

The Treasury

Budget 2020 Information Release

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Treasury Report: Vote Social Development and Oranga Tamariki Budget 2020 Cost Pressures

Date:	5 December 2019	Report No:	T2019/3747
		File Number:	DH-3-19-1

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Note the contents of this report.	Monday 9 December 2019

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
[34]		[39]	N/A (mob) ✓
Sam Tendeter	Manager, Welfare And Oranga Tamariki		N/A (mob)

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any
feedback on
the quality of
the report

Enclosure: No.

Treasury Report: Vote Social Development and Oranga Tamariki Budget 2020 Cost Pressures

Executive Summary

This report covers both Vote Social Development and Vote Oranga Tamariki Budget 2020 cost pressures.

We have assessed the 13 cost pressure bids submitted by Minister Sepuloni seeking **\$650.764 million over four years** for Vote Social Development. [33]

The Ministry of Social Development (MSD) organised their 13 cost pressures into three groups. These are:

- More Effective Social Services (NGO funding);
- Underlying infrastructure (technology and property); and
- Three 'other' cost pressures (Children's Commission, Independent Children's Monitor, Out of School Care and Recreation programme).

Annex A provides you with funding options for the high and low packages.

A number of judgements have gone into the development of the high and low packages, the exact composition of funding (particularly across the NGO and 'other' bids) could be modified ahead of final decisions. In particular, further consideration is needed on the capacity of the sector to recruit new staff given current capacity constraints.

Cost pressures for the More Effective Social Services Package

We agree that there are genuine cost pressures faced by these social services. This is primarily due to significant increases in the numbers and complexity of clients who are accessing the services. There is also a significant strain on wages, especially for social workers. Many of these services have received no (or very little) funding for around a decade, while absorbing price and service demand increases.

The recommended packages are:

- High package: **\$263.020 million over four years**
- Low package: **\$243.240 million over four years**

We do not recommend funding at the low package due to the risk of service deterioration and service non-viability. The low package will invest in service continuity but will not address demand or price pressures to deliver services.

Underlying Infrastructure

There are two cost pressure bids focusing on reducing risk in critical systems. As signalled through the baseline review, ongoing investment will be needed in MSD's technology over the medium-long term. We have not differentiated between the high and low packages.

The recommended package is: **\$63.998 million operating over four years and \$59.968 capital.**

'Other' cost pressures

The package could improve the viability of the Out of School Care and Recreation programme (OSCAR) by offsetting historical inflationary pressures and support toward low socio-economic communities where services have been shutting down. This package also includes funding to ensure the sustainability of the Office of the Children's Commissioner and prevents the Independent Children's Monitor from facing a fiscal cliff in July 2021.

The recommended packages are:

- High package: **\$45.100 million operating over four years and \$0.250 million capital**
- Low package: **\$32.254 million operating over four years and \$0.250 million capital**

Oranga Tamariki cost pressure bids

Minister Martin submitted five cost pressures totalling **\$309.405 million operating over four years** and **\$26.665 million capital** funding for Budget 2020, within the Children's portfolio. Of these bids:

- a One is to meet the increasing costs of meeting the needs of children in care [33]
- b One is for corporate cost pressures [33]
- c One is to address cost pressures facing the NGO sector [33]
- d Two are related to handling of personal information and complaints [33]

The recommended packages are:

- High package: **\$270.783 million operating over four years and \$26.665 million capital**
- Low package: **\$253.003 million operating over four years and \$26.665 million capital**

Recommended Action

We recommend that you:

- a **note** the contents of this report.

Sam Tendeter
Manager, Welfare and Oranga Tamariki

Hon Grant Robertson
Minister of Finance

Treasury Report: Vote Social Development and Oranga Tamariki Budget 2020 Cost Pressures

Purpose of Report

1. The purpose of this report is to provide background information ahead of your discussion with Treasury officials on 9 December 2019 to discuss Vote Social Development and Vote Oranga Tamariki's cost pressure initiatives for Budget 2020.
2. This report provides:
 - An overview of cost pressures submitted for Budget 2020 for Social Development and Oranga Tamariki; and
 - Treasury initial assessments of the submitted initiatives.
3. The following annexes are attached:
 - Annex A provides funding options for Vote Social Development cost pressures;
 - Annex B provides funding options for Vote Oranga Tamariki cost pressures;
 - Annex C provides a table outlining the recommended funding for MSD's More Effective Social Services package and what the high and low packages will address.

Context: Vote Social Development

4. Minister Sepuloni submitted 13 cost pressure bids totalling **\$650.764 million** for Budget 2020, within the Social Development portfolio. No cost pressures were submitted for the other portfolios within Social Development (Youth and Seniors). Of these bids:
 - Seven bids are for **more effective social services** (NGO funding) seeking a total of [33]
 - Three bids are for **underlying infrastructure** (technology and property) [33]
 - Three '**other**' **cost pressures** (Children's Commission, Independent Children's Monitor, OSCAR) [33]

More Effective Social Services Package

5. The seven More Effective Social Services initiatives seek a total of [33]

6. Our overall assessment of those bids is that there are genuine cost pressures faced by these social services. This is primarily due to significant increases in the numbers and complexity of clients who are accessing the services. Many of these services have received no (or very little) funding for around a decade, while absorbing price and service demand increases. MSD and Oranga Tamariki received both cost pressure and new initiative funding for their social service providers in Budget 2019, (a combined \$12.9 million per annum for cost pressures, and \$99.5 million per annum for new initiatives). This funding provided a 3.75% uplift to the value of contracts and gave struggling services some small relief, but did not address these significant pressures, or enable those services with high proportions of social workers to offer competitive wages, following the Oranga Tamariki social worker pay equity settlement in 2018.

The recommended packages are:

- **High package: \$263.020 million operating over four years**
- **Low package: \$243.240 million operating over four years**

7. An overview of each initiative is outlined below:

Community Services: Ensuring timely access for victims of family violence (Joint Venture)

8. This initiative seeks funding to improve the service response to each client ensuring victims of family violence have access to safety services, which provide the help they need, when they need it. MSD sought [33] million over four years. We haven't differentiated between the funding recommended in the high and low packages.

The recommended package is: \$149 million operating over four years

Community Services: Reduce waitlists for family violence perpetrators to access specialist services (Joint Venture)

9. This initiative aims to meet urgent demand and eliminate current waitlists for clients seeking access to specialist services for perpetrators of family violence. MSD sought [33] million over four years. We have not differentiated between the funding recommended in the high and low packages.

The recommended package is: \$16 million operating over four years

Community Services: Addressing demand for response services for victims of elder abuse (Joint Venture)

10. This initiative seeks funding for elder abuse response services (EARS) to enable them to be appropriately resourced to provide safe services to older people who are victims of elder abuse. MSD sought [33] million over four years. We have not differentiated between the funding recommended in the high and low packages.

The recommended package is: \$25 million operating over four years

11. The three family violence initiatives outlined above (**victims services, voluntary perpetrator treatment services** (ie. not mandated by the Court), and **elder abuse services**) are facing similar pressures and the methodology MSD used to determine the pressures is consistent across these three bids. Most of the resource sought would be directed to three things:

- a Pay increases: the aim would be to restore historic relativities to OT social workers. MSD provided clear evidence that a significant proportion of the family violence workforce are either registered social workers (or equivalent professionals such as, Psychologists) or un-registered but qualified social workers (where their organisations simply do not have the resources to fund their registration and accreditation). This would mean that the average family violence NGO social worker would be paid around 20% less than an OT social worker, and other family violence workers (eg. Peer support workers) would be paid around 15% less again. These are still challenging and often high stress roles with (predominately) vulnerable women and children. We have phased the pay restoration over three years. A consistent approach was taken for the Oranga Tamariki initiative.
 - b Increased staffing to meet presenting demand (ie those that reach out or show up at the door): for many years family violence agencies have been dealing with presenting demand by increasing caseloads [34] which reduces the support that can be provided to each client, or through carrying wait lists (which is highly unsatisfactory where there is actual harm occurring or high risk that it will). Although demand is projected to continue to grow over the forecast period, the cost pressure bids do not seek funding to cover this, they are only seeking funding to address existing demand.
 - c Organisational sustainability: the final (and smallest) component of these cost pressure bids seeks to improve the viability of family violence services through providing increased funding for overheads to enable proper support (eg. professional supervision) and development for staff, administration and compliance costs, and resources to maintain and develop refuge houses.
12. Our recommended funding package does scale these services (see Annex A for funding sought and recommended) given the significant pressures on the allowance. The approach we have taken to scaling is primarily to further phase the implementation of the increased investment (given the need to recruit and train new personnel), so year four (and outyear) funding is close to what was sought by MSD. This means existing presenting demand would be fully met by the end of the forecast period. If funded, this would be the most significant investment in core family violence services in many years, and would provide a solid foundation for building improved and more coordinated family violence services in this country.

Community Services: Keeping community-based services open for disabled people

- 13. This initiative seeks to address the increasing cost pressures experienced by community-based services for disabled people funded by MSD. MSD seeks funding to offset unfunded inflationary pressures since 2007 and ensure all current clients are able to access the hours they are entitled to. In addition, funding is sought to address the reduction of service availability. MSD sought [33] million over four years.
- 14. We agree there are cost pressures on providers due to unfunded inflationary pressures. However, we do not support funding for future inflationary pressure as this is the approach Treasury is taking across all initiatives (however, we recognise certainty of long-term funding for the sector is an issue). We have seen evidence that for some service providers, volume has increased by 600%. The funding recommended will ensure all existing clients are able to access to the hours they are entitled to. We are aware that there are expected to be many more people in New Zealand eligible for a disability service who are not current clients (the extent of this is unknown).

15. Investment into the vocational and community-based day programmes, where many of the providers provide services, will result in ongoing access for clients to participate in the wider community, through individualised plans such as going to the swimming pool or attending a schools public performance. Access to these types of programmes within disability services gives over 10,000 clients the opportunity to feel part of the community and improves their overall wellbeing. We agree that these services promote positive wellbeing outcomes for disabled people.

The recommended packages are:

- **High package: \$43.300 million operating over four years**
- **Low package: \$29.200 million operating over four years**

16. The low package will provide a [25] uplift for current disability services only. There is a strong case to fund these initiatives at the high package level. The high package provides sufficient funding to enable all existing clients to access their eligible hours in addition to addressing some of the demand pressures being experienced due to increasing waiting lists for services. The risk of scaling this initiative below the low package is that some clients will continue to not have access to their entitled hours and demand volumes beyond current clients will not be addressed.

Community Services: Funding for under-served communities in regional New Zealand – Heartlands and Information and Advice services

17. This initiative supports services in rural and provincial areas to ensure clients in these areas can access a broad range of government and non-government services. The initiative seeks funding for an additional 60 full-time equivalent staff (FTE), one per site and 2 MSD FTE to be dedicated to support services. MSD sought [33] million over four years.
18. We have seen evidence that all 60 sites have faced increasing demand above contracted volumes and have had to manage increasingly complex hardship issues faced by clients in rural communities. We support funding for 60 FTE which will allow sites to employ full-time coordinators and alleviate pressure on rural services to reduce hours or increase existing waiting lists.
19. A review of the Heartland Services and Information and Advisory Services was undertaken from May 2019 to June 2019. The key finding was these services have demonstrated value, use and endurance over time. Providers and clients of Heartland Services have expressed the need for the continued provision of these services in their communities, as there are often a limited number of services in these areas. We agree that strengthening, enhancing, and expanding these services will better support those in rural regions by increasing community cohesion and reducing social isolation; particularly in communities facing increasingly complex social challenges by enabling effective access to services.

The recommended packages are:

- **High package: \$18.100 million operating over four years**
- **Low package: \$17 million operating over four years**

20. The low package funds the 60 FTE costs but does not fund the additional operating costs for staff training. There is an option to phase this investment into rural services across multiple budgets. Further scaling options are available.

Community Services: Addressing demand and funding pressures for Building Financial Capability (BFC)

21. This initiative provides an uplift to BFC core services. The BFC service model supports key vulnerable groups experiencing hardship such as Māori and Pacific people and sole parents (often women). Funding is sought to alleviate some pressures faced by all 131 providers through providing a 5.05% uplift to offset historical inflationary pressures since 2010 and to fund 54 sites at 0.75 of an FTE. MSD sought [33] million over four years.
22. We agree there are cost pressures on providers due to unfunded inflationary pressures. However, we do not support funding for new spending components included in this initiative. [25]

We support funding for the 54 sites to be funded at 0.75 of an FTE which will fund an additional 22 mentors in total. We also support funding for the 5.05% uplift for all 131 providers to begin addressing the demand pressures.
23. BFC has an existing evaluation in place (2017-2022) therefore we do not support the evaluation component of this bid. However, it is worth noting that interim evaluations have highlighted positive outcomes for clients including 56% of those clients surveyed feeling they are in control of their debt and 48% on track to achieve their financial goals.

The recommended packages are:

- **High package: \$9.700 million operating over four years**
- **Low package: \$7.040 million operating over four years**

24. The low package funds the 22 mentors to reach 0.75 of an FTE but does not address the demand pressures being experienced by providers. If you scale beyond the low package it is likely that the 54 sites funded at less than 0.75 of an FTE will cease service delivery. [33]

Community Services: Strengthening capability of social sector providers

25. This initiative supports the four peak bodies and umbrella organisations in the social sector. The funding sought seeks additional FTE to allow the four umbrella organisations to fulfil their function as support for the community sector providers through providing training, quality assurance, capability building activities, and the development and dissemination of policies and procedures. MSD sought [33] over four years.
26. We view this initiative as low priority within the More Effective Social Service package. Despite this, we agree that the peak bodies and umbrella organisations are facing increasing cost pressures due to engagement on complex government work programmes such as the Joint Venture. We support funding for an additional 3 FTE to provide capability to these organisations to enable them to continue fulfilling their functions.

The recommended packages are:

- **High package: \$1.920 million operating over four years**
- **Low package: No funding in low package**

27. Annex C provides a table outlining the recommended funding for the four MSD initiatives relating to the More Effective Social Services package in both the high and low packages and what the investment will address. This Annex highlights the reasons why investment is needed in Budget 2020.

Underlying Infrastructure (Technology and Property)

28. Minister Sepuloni submitted three 'underlying infrastructure' cost pressures [33]
29. Minister Sepuloni has submitted two technology-related cost pressure bids, focused on reducing risk in critical systems. As signalled through the baseline review, ongoing investment will be needed in MSD's technology over the medium-long term.
30. We remain focused on ensuring that the strategic risk of investing does not outweigh the current operational risk. Moreover, we also consider the agency's capacity and capability to deliver. It is important that there is a clear strategic direction, which aligns with the Government Chief Digital Officer's (GCDO) investment principles and the Te Pae Tawhiti business case underway.
31. We have worked with GCDO when developing our initial assessments; however, we have not yet seen the business case for these initiatives.

Critical service delivery systems

32. This initiative seeks to fund agile teams for one year to identify and make improvements to processes that rely on aging and high-risk systems. MSD sought [33] million operating over four years and [33] million capital.
33. MSD have significant technical debt leading to high operational risk in core income support systems. This initiative is about reducing reliance on legacy systems; the risk itself will remain. We are supportive of this approach though remain focused on understanding how this aligns with the broader strategic choices around income support modernisation. We support a scaled-down funding to test and validate this approach. We have not differentiated between the high and low packages.

The recommended package is: High and low package: \$11.550 million operating over four years and \$11 million capital

FMIS and Payroll (joint bid with Oranga Tamariki)

34. This initiative seeks funding for the replacement of the financial accounting and payroll systems for both MSD and Oranga Tamariki. MSD sought [33] million operating over four years and [33] million capital.
35. We acknowledge there is a high level of risk in the current systems, particularly payroll. We are supportive of the planned adoption of the common process model. However, we share concerns with GCDO that further work is needed to develop a target-operating model. We support scaled funding for one year to allow MSD and Oranga Tamariki to further develop and test options. We have not differentiated between the high and low packages.

The recommended package is: High and low package: \$14 million operating over four years and \$12 million capital

Completing interior security fit-out programme for the safety of clients and staff

36. This initiative stems from a funding gap for the security fit-outs across the remaining MSD sites. The security fit-out is part of the steps necessary for the Ministry to comply with its obligations under the Health and Safety at Work Act 2015. We have recommended funding the total amount sought in both the high and low packages.
37. The funding gap was clearly signalled at the time the business case was approved and noted again through the baseline review process. There is little scope to scale funding as the costings are on a per-site basis, and there is little capacity for MSD to fund the project from within baselines. The cost estimates in the bid are based on actual costs from the initial tranches of delivery. We have not differentiated between the high and low packages.

The recommended package is: High and low package: \$38.448 million operating over four years and \$36.968 capital

38. There are limited options to further phase or stagger the timing of fit-outs, as funding sought is for the remaining tranche of sites (55 in total). Sites would need to be closed to reduce overall costs.

Other Cost Pressures

[33]

The recommended packages are:

- **High package: \$45.100 million operating over four years and \$0.250 million capital**
- **Low package: \$32.245 million operating and \$0.250 capital**

40. An overview of each initiative is outlined below:

Continued viability of Out of School Care and Recreation (OSCAR) service providers

41. OSCAR supports parents with childcare so that they can seek employment or training. MSD seeks funding to maintain service levels, offset unfunded inflationary pressures since 2014 and establish new services. MSD sought [33] million over four years.
42. We agree there are cost pressures on providers due to unfunded inflationary pressures. However, we do not support funding for future inflationary pressure. [33]

We have not differentiated between the high and low packages.

The recommended package is: High and low package: \$9.6 million operating over four years

Office of the Children's Commissioner: Addressing cost pressure and additional capacity

43. This initiative seeks staff for the Strategy, Rights and Advice and Monitoring teams. Funding is also sought for capacity for a Deputy Māori Commissioner role, corporate services and some capital funding for website and document management. [33]

44. We agree that additional staff will be needed to help fulfil obligations under Optional Protocol to the Convention against Torture (OPCAT). [25]

The recommended packages are:

- **High package: \$4 million operating over four years and \$0.250 million capital**
- **Low package: \$2 million operating over four years and \$0.250 million capital**

[33]

Establishing and Operating the Independent Children's Monitor (ICM)

46. The Independent Children's Monitor (ICM) has received funding until 2020/21. This initiative seeks funding beyond 2020/21 to ensure the ICM has the capacity to fulfil their legislative requirements. Specifically, this initiative seeks to establish the OCC's baseline into out years (a total of 65 FTE) which MSD have said are required for when the Monitor becomes fully operational in July 2021. [33]
47. We agree there will be a fiscal cliff if the ICM isn't funded for 2021/22 as they will be unable to fulfil their legislative requirements. We support funding to continue the ICMs baseline for 21/22 and 22/23 (38 FTE).

[33]

The recommended packages are:

- **High package: \$31.500 million operating over four years**
- **Low package: \$20.654 million operating over four years**

49. There is a significant risk if you scale this initiative further as one year of funding for the ICM does not provide sufficient certainty to plan into outyears. [33]

Impacts of Further Scaling Below Treasury's Low Package

50. The level of risk varies according to the initiative if you intend to undertake further scaling below the current low package. The table below orders initiatives from highest to lowest risk:

High risk

51. The table below indicates the bids we consider **high risk** if scaling/deferring or not funding for Budget 2020:

Bid Title	Risks of scaling/deferring or not funding for Budget 2020
Completing security fit-out programme for the safety of clients and staff	<ul style="list-style-type: none"> • Delay risks not meeting legislative requirements for remaining 55 sites. • Continue exposure for the Crown from not taking 'all reasonably practicable' steps to improve staff and client safety.
Joint Venture – More Effective Social Services: Cost Pressure funding for Refugees and Services for Victims/Survivors of Family Violence	<p>Many of these services are managing high levels of growing demand while operating on an unsustainable basis. Further scaling or deferring may mean:</p> <ul style="list-style-type: none"> • Refuges close • Crisis services cannot be delivered in a timely manner • Unsafe work practices continue increasing risks to staff, women and children <p>The speech from the throne committed to more funding for Women's refuge and Shakti. Further scaling or deferring this investment may be considered failing to deliver of this commitment (although small funding increases have been provided in the previous two budgets).</p>
Joint Venture – More Effective Social Services: Elder Abuse Response Services	<ul style="list-style-type: none"> • Long wait lists to access support for elderly people experiencing abuse • Inadequate service and support for those seeking help • Attrition of qualified Social Work workforce
Keeping Community-Based Services open for disabled people	<ul style="list-style-type: none"> • Eligible clients unable to access service due to demand volumes • Service quality and delivery deterioration • Some clients receiving less hours of service than they are entitled to
Joint Venture – More Effective Social Services: Specialist Service for Perpetrators of Family Violence	<ul style="list-style-type: none"> • Unmet demand for treatment, risking continued or escalating violent behaviours • Unsafe work practices due to volume pressures
Establishing and operating the Independent Children's Monitor	<ul style="list-style-type: none"> • The ICM will have uncertainty of funding and face a fiscal cliff in July 2021. • The ICM will be unable to meet their legislative requirements.

Medium risk

52. The table below indicates the bids we consider **medium risk** if scaling/deferring or not funding for Budget 2020:

Bid Title	Risks of scaling/deferring for Budget 2020
Funding for Underserved communities in regional New Zealand	<ul style="list-style-type: none"> • Loss of access for rural clients through reduction in service hours and some services ceasing altogether • Continuing shift of face-to-face services to virtual services
Addressing Demand and Funding Pressures for Building Financial Capability	<ul style="list-style-type: none"> • [25] <ul style="list-style-type: none"> All other sites will also continue to experience price and demand pressures leading to more service failure • Clients with increasing complex hardship unable to access services where and when they need them • Providers unable to hire, retain and train employees to manage increasingly complex hardship issues presented by clients • Expected legislative changes intended to protect debtors may put further pressure on current providers (from 2020)
Reducing Risk in Critical Systems (critical service delivery)	<ul style="list-style-type: none"> • Continue to carry risk in critical systems
Joint Ministry of Social Development and Oranga Tamariki bid to reduce risk in critical systems (FMIS and Payroll)	<ul style="list-style-type: none"> • Continue to carry risk in critical systems
Enhancing OSCAR Service Viability and Sustainability	<p>[25]</p> <ul style="list-style-type: none"> • People in low-socio economic areas will lose access to the service.

Low Risk

53. The table below indicates the bids we consider **low risk** if scaling/deferring or not funding for Budget 2020:

Bid Title	Risks of scaling/deferring for Budget 2020
Strengthening capability of social sector providers	<ul style="list-style-type: none">• Peak bodies and umbrella organisations unable to provide quality advice and support to members on capability building, staff training, and impact of legislative changes• Government's Sector-specific work programmes will not have adequate engagement and input from peak bodies and umbrella organisations
Office of the Children's Commissioner – Strengthening monitoring and system-level advocacy functions	[33]

54. There are a number of bids with funding levels differentiating between the low and high cost pressure packages. Annex C provides what the different packages provide for MSDs four More Effective Social Service bids. [33]

Context: Vote Oranga Tamariki

55. Minister Martin submitted five cost pressures totalling \$309.405 million operating over four years and \$26.665 million capital funding for Budget 2020, within the Children's portfolio. Of these bids:

- a One is to meet the **increasing costs of meeting the needs of children in care** [33]
- b One is for **corporate cost pressures** [33]
- c One is to address **cost pressures facing the NGO sector** [33]
- d Two are related to **handling of personal information and complaints** [33]

Discussion: Significant Oranga Tamariki Cost Pressure Initiatives

56. This section provides further analysis on the three most significant cost pressure initiatives submitted by Oranga Tamariki. We have not presented further analysis on the two initiatives related to the handling of personal information and complaints.¹

Demand cost pressure

57. This initiative seeks funding for two components to:

- meet the increasing costs of keeping children in care and meeting their needs. A 3.5% increase is sought to meet price pressures, created in particular by demand for bed nights in a market of limited supply. This has resulted in new providers entering the market and charging higher rates. [33]
- care for a steady cohort of severely disabled children and young people where legislative change (the repeal of section 141 of the Oranga Tamariki Act) has transferred funding responsibility from Health to Oranga Tamariki. The care of these children and young people is now subject to the Care Standards Regulations 2018. [33]

58. Oranga Tamariki received a 19% increase in funding for children's care costs (first component) in Budget 2019, to meet both demand and price pressures. [25]

59. We support full funding for the cohort of disabled children and young people. [25]

Oranga Tamariki have not been able to articulate how they would re-prioritise funding if this initiative was not funded in full, or which services would not be delivered and for which children. Given the 19% increase delivered through Budget 2019, we have scaled the children's care costs component to reflect a 2% uplift, which is aligned with the general increase in CPI.

The recommended packages are:

[33]

¹ We provided information on these two initiatives in the report to support your bilateral discussion with Minister Martin on 3 December [T2019/3553]. We recommend funding [33] the *operating costs for the Compliments, Complaints and Suggestions IT system* (supported by GCDO analysis), and scaled funding for the *provision of personal information under the Privacy Act and management of claims and complaints* (at a minimum the level included in the Budget Team High Package).

Corporate cost pressure

60. This initiative seeks funding for three components:
- a The increased costs of rents, insurance and shared services provided by MSD. [33]
 - b Remuneration pressures driven by employment agreements that OT is required to meet. [33]
 - c Accumulated depreciation for OT's family homes which was not provided when OT was established in 2017. [33]

61. [25]

The initiative has been scaled to only fund [33] of the workforce for the remuneration pressure component (the workforce covered by collective agreements and therefore limited discretion around funding). We have not differentiated between the high and low packages.

The recommended package is: High and low package: \$94.131 million operating over four years and \$26.390 million capital.

Community Service Providers – Supporting Social Service Delivery [33]

62. This initiative seeks funding to address cost pressures for Prevention and Early Intervention services across two components:
- a An uplift over two years to restore the 20% differential in pay between NGO and statutory social workers, which has been unbalanced when the latter received pay equity in 2018. [33]
 - b Funding to support general year-on-year cost pressures faced by social service providers. [33]
63. Cost pressures have been managed in the past by NGOs negotiating down service volumes with Oranga Tamariki. Oranga Tamariki has indicated that the increasing pressures on social service providers has impacted the ability of providers to deliver effective support for tamariki and whānau, and constrained providers' ability to maintain critical organisational capabilities, such as investing in staff training and development.
64. This initiative has been scaled in the High and Low Packages, only including the restoration of the pay differential and slowed over three years. We have not differentiated between the high and low packages.

[33]

65. OTs bid aligns with MSDs More Effective Social Services package which supports the delivery of social services by non-government organisations. We understand OT and MSD have taken a consistent approach in costing their budget bids for Budget 2020.

Annex A: Funding Recommendations for Cost Pressures Submitted by Vote Social Development

Bid Title	Department			Low package			High package		
	Opex avg	Opex total	Capex total	Opex avg	Opex total	Capex total	Opex avg	Opex total	Capex total
More Effective Social Services Package									
Community Services: Reduce waitlists for family violence perpetrators to access specialist services (FVSV)	[33]			4.000	16.000	0	4.000	16.000	0
Community Services: Ensuring timely access for victims of family violence (FVSV)				37.250	149.000	0	37.250	149.000	0
Community Services: Addressing demand for response services for victims of elder abuse (FVSV)				6.250	25.000	0	6.250	25.000	0
Community Services: Funding for under-serviced communities in regional New Zealand				4.250	17.000	0	4.525	18.100	0
Community Services: Keeping community-based services open for disabled people				7.300	29.200	0	10.825	43.300	0
Community Services: Strengthening capability of social sector providers				0	0	0	0.480	1.920	0
Community Services: Addressing Demand and Funding Pressures for Building Financial Capability				1.760	7.040	0	2.425	9.700	0
Underlying Infrastructure									
Reducing risk of critical systems – critical service delivery systems				2.887	11.550	11.000	2.887	11.550	11.000
Joint Ministry of Social Development and Oranga Tamariki bid to reduce risk in critical systems (FMIS and Payroll)				3.500	14.000	12.000	3.500	14.000	12.000
Completing interior security fit-out programme for the safety of clients and staff				9.612	38.448	36.968	9.612	38.448	36.968
Other									
Office of the Children’s Commissioner: addressing cost pressure and additional capacity				0.500	2.000	0.250	1.000	4.000	0.250
Continued viability of Out of School Care and Recreation service providers				2.400	9.600	0	2.400	9.600	0
Establishing and Operating the Independent Children’s Monitor				5.164	20.654	0	7.875	31.500	0
Total	125.09	541.962	100.067	84.873	339.492	60.218	93.029	372.118	60.218

Annex B: Funding Recommendations for Cost Pressures Submitted by Vote Oranga Tamariki

Bid Title	Department			Low package			High package		
	Opex avg	Opex total	Capex total	Opex avg	Opex total	Capex total	Opex avg	Opex total	Capex total
Demand Cost Pressures for Oranga Tamariki	[33]	[33]	[33]	[33]	[33]	[33]	[33]	[33]	[33]
Corporate Cost Pressure for Oranga Tamariki				23.533	94.131	26.390	23.533	94.131	26.390
Out-Year Operating Costs for the Compliments, Complaints and Suggestion System			-	\$0.900	\$3.600	-	0.900	3.600	-
Supporting Service Delivery - Provision of Personal Information Under the Privacy Act & Management of Claims & Complaints			-	\$0.300	\$1.200	-	0.725	\$2.901	-
Community Services Providers - Supporting Social Service Delivery Cost Pressure			-	[33]	[33]	[33]	[33]	[33]	[33]
Total	\$77.351	\$309.405	\$26.665	\$63.251	\$253.003	\$26.665	\$67.696	\$270.783	\$26.665

Annex C: MSD's More Effective Social Services High and Low Package Investments

Bid Title	Funding Recommended by Treasury in low package (\$m over four years)	Cost Pressures the low package funding will address	Funding Recommended by Treasury in high package (\$m over four years)	Cost Pressures the high package funding will address	Why is funding needed?
Keeping community services open for disabled people	29.200	<ul style="list-style-type: none"> \$29.2 million to offset historical inflationary pressures since 2007 	43.300	<p>[25]</p> <ul style="list-style-type: none"> Ensure clients who are not receiving their eligible hours are receiving them 50% of current waitlist for clients eligible for the service but due to volume are not being provided a service 	<p>[25]</p> <ul style="list-style-type: none"> 2018 and 2019 data shows the number of clients has increased by 600% in some cases <p>[25]</p>
Funding for under-served communities in regional New Zealand	17.000	<ul style="list-style-type: none"> 60 FTE only. One FTE per site. 	18.100	<ul style="list-style-type: none"> Addressing the sustainability and viability of Heartland and Information and Advice services in 60 rural locations with 60 FTE and operational costs 2 MSD FTE to monitor and engage with services Services will all remain a face-to-face service Sites that have reduced their hours will restore back to normal hours 	<ul style="list-style-type: none"> 400% increase in demand above contracted volumes in 2016/17 and a 550% increases in 2018/19. Ensure services who have reduced hours can manage increasing volumes and return to original hours. Prevent services from moving to a virtual service. This would result in lost access for many rural people, many of whom are seniors who would not have the IT skills to access a virtual service.
Building Financial Capability	7.040	<ul style="list-style-type: none"> 22 mentors funded at 0.75 of an FTE 	9.700	<p>[25]</p> <ul style="list-style-type: none"> 22 mentors funded at 0.75 of an FTE 	<p>[25]</p> <ul style="list-style-type: none"> Providers are spending more time with clients due to increasingly complexity of hardship Building Financial Capability supports 35,000 NZers which is increasing in volume across all 131 provider sites.
Supporting social sector providers	0	<ul style="list-style-type: none"> No funding in low package 	1.920	<ul style="list-style-type: none"> Funding for 3 FTE to help peak bodies and umbrella organisations fulfil their functions Peak bodies and umbrella organisations will be in a position where they can engage in government work programmes if required 	<p>[25]</p> <ul style="list-style-type: none"> These organisations will be able to engage and provide input into Government work programmes as required, including those of the Joint Venture.
Total	53.240		73.020		