

The Treasury

Budget 2024 Information Release

September 2024

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- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
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- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
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Treasury Report: Whaikaha in-year funding issue (Budget 2024 cost pressures)

Date:	Saturday 23 March	Report No:	T2024/782
		File Number:	

Action sought

	Action sought	Deadline
Hon Nicola Willis Minister of Finance	<p>Indicate your preferred approach to agreeing funding to address cost pressures for Whaikaha and ^[37]</p> <p>Indicate if you want to adjust the funding in the budget package</p>	Monday 25 March

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Laura Browne	Senior Analyst, Welfare And Oranga Tamariki ^[39]	^[35]	✓
Laura King	Acting Manager, Welfare And Oranga Tamariki		

Minister's Office actions (if required)

<p>Return the signed report to Treasury.</p> <p>Refer to the Minister for Disability Issues</p>

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Whaikaha in-year funding issue (Budget 2024 cost pressures)

Executive Summary

Whaikaha has an existing forecast overspend of between \$49 and \$65 million for the 2023/24 financial year. Whaikaha announced a range of changes to services on Monday 18 March which were partly motivated by fiscal sustainability. These changes may reduce spending in the current year, though it is very difficult to quantify.

Additionally, at your bilateral with the Minister of Disability Issues last week,^[37]

Both issues are extremely time sensitive, and will require immediate action to address. Please note this advice was prepared under tight timeframes with limited information. We are seeking your feedback on Monday 25 March to address these two problems.

We understand that your preference is to take an early decision on the 2023/24 cost pressures rather than dealing with it through the Budget Cabinet paper. This advice provides you with options around how to proceed:

1. ^[37]

and Cabinet delegating authority to Joint Ministers or SOU on Wednesday for 2023/24 for the full cost pressure.
2. Alternatively, Whaikaha advise that if they can get a signal from Ministers on Monday ^[37], then both decisions can be delegated to SOU or Joint Ministers.
3. On Monday, Cabinet agrees to all of the 2023/24 cost pressure ^[37], as an oral item with financial recommendations tabled by Minister Simmonds with you as endorsing Minister.

Please note that the forecast spending track which forms the basis of the 2023/24 cost pressure may change as a result of the rules changes/tightening of criteria announced on Monday. But we expect this would result in a lower spending track but the quantum we are unlikely to get further assurance around the exact expected impacts before Monday.

Impact on broader cost pressures

You also have a choice around whether you want to adjust the level of funding allocated to Whaikaha in Budget 2024 for 2024/25 onwards. We will give you advice on that as part of the Budget process.

Recommended Action

We recommend that you:

a **indicate** your preferred approach to agreeing funding to address cost pressures in 2023/24 and ^[37]

i. Provide approval for additional expenses under S26(b) ^[37], and then get Cabinet to delegate power to act to SOU or Joint Ministers for 2023/24 for the full cost pressure.

Yes/no

ii. If not urgent, request on Monday that Cabinet delegates authority to Joint Ministers, or SOU on Wednesday, to approve both the costs pressures and ^[37], and that Minister Simmonds brings an out-of-cycle Cabinet paper for both issues, or

Yes/no

iii. On Monday, Cabinet agrees all of the \$80m as an oral item, with financial recommendations tabled by Minister Simmonds with you endorsing;

Yes/no

b **note** that if your preference is to provide S26(b) approval, officials will work to quickly provide the relevant letters for your and Minister Simmonds to formalise this;

c **note** that Treasury will provide further advice on level of any implications for Whaikaha cost pressure in Budget 2024 as part of the Budget advice

d **refer** this report to the Minister for Disability Issues

Refer/not referred.

Laura King
**Acting Manager, Welfare and
Oranga Tamariki**

Hon Nicola Willis
Minister of Finance

_____/_____/_____

Treasury Report: Whaikaha in-year funding issue (Budget 2024 cost pressures)

Purpose of Report

1. This report responds to a request from your office for options to address issues relating to Whaikaha's existing funding shortfall in 2023/24, ^[37]

- 2.

[37]

Existing forecast overspend in 23/24

9. Disability Support Services are delivered through a demand driven and devolved operating model. Since at least 2017/18, the actual cost of delivering these services has exceeded the funding allocated (except for 2020/21 where there was additional COVID funding). The higher than anticipated demand has been addressed through a combination of transfers from within Vote Health (prior to 2018/19), in-year funding through the Budget process, and/or approval of overspending by the Minister of Finance, or validation by Parliament.
10. To mitigate the risk of overspending, Whaikaha sought \$70 million through Budget 2024 for the current financial year as part of its broader cost pressures bid. At the time the bid was submitted, this included:
 - a \$50 million for the forecast unexpected expenditure (based on estimate in December), and
 - b \$20 million as a funding buffer (to acknowledge the significant uncertainty in forecasting costs because of the devolved model – e.g., there can be significant delays in invoicing).
11. The most recent update from Whaikaha is that it is forecasting an overspend of between \$49 and \$65 million in 2023/24.
12. The options are:

a [37]

nd Cabinet delegating SOU or Joint Ministers power to act on Wednesday for 2023/24 for the full cost pressure.

b Alternatively, [37]

both decisions can be delegated to SOU or Joint Ministers with the power to act.

c Cabinet agree all of the 2023/24 cost pressure, [37]

as an oral item with financial recommendations tabled by Minister Simmonds with you as endorsing Minister.

13. We will work with Whaikaha to lodge this Cabinet paper on Monday. Appendix One provides draft financial recommendations for this paper.
14. [37] this can be transacted via a letter from Minister Simmonds countersigned by you. We will work quickly with her officials to draft this for prompt turnaround.
15. Given the timeframes, we do not propose that Whaikaha use that paper as the vehicle to initiate work on the longer-term programme to address fiscal sustainability and reset the direction of travel, however we consider this should remain a priority.

Impact of changes to flexibility

16. On 18 March, Whaikaha announced two key changes to manage increased demand. These changes involve changing purchasing rules for flexible funding supports and changes to prioritisation and access to Equipment and Modifications Services. Note that the decisions had not been taken by the Minister for Disability Issues when we met with you to provide the background briefing on Vote Social Development on 28 February 2024. We understand that they were progressed at pace at the request of the Minister for Disability Issues.
17. Whilst the measures related to flexible funding may have a positive impact on Whaikaha finances, the full impact of the changes will take some time to realise, and the changes are also designed to maintain confidence that disability support funding is being used for the purposes it was appropriated for. The changes to flexibility will need to remain in place regardless of whether funding is provided to meet the expected unappropriated expenditure.

Confirming total quantum for Whaikaha Cost pressure initiative (#15618).

19. [33]

20. You have a choice around whether to keep the funding in the package the same or increase it slightly to reflect this higher demand. We will give you further advice on options as part of Budget process.

Appendix One: Draft financial recommendations (if taken as verbal item to Cabinet on Monday)

We recommend that you:

1. **note** that Whaikaha – Ministry of Disabled People (Whaikaha) forecasts that it will exceed its multi-category appropriation (Supporting Tāngata Whaikaha Māori and Disabled People) by up to \$80 million in 2023/24, comprising:
 - a. higher than anticipated demand for community-based supports, such as Individualised Funding and Personal Budgets,
 - b. higher than anticipated costs for people in community based residential care; and
 - c. higher than anticipated expenditure on for Equipment and Modification services;
2. ^[37]
3. **note** that Whaikaha cannot commit to additional funding in 2023/24 while facing a forecast overspend, because they do not have financial authority to increase forecast expenditure;
4. **agree** to increase funding for Whaikaha to address higher than anticipated demand for services for the remainder of 2023/24;
5. **approve** the following changes to appropriations to give effect to the decision in recommendation 4 above, with a corresponding impact on the operating balance and net debt:

	\$m – increase/(decrease)				
Vote Social Development Minister for Disability Issues	2023/24	2024/25	2025/26	2026/27	2027/28 & outyears
Multi-Category Expenses and Capital Expenditure					
Supporting Tāngata Whaikaha Māori and Disabled People					
<i>Non-departmental Output Expenses:</i>					
Residential-based support services	29.800	-	-	-	-
Community-based support services	42.000	-	-	-	-
Environmental support services	8.200	-	-	-	-
Total Operating	80.000				

6. **agree** that expenses incurred under recommendation 4 above be charged as a pre-commitment against the Budget 2024 operating allowance;
7. **agree** that the proposed changes to appropriations for 2023/24 above be included in the 2023/24 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
8. **agree** in principle to transfer underspends up to \$30 million from 2023/24 to the 2024/25, 2025/26, and 2026/27 financial years within the *Supporting Tāngata Whaikaha Māori and Disabled People* multi-category appropriation; and
9. **note** this funding does not negate the need for changes to limit flexibility introduced on the 18 March 2024 by Whaikaha.