some services. For example, supporting people to find employment and placing greater obligations on those receiving benefit may encourage people to find employment or study so they no longer need to be on a benefit.

Providing information

When people have information about the decisions that government makes and understand how it make these decisions, they may have a better understanding of the differing tensions that governments face in deciding who should have which resources. For example, should the government stop paying for smoking-related health problems where people choose to smoke so that it can provide more to people who have health problems which they were born with?

In addition, providing information to people about how drink driving or drug taking, for example, can negatively affect them can help to lessen these types of behaviours, which can be costly to the government. Not only because they can cause accidents and wider social problems, but because they can be associated with health issues where social services are required.

Online information can be provided to the public and may change behaviour and expectations for social services, such as through Sorted. This website provides independent financial information and advice to help people spend their money more wisely and save for their retirement.

Sharing the costs

Other ways the public's expectations can be managed is by encouraging individuals to meet their costs, for example, having their own insurance. This spreads the cost across the population for some services, which would otherwise be paid for by the government, such as health. People who

have insurance are taking greater responsibility, rather than expecting the government to pay if something happens.

People could pay more taxes or levies to help pay for higher costs. For example, the Accident Compensation Corporation (ACC) collects levies from a range of users, such as through vehicle owners to pay for car accidents and from workers and employers to help pay for workplace accidents.

People on higher incomes could pay more so that people who need these services the most have more access to these services. This already happens to some extent with the Community Services Card, which allows people on low incomes to access primary health services and other community services, such as swimming pools, at a lower rate or for free.

Costs can also be shared by the public through donations towards social services or where they are provided or funded by non-government organisations. For example, private organisations could provide services or funds towards social services as part of their corporate responsibility. Community organisations could be funded to provide services at a lower cost (including ones that employ volunteers).

Report to the House

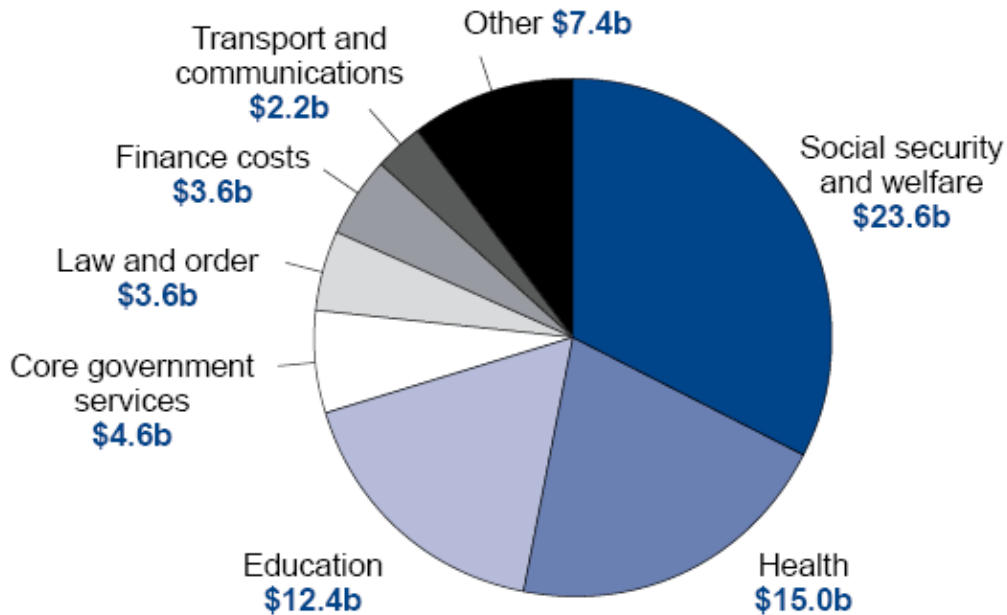
The Committee is required to report its findings on this inquiry to the House. The purpose of your report is first to inform the House and stimulate debate. In doing so, your report should reflect both the oral and written evidence the Committee received, the issues the Committee considered in-depth, and the views of the members. From these the Committee should develop conclusions and recommendations to the Government.

Michelle Sheriff and Verity de Joux
Report Writer
Youth Parliament 2013
Ministry of Youth Development

Appendix 1: Core Crown expenses and core Crown revenue

Where do core Crown expenses go?

2013/14: \$72.4b (31.8% of GDP)



Social security and welfare includes social assistance benefits such as NZ Superannuation, Jobseeker support and Emergency Benefit, Supported Living Payment and the Sole Parent Support.

Where does core Crown revenue come from?

2013/14: \$68.4b (30.0% of GDP)

Members may wish to ask:

- Should government manage rising costs or should public expectations be managed, or both?
- How should public expectations be managed, e.g., through managing expectations, providing information or sharing the costs?
- Is there a difference between types of services that should be provided? What should be considered as necessary and what should be considered as a 'nice to have'?
- Is there a difference between different groups of people and what they should or shouldn't receive? How could this be worked out?
- What services should young people be required to pay for? What social services should all young people have access to? What would be the benefits to society of providing these services to young people?
- Are there other ways the government can create a revenue stream, such as establishing a fund to help pay for social services? How might this work if the users are unlikely to be able to put money towards a fund?
- Which services could be integrated so government money is used more effectively?
- What are some alternative ways of paying for social services without reducing the costs of these services?
- How can services be provided so they are equitable for all generations, including older generations who may not have been aware of these issues when they were younger, and younger generations who are likely to be affected by these issues?
- How could the government encourage individuals to contribute more to those in need?

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- OECD. Public social spending rising in most OECD countries. <http://www.oecd.org/newsroom/publicsocialspendingrisinginmostoecdcountries.htm>

Ross Guest, Griffith University. Population Ageing, Productivity and Policies: A survey with implications for New Zealand. Paper presented at Affording our Future conference, 10 December 2012, Wellington. <http://www.victoria.ac.nz/sacl/about/cpf/publications/pdfs/1.7-Guest-paper.pdf>

Further Reading and weblinks

Commission for Financial Literacy and Retirement Income Position Papers and 2010 review of retirement income policy: <http://www.cflri.org.nz/retirement-income/current-projects>

Affording our Future conference 2012 papers and speeches:
<http://www.victoria.ac.nz/sacl/about/cpf/events/affording-our-future-conference-2012/papers>

Suggested keywords and phrases for internet search engines:

- The history of social services in New Zealand
- The cost of social services in New Zealand
- Managing future public spending
- Fiscal implications of New Zealand Superannuation
- Rising health costs in New Zealand
- The future of social services in New Zealand