

**Vote Social Development
Vote Youth Development**

BASELINE ALIGNMENT PROPOSAL

8 March 2010

Submitted by:

**The Minister for Social Development and Employment
The Minister of Youth Affairs**

Budget 2010: Baseline Alignment Proposal for Vote Social Development and Vote Youth Development

Executive Summary

The Baseline Alignment Proposal (BAP) for Vote Social Development and Vote Youth Development for Budget 2010:

- advances the Government's manifesto commitments for an unrelenting focus on work and a fair benefit system through the *Future Focus* package of reforms agreed to by Cabinet.
- supports the protection and well-being of our most vulnerable children and families, with an emphasis on being responsive to community need and delivering high quality services through the NGO sector. In this BAP, this initiative has the working title of the *Community Response Model*. It will be considered the Cabinet in the next few weeks.
- provides financial support for the *Whanau Ora* initiative being led by Minister Turia.
- manages key funding risks in the Social Development and Youth Development baseline, particularly managing the impact of funding that expires on 30 June 2010. The most significant item is the outyear costs of the extra case workers employed by Work and Income to deal with the impact of the recession on unemployment levels.
- meets the gross costs of the above initiatives from offsetting savings over the four year time horizon of the baseline.

while

- delivering savings to the Crown [*deleted – confidentiality of advice*]. This includes the return of \$27 million of surplus cash from the Ministry of Social Development's (MSD's) balance sheet.

Provision is also made in the BAP for MSD's costs for Budget initiatives being progressed by other Ministers, particularly:

- implementation costs of Student Loans and Allowances reforms being developed by the Minister for Tertiary Education,
- changes to Early Childhood Education, sponsored by the Minister of Education, and
- twenty additional medical training places, being developed by the Minister of Health.

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Section 1: Alignment to Government Priorities

This BAP for Budget 2010 focuses on delivering the key Government priorities identified in my exchange of letters with the Prime Minister in early 2010. These priorities are:

- delivering reforms to the benefit system to support an unrelenting focus on work and a fair system through *Future Focus*.
- supports the protection and well-being of our most vulnerable children and families, with an emphasis on being responsive to community need and delivering high quality services through the NGO sector, and
- supporting a new way to deliver social services through the *Whanau Ora* initiative being led by Minister Turia.

In addition, I have identified key risks within the Social Development baseline and I am proposing funding strategies for managing these risks.

Future Focus

The Cabinet has recently endorsed a package of integrated measures for an unrelenting focus on work and a fair system through the Future Focus package.

The Future Focus reforms have the following aims:

- getting people back to work as the economy picks up.
- reducing dependency on the benefit system.
- reinforcing mutual obligations – for the Government to help open up opportunities to work and learn skills and for individuals to have the responsibility to take up these opportunities, and
- recognising that some people are in genuine need of benefit payments.

The four year cost of the package is \$79.5 million, which has been met from a package of savings totalling \$79.5 million over four years. As agreed by Cabinet, the savings include:

- reducing income thresholds for childcare assistance.
- departmental savings (to meet the operational costs of the package), and
- the use of line-by-line savings to make up the funding shortfall.

The financial details of these changes are summarised on page 7 of this BAP.

The behavioural impacts of the Future Focus reforms are also expected to reduce benefit spending by an estimated \$107 million over the next four years. These savings will return to the Crown.

Community Response Model

Papers shortly before Cabinet propose a new approach to supporting vulnerable families through the *Community Response Model* initiatives which include:

- using Regional Panels to give local communities a real say in what family support services should be funded, and to support the rationalisation and modernisation of the social services sector with the use of a contestable fund.
- developing skills in the social services sector *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*, and
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

The four year cost of the package is *[deleted – confidentiality of advice]*, the full costs of which would be met from unallocated *Pathways to Partnership* funding. This movement of the *Pathways to Partnership* funding reflects the Government's commitment to shift this funding towards the delivery of front line services.

The financial details of these changes are summarised on page 7 of this BAP.

Whanau Ora

This initiative is being led by Minister Turia. I have made an allocation in this BAP for total funding of \$120 million over four years from Vote Social Development to be transferred to Whanau Ora. This funding would be met from *Pathways to Partnership* funding that is not currently allocated.

Managing Key Pressures in the Social Development baseline

In addition to the above, I have re-prioritised funding with Social Development baselines to meet the costs of the following key pressures:

- in July 2009 the Cabinet agreed to provide one-off funding of \$17.2 million for Work and Income to increase its capacity to deal with rising unemployment numbers. *[SOC Min (09) 15/6 refers]*. At the time, I undertook to meet the outyear costs from re-prioritisation within Social Development baselines. The outyear costs I am proposing to fund are \$21.8 million over the next two years, to be fully met from savings from the line-by-line review
- in July 2009, the Cabinet agreed to a \$1 million increase in the funding for Children's Health camps for 2009/10 only, with the question of longer term funding levels to be addressed through the line-by-line review. I propose to extend the additional \$1 million funding for Children's Health camps into outyears, with the costs being fully met from line-by-line review savings
- funding for a number of MSD programmes to support families and youth at risk expire on 30 June 2010. I propose to use savings from the line-by-line review to meet the full costs of extending funding for the Reducing Youth Offending Programme and the Early Years Service Hubs into outyears.

The total cost of these baseline pressures is \$33.4 million over four years. These costs are fully met from savings from the line-by-line review of the Ministry's

contracted services and from capital charge savings from the return of \$27 million balance sheet cash to the Crown¹.

The financial details of these changes are summarised on page 7 of this BAP.

The Ministry has committed to meet all other volume and internal cost pressures from existing baselines until 30 June 2012, using efficiency gains and reprioritisation. This commitment includes managing the outcomes of the collective employment contract negotiations due within the next 18 months.

Youth Employment

In 2009 the Government announced a *Youth Opportunities* package to support youth to find employment and skills through the recession. These elements of the package phase out by the end of the 2010 calendar year. The overall funding for Employment Assistance programmes, designed to assist the unemployed into skills or work, is decreasing from \$231.4 million in 2009/10 to \$186.9 million in 2010/11, in part because of the end of the *Youth Opportunities* package.

Youth unemployment rates are at historically high levels.

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Other

This BAP also includes:

- a “placeholder” to cover the costs of proposals for the reform of the student loans and allowances policy, the proposals for which are currently being developed by the Minister for Tertiary Education. The MSD operational costs would be offset by savings from the reforms, which would appear as savings in the Vote Education BAP. The costs for this reform are currently being developed.
- a similar placeholder for possible changes to Early Childhood Education policy settings, being led by the Minister of Education.
- the costs of loans and allowances associated with the Minister of Health’s proposal for an additional twenty medical training places.
- a “placeholder” for fiscally neutral adjustments to MSD’s departmental appropriations to more accurately reflect their full costs. These adjustments, including overhead re-allocations, are work in progress with the Treasury, who have suggested they be included in the BAP at this stage. Final proposals for

¹ I am proposing to return surplus cash of \$27 million to the Crown as part of the Budget 2010 package.
[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].

these changes will be submitted to the Treasury later in March 2010 once they have been worked through with the Treasury and me.

Savings to the Crown

This BAP returns total cash savings to the Crown of *[deleted – confidentiality of advice]* over the next four years as follows:

	Cash savings \$m over four years
Savings in benefit spending resulting from the Future Focus reforms	\$107.0m
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>	
Return of surplus balance sheet cash	\$27.0m
TOTAL	<i>[deleted – confidentiality of advice]</i>

Section 2: Reprioritisation

The attached A3 table shows the detailed year-by-year costs of the initiatives outlined in section 1 above and their funding sources.

In summary, the key elements of the strategy to meet the gross costs of the Budget 2010 Social Development package from savings are:

Initiative Costs over 4 Years	\$m	Source of funding over 4 years	\$m
Future Focus			
Increasing abatement thresholds for benefits	\$53.4m	Adjustments to childcare thresholds	\$57.0m
Increasing OSCAR supply	\$4.3m	Departmental savings	\$21.8m
Work and Income operational costs	\$21.8m	Line by line savings	<i>[deleted – Confidentiality of advice]</i>
Subtotal	\$79.5m	Sub-total	\$79.5m
Community Response Model		} Pathway to Partnership	\$348m unallocated P2P
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>			
Whanau Ora	\$120.0m		
Key Pressures in Social Development baselines (time-limited funding)			
Children's Health camps	\$4.0m	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>	<i>[deleted – confidentiality of advice]</i>
Reducing Youth Offending Programme and Early Years Service Hubs	\$7.6m		
Work and Income capacity for high unemployment levels	\$21.8m	Capital charge savings from the return of balance sheet cash	\$8m <i>[deleted – confidentiality of advice]</i>
Subtotal	\$33.4m	Sub-total	
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>			

This strategy recognises:

- the Government's stated intention to refocus the remaining *Pathway to Partnership* funding towards the delivery of front-line services

and that the remainder of MSD's baseline has been reviewed for savings as follows:

- the Ministry of Social Development has conducted three value-for-money reviews of its departmental baseline, and a fourth value-for-money review is underway. These reviews are focused on managing cost and volume pressures within the Ministry, as well as improving service delivery and reduced costs for clients.
- as part of its on-going value-for-money work, the Ministry is completing an analysis of its policy advice services.
- a line-by-line review has been conducted of the Ministry's contracted services, and this review has contributed to the savings identified above.

Details of Key Components of the Proposed Re-prioritisation

Pathway to Partnership

As part of this BAP I propose to re-prioritise the unallocated *Pathway to Partnership* funding, with a fiscally neutral re-spread of this funding over the next four years as follows:

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Line-by-Line and Capital Charge savings

Under the Treasury's capital charge regime, my proposal to return \$27 million of balance sheet cash will generate \$2 million of capital charge savings that can be retained within the Vote.

The table overleaf provides details of the savings I am proposing from the line-by-line review of contracted services. Note that \$0.500 million per annum of these savings are sourced from Vote Youth Development - these Youth Development savings will be transferred to Vote Social Development under the proposals within this BAP.

As part of this BAP I propose to re-prioritise the line-by-line and capital charge savings through a fiscally neutral re-spread of this funding over the next four years as follows:

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Detail of proposed line-by line savings

A Savings from a review of individual contracts

Item	\$m GST Exclusive					Description and Impacts
	10/11	11/12	12/13	13/14	Four year total	
Individual provider contracts that are finishing within the baseline period	0.575	1.355	1.355	1.355	4.640	These savings are drawn from one-off funding or contracts that are due to end within the baseline period. In each case, the provider has no expectation of receiving the same level of funding in the future, either because it was one-off funding, or because the provider is closing down the service or the provider is unable to meet contracted volumes, thus will receive funding for reduced volumes from 2010/11. From 2011/12, these savings include \$0.780 per annum of funding under the CYF Provider Development Fund. This funding is being retained in 2010/11 while an alternative funding avenue for provider development funding is implemented through the <i>Community Response Model</i> programme.
Individual contracts that are providing low Value for Money and/or effectiveness	0.585	1.085	1.385	1.935	4.990	<p>These savings end funding to providers that are failing to deliver contracted services or where funding is not for direct provision of services to clients.</p> <p>Services include:</p> <ul style="list-style-type: none"> • budget services provided by Prisoners Aid (Hamilton), Ngati Iwi Authority (Opotiki), and • Pregnancy Help (Auckland) where these providers are not providing the service as contracted. <p>A phase out of funding to the OSCAR Foundation over four years, and the cessation of the funding to the DARE Foundation from 2010/11. These reductions will not affect service delivery to clients as they do not directly provide services.</p> <p>These savings also include annual savings of \$0.5 million per annum within NDOE and DOE funding for MYD. This reduction can be absorbed without impacting on key deliverables.</p>
Individual contracts where there is excess capacity in current contracted levels	1.052	1.052	1.052	1.052	4.208	These savings represent funding for undersubscribed Vocational Services funded by Work and Income. These services cover Community Participation, Supported Employment, and Business Enterprise programmes contracted to providers across the country. These reductions will not impact on current clients as current participation is below contracted volumes. The potential impact on any one provider's viability will be mitigated by managing the reduction in volume across a range of providers in each region to prevent adverse impact on any single organisation.

B Savings from a review of national programmes

Item	\$m GST Exclusive					Description and Impacts
	10/11	11/12	12/13	13/14	Four year total	
Information and Advice services <i>[Deleted – Confidentiality of advice]</i>	0.380	0.540	0.557	0.557	2.034	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>
Trauma and loss related information, advocacy, advice services (Skylight)	0.081	0.081	0.081	0.081	0.324	This programme is funded through CYF, however its focus does not closely align with CYF client needs nor does it provide a direct service to clients.
OSS Extended services (delivered via 12 providers)	0.432	0.234	0.234	0.234	1.134	Funding supports OSS Extended Services providers over a three-year period while they become self-sufficient. The costs of the pilots will be absorbed within Work and Income and future providers can be supported through ongoing OSCAR assistance funding. Low impact on providers and service provision as this was a pilot and there is no plan to expand the service.
Children's Day	0.100	0.100	0.100	0.100	0.400	Savings represent 50% of current funding, funding for promotional and community activities for Children's Day which will continue to be delivered on a reduced budget.
Mainstream programme	1.020	1.020	1.020	1.020	4.080	The Mainstream programme provides opportunities for people with significant disabilities to gain meaningful, long-term employment within the State sector. It is not clear this programme is achieving concrete results. The 25% saving can be achieved by reducing the number of people supported, reviewing the subsidy level, or a combination of both.
Monitoring and evaluation of Vocational Services	1.500	1.500	1.500	1.500	6.000	This saving represents a 50% reduction in spending on the administration and monitoring of Vocational Services contracted by the Ministry. A reduction in monitoring of contracted services does not impact on the level of service delivery, and Work and Income will incorporate some of this function into its processes.
Family Start Study Awards	0.225	0.545	0.642	<i>[Deleted - Confidentiality of advice]</i>		These awards assist family/whanau workers and supervisors in Family Start sites to study part-time toward a tertiary qualification in social work, health, or early childhood education. The programme has largely fulfilled its purpose with approximately 80% of workers having either qualified or commenced training. Current students will continue to be supported through their degree. NGO Study awards are also available.

Item	\$m GST Exclusive					Description and Impacts
	10/11	11/12	12/13	13/14	Four year total	
CYF NDOE Baseline funding	0.710	0.710	0.710	0.710	2.840	This represents 2009/10 NDOE funding that is not allocated to providers.
CYF contingency fund	0.365	0.365	0.365	0.365	1.460	This funding is currently held as contingency for providers in extreme, unexpected circumstances and is not for ongoing service provision.
CYF Capacity and Capability Fund	2.580	2.580	2.580	2.580	10.320	This funding, for training to enhance capacity and capability in the NGO sector, has not been allocated and does not relate to direct service delivery. A new workforce development fund that will be available to providers is being established by the Minister under the Community Response Model proposals.
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>						

Section 3: Summary of Financial Movements

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