

Chair
Cabinet Social Policy Committee

ESTABLISHMENT OF THE MINISTRY FOR VULNERABLE CHILDREN, ORANGA TAMARIKI – TRANSITION ARRANGEMENTS: ALLOCATION OF CAPABILITY AND APPROPRIATIONS, AND ARRANGEMENTS FOR CORPORATE SERVICES

Proposal

- 1 This report sets out the proposals for the allocation of existing capability between the Ministry for Vulnerable Children, Oranga Tamariki and the Ministry of Social Development to give effect to the roles, responsibilities and functions Cabinet has mandated for each agency.
- 2 It also outlines the approach to the provision of corporate services for both agencies and seeks agreement to additional funding to support the delivery of these services.

Executive summary

- 3 In May 2016, Cabinet agreed to the creation of a new, stand-alone agency to provide a single point of accountability for services for vulnerable children and young people and to drive the transformation of the vulnerable children's system. It was agreed that the new agency, the Ministry for Vulnerable Children, Oranga Tamariki (MVCOT), will have a focus on commissioning and delivering child-centred services that prevent or respond to incidences of vulnerability, supporting vulnerable children and young people to fulfil their potential, and promoting the integration of services across the system.
- 4 In July 2016, Cabinet decided which of the functions currently within the Ministry of Social Development should be transferred to the new agency. It also directed that officials report back in October 2016 on the institutional arrangements to support the new agency and on the steps to implement the transfer of functions to the new agency. This paper reports on decisions taken to implement Cabinet decisions to date and sets out the final decisions required by Cabinet to support those arrangements.
- 5 The transformation of the vulnerable children's system is a four to five year programme of work. Streams of work are underway to develop national care standards for caregivers, early enhancements to care, transition support services to help young people into independence once they leave care, and the practice framework for the new operating model.
- 6 Updates on these streams of work will be provided through a series of report back to SOC and the Ministerial Oversight Group which I chair. This includes a paper on the service and design operating model for MVCOT to SOC in November 2016. A separate paper will also be provided to Ministers in November setting out options for governance to support future social system leadership.
- 7 The functions and services that are currently the responsibility of the Ministry of Social Development (MSD) which Cabinet allocated to the new agency will transfer from 1 April 2017. The Chief Executives of MVCOT and MSD have agreed the allocation of existing MSD

capability between the two agencies to ensure each agency has sufficient capability to support its functions and that MVCOT can operate effectively from its inception.

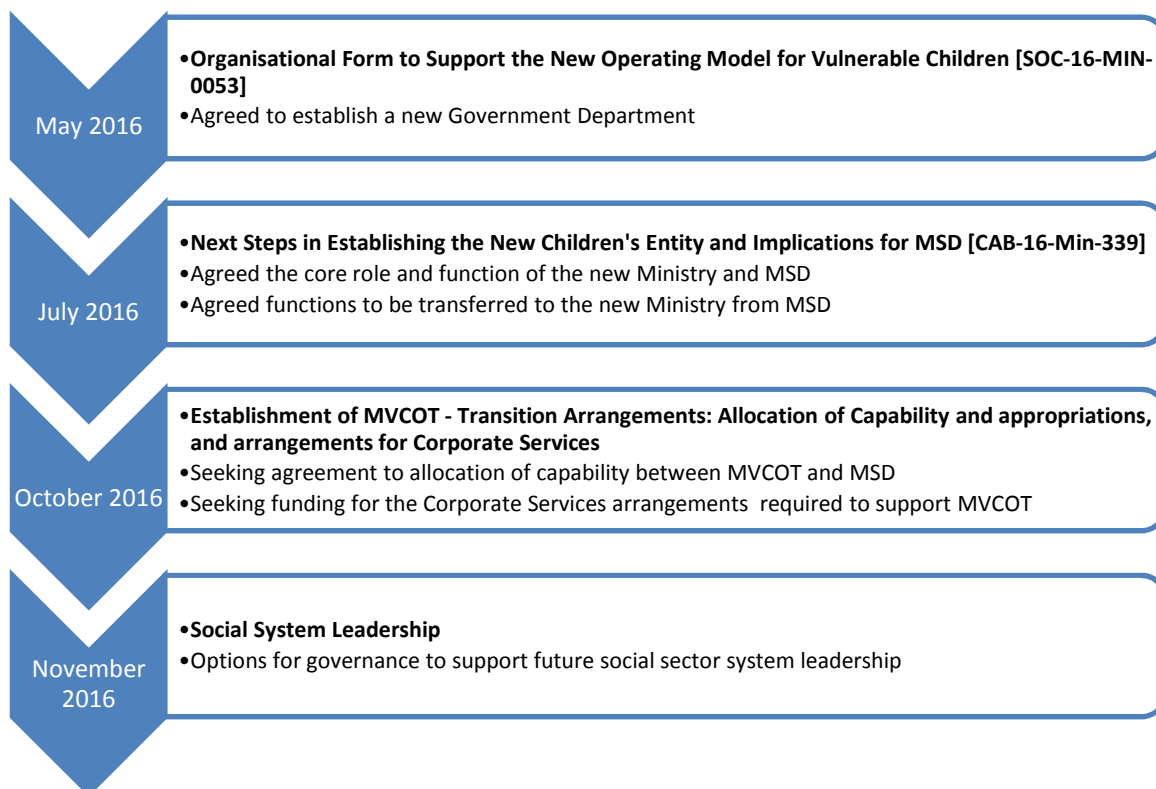
- 8 The Chief Executives of MVCOT and MSD have also agreed an operating model for the delivery of corporate services to ensure MVCOT has access to the levers (strategic and operational) it needs to drive the level of internal and system change required to achieve Government's objectives. Each agency will have corporate capability embedded to manage its strategic direction, the design and delivery of core functions, and to manage significant operational risk. A shared services arrangement will also be established whereby MSD will provide transactional and routine services to MVCOT. This will include a small group of services for which access to scarce skills and capability is needed. A joint management approach for these services will allow both agencies to direct the priorities, focus and investment decisions of the service.
- 9 The separation of functions that arises from the decision to create a new stand-alone agency means that additional capability will be required to support the effective provision of corporate services for MVCOT. These costs are driven by the need to establish the necessary organisational management and governance functions within MVCOT, the costs associated with the provision of shared services, and the additional capability required to support MVCOT to achieve government outcomes.
- 10 An annual funding shortfall of \$22.133m has been identified in the level of corporate capability MVCOT will require to meet expectations and accountability requirements. Agreement is sought to fund this annual shortfall, with the drawdown phased as the corporate services model is implemented.
- 11 The transfer of functions and capability to MVCOT requires the creation of a new Vote in line with the requirements of the Public Finance Act. Work is underway on the split of the existing MSD balance sheet between the two agencies and to ensure MVCOT has sufficient funds to manage its expenditure for the final quarter of the 2016/17 financial year.
- 12 The transition of functions and capability to MVCOT directly or indirectly impacts on approximately 5,000 staff in operational and corporate areas. For the majority of the impacted staff, this will be a straight forward transfer to the new agency or a change in reporting line within MSD. A people transition process has been developed and will form part of the consultation process with staff and the unions. Staff will be informed of the outcome of the change process by early December 2016.

Background

- 13 In March 2016, Cabinet agreed to a fundamental overhaul of the child protection system and the introduction of a new operating model for services for vulnerable children and young people [SOC-16-MIN-0022].
- 14 In May 2016, Cabinet agreed to establish a new stand-alone entity to provide a single point of accountability for the new operating model [SOC-16-MIN-0053] and in July 2016, Cabinet approved the roles, responsibilities and operational functions of the new entity, noting the consequent changes to those of MSD [CAB-16-MIN-0039]. Cabinet also noted that further work was required to determine the corporate services that would need to be embedded within the new entity, and those that will be provided by MSD to the new entity for at least the first two years of its operation. This approach is intended to allow the new entity to focus on the front-line operational changes required under the new operating model as it becomes

established. Cabinet agreed the new entity be named the Ministry for Vulnerable Children, Oranga Tamariki in August 2016 [CAB-16-MIN-0039].

15 The following diagram provides an overview of decisions to date, and those to come:



16 This report sets out the final decisions required in October to support the transfer of staff and functions to ensure that MVCOT is operational from 1 April 2017.

Allocation of capability to support the functions of each agency

17 Following Cabinet agreement to the roles, responsibilities and functions of each agency in July 2016 (as set out in Appendix A), officials have identified how capability is currently allocated to that function or role within MSD. The Chief Executives of the two agencies have agreed the re-allocation necessary to ensure each agency has sufficient capability to support its functions and is fit for purpose.

18 The high level allocation of full-time equivalent (FTE) staff¹ in line with key functions is as follows:

MVCOT Function	FTE	MSD Function	FTE
Statutory Care and Protection	2,071	Social Housing, Welfare and Employment Support	4,816
Youth Justice Services	757	Office for Seniors and Services for Seniors	18

¹ The allocation of FTE staff numbers and the corresponding appropriations to each agency in this paper are as at 30 September 2016 and do not include contractors (who will be included as project costs) or vacancies. The numbers are subject to minor adjustment as staffing numbers fluctuate

Adoptions and International	5	Office for Disability Issues	7
Children's Action Plan	59 ²	Social Sector Policy	16
Policy	36	Policy	91
Community Investment	166	Community Investment	70
Other (including High and Complex needs, funding for services to support vulnerable children and young people)	91	Other (including Fraud/Overpayments, concession cards, contract management and Simplification)	757
Corporate Services	132	Corporate Services	332
		Shared Corporate Services	669
Total FTE	3,317	Total FTE	6,776

- 19 The allocation of FTEs between the two agencies is straight forward in most areas such as the statutory care and protection, youth justice services and Children's Action Plan directorate and Children's Teams, where the entire team or area will transfer to MVCOT. A more detailed review was required to allocate the capability currently within the Community Investment and Policy groups in line with the roles and functions previously agreed.

Allocation of Community Investment capability

- 20 Within the Community Investment group, services that focus on supporting vulnerable children and young people will transfer to MVCOT, while services that focus on supporting adult members of a family, wider community engagement, and the Ministry for Youth Development, will remain with MSD. The Approvals function for contracted social service providers (including its cross-government accreditation function) will also remain within MSD as part of the shared corporate services approach.
- 21 Through Community Investment, MSD currently manages around \$318m worth of contracts with non-government and community groups for the delivery of social services, with \$241m of this transferring to MVCOT in line with the functional allocations. To reduce disruption to providers through this transition, it is proposed that these contracts remain with MSD until the end of the 2016/17 financial year.
- 22 The Community Investment Strategy will continue to drive purchasing decisions relating to the non-government and community sectors. The operating model between the two agencies is being developed to ensure that contracts with providers will continue to be streamlined and integrated where practicable and an engagement strategy for providers is being prepared.
- 23 The table below provides a high level breakdown of the current Community Investment capability by service category. This includes the final allocation of capability and services relating to family and sexual violence services agreed by the Minister for Social Development in consultation with the co-Chair of the Family/Sexual Violence Ministerial Oversight Group.

² CAP FTE numbers exclude those staff working in CAP who are paid by their home agency

Community Investment	\$ Million ³		
	MVCOT	MSD	Total
NGO Provider payments - Departmental⁴			
Care and Protection Services	53.0	-	53.0
Care and Protection Services - Prevention Services	0.3	-	0.3
Youth Justice Services	33.5	-	33.5
Investing in Communities	3.1	1.9	5.0
NGO Provider payments – Departmental (A)	89.9	1.9	91.8
NGO Provider payments - Non-Departmental			
Counselling and Rehabilitation Services	13.3	3.6	16.9
Education and Prevention Services	7.0	1.7	8.7
Family Wellbeing Services	73.7	11.2	84.9
Strong Families and Connected Communities	57.1	50.7	107.8
Increasing Youth Development Opportunities	-	8.2	8.2
NGO Provider payments - Non Departmental (B)	151.1	75.4	226.5
Total contracted services and provider payments (A+B)	241.0	77.3	318.3
Departmental Operational Funding – Community Investment	17.5	10.5	28.0
Total Expenditure managed by Community Investment	258.5	87.8	346.3

Allocation of appropriations

- 24 The establishment of MVCOT in the final quarter of the 2016/17 financial year requires the allocation of an interim baseline to represent the 1 April 2017 position for MVCOT and a baseline for the 2017/18 financial year and outyears to take effect on 1 July 2017.
- 25 To ensure MVCOT has access to its required funding for Day One, this paper seeks delegated authority to the Ministers of Finance and Social Development (joint Ministers) to approve the actual splits by appropriations and use of Imprest Supply in November 2016, following confirmation of the Vote appropriation structure for MVCOT. The split of appropriations will be confirmed in the 2017 March Baseline Update process with any final adjustments and reconciliations agreed by joint Ministers and included in the 2016/17 Supplementary Estimates of Appropriations.
- 26 In principle approval is sought for the following allocation of appropriations for 1 April – 30 June 2017 based on the functions and capability each agency will have. The allocation reflects the full baseline voted in Budget 2016 for MSD, less the three months of funding transferred to MVCOT.

³ Funding allocation is based on 2016/17 appropriations

⁴ Community Investment manages \$86.6m of departmental funding on behalf of Child, Youth and Family. This amount is already included in the Child, Youth and Family baseline, within the Care and Protection Services and Youth Justice services departmental appropriations

2016/17 Appropriations by Class	\$ Million			
	MVCOT (1 April – 30 June 2017)	MSD (1 July 2016 – 31 March 2017)	MSD (1 April- 30 June 2017)	Total
Departmental Output Expenses ⁵	146.5	580.2	43.0	769.7
Departmental Other Expenses	3.6	10.9	-	14.5
Multi-Category Appropriations				
<i>MCA – Departmental</i>	-	523.2	174.4	697.6
<i>MCA - Non -departmental Expenses</i>	-	639.0	213.9	852.9
Non-Departmental Output Expenses	-	274.1	57.4	331.5
Non-Departmental Other Expenses	-	73.1	23.6	96.7
Benefit or Related Expenses	-	5,116.2	5,135.7	20,251.9
Departmental Capital Expenses	-	62.5	41.1	103.6
Non- Departmental Capital Contributions	-	1,520.3	309.4	1,829.7
Total Baseline 2016/17	150.1	18,799.5	5,998.5	24,948.1

- 27 In principle approval is also sought for the allocation of appropriations to MVCOT and MSD from 1 July 2017 for the 2017/18 financial year based on the proposed allocation of functions and capability. The actual splits by appropriations will be approved in November 2016 by joint Ministers and finalised in the 2017/18 Estimates of Appropriations.

2017/18 Appropriations by Class	\$ Million		
	MVCOT	MSD	Total
Departmental Output Expenses ⁶	590.3	171.7	762.0
Departmental Other Expenses	17.0	-	17.0
Multi-Category Appropriations (MCA)			
<i>MCA - Departmental</i>	-	672.9	672.9
<i>MCA - Non -departmental Expenses</i>	-	940.3	940.3
Non-Departmental Output Expenses	147.5	174.9	322.4
Non-Departmental Other Expenses	-	96.8	96.8
Benefit or Related Expenses	-	20,778.1	20,778.1
Departmental Capital Expenses	-	76.5	76.5
Non- Departmental Capital Contributions	-	1,865.3	1,865.3
Total Baseline 2017/18	754.8	24,776.5	25,531.3

- 28 These allocations are based on the 2016/17 appropriation allocations to MSD through Budget 2016 and may be subject to change for the 2017/18 financial year, such as changes relating to the end of time-limited funding.

Operating model for the provision of corporate services

- 29 Appropriately configured corporate services are an important element of ensuring both agencies are fit for purpose. Corporate services range from those services that are integral to driving the strategic direction of the organisation or are critical to managing operational risk,

⁵ This includes the Children's Action Plan appropriation for 2016/17 of \$12.0m

⁶ This includes the Children's Action Plan appropriation for 2017/18 of \$11.2m

through to those transactional, routine services that support business as usual arrangements⁷.

- 30 The Chief Executives of MVCOT and MSD have agreed an operating model for the delivery of corporate services that ensures MVCOT has access to the strategic and operational levers it needs to drive the level of internal and system change required to give effect to the new operating model. Corporate services will be provided through two approaches:
- services that are embedded in each agency
 - services that will be provided by MSD to MVCOT through shared services arrangements tailored to the nature of the function provided.

Embedded Services

- 31 Each agency will have capability embedded to manage its strategic direction, the design and delivery of core functions, and to manage significant operational risk. These services will be the direct responsibility of each agency. Examples include strategic human resources, communications, strategy and governance functions, ministerial services, and strategic IT and finance capability.

Shared Services Arrangements

- 32 Services will be provided through a shared services arrangement when the functions are largely transactional and operational in nature and efficiency gains can be made through economies of scale and scope. A shared services arrangement will also be used for those services for which access to scarce skills and capability is needed and it is possible to combine assets and resources to improve overall delivery of the service to both agencies. Examples include payroll, recruitment, routine IT and finance functions, property and facilities management, library and research services, legal services relating to advocacy and litigation services, and risk and assurance services.

Allocation of existing corporate services

- 33 The table below sets out the proportion of services that will be managed through each approach and an indicative distribution of FTE numbers across both agencies. Future adjustments to the shared services allocations may be agreed by Chief Executives as the model is embedded and evolves. Through this model, 61% of existing corporate services will be provided through a shared services arrangement.

	Embedded MSD	Shared Services	Embedded MVCOT	Total
Estimated % of cost of service	21.8%	60.9%	17.3%	100%
Estimated total cost (\$m)	47.8	133.6 MSD – 91.5 MVCOT – 42.1	38.0	219.3
Indicative FTE distribution	332	669	273 ⁸	1,273

⁷ MSD corporate services cover strategy and governance, risk and assurance, complaints and insights, ministerial services, communications, CE Office and corporate management, human resources, learning and development, finance, procurement, IT, legal, data and analytics (insights), property and facilities, health safety and security, information security, and information privacy

34 MVCOT and MSD will each require embedded capability in the areas of research and data analytics to ensure they can deliver on Government's objectives. The introduction of actuarial valuations and data-driven funding approaches is highlighting the need for greater investment and capability in research and analytics functions across the public sector. MVCOT is developing a new actuarial valuation for vulnerable children, while MSD continues to implement the actuarial valuations for welfare and social housing and develop an integrated actuarial approach to manage these liabilities. To support this work, each agency will have research and analytics functions embedded, but will share access to the data recorded and managed in the MSD Information Development Unit.

Building effective corporate services functions within each agency will require funding

35 The separation of functions that arises from the decision to create MVCOT as a stand-alone agency means that additional capability will be required to support the effective provision of corporate services for MVCOT to ensure it has the capability required to deliver on Government's expectations and to meet accountability requirements.

36 In total, a funding shortfall of \$22.133m per annum has been identified, approximately 11% of the total corporate services budget for both agencies. These costs can be broadly grouped into three areas:

- costs associated with the establishment of MVCOT as a stand-alone agency (\$10.780m per annum)
- costs to support the provision of shared services (\$1.596m per annum)
- additional capability required to support MVCOT achieve government outcomes (\$9.757m per annum).

37 The rationale and drivers for each set of costs is set out below. The costs have been attributed to each agency based on an analysis of existing MSD corporate services allocations. A comparison of the allocations has been made against similar large public sector agencies using the benchmark of administrative and support functions (BASS) data where this is available. This comparison showed that the allocations to MVCOT and MSD are lean and cost-effective given the scale and nature of the functions of each agency.

38 It is important to note that as both agencies implement their new operating models and embed their structural changes, the way corporate services are provided and funded within each agency may evolve as efficiencies are found and residual capability is combined.

Costs to establish MVCOT as a stand-alone agency

39 As a stand-alone agency, MVCOT requires a new Chief Executive and new Tier 2 and 3 positions for corporate services functions. It will also require dedicated resources for organisational management and governance support for its strategy and planning functions, ministerial support and communications, similar to that currently within MSD. Based on current salary levels, this is expected to be approximately \$10.780m per annum.

⁸ This includes the additional positions required for the provision of corporate services within MVCOT

Shared Services delivery costs

- 40 Providing services to a third party on this scale is a new function for MSD and new capability estimated at \$1.596m per annum will be required across both agencies to successfully establish and operate the new arrangements. This funding is required to manage the interface between the two agencies, the development and monitoring of multiple service level agreements and performance standards, and to manage workload prioritisation and resolution of issues. The funding will be allocated to MVCOT, with the additional capability required within MSD to support these services funded through service level agreements.

Additional capability costs required to support MVCOT to achieve government outcomes

- 41 Additional funding is required to ensure that MVCOT has the capability it needs to develop and successfully implement Government priorities and to position it to manage the transformation over outyears. There are three core areas that will need additional funding to support Government outcomes – human resources, IT and research and analytics. The additional costs associated with these areas are expected to be approximately \$9.757m per annum.
- 42 A core focus of MVCOT will be changing the culture to support a fully child-centred operating model, refocusing staff and services, upskilling staff where required, and recruiting for new skills and services for the future. MVCOT will need a similar level of human resources capability to that currently within MSD to support these changes, particularly in the people inclusion and culture areas and to support the additional work required by the learning and capability development group.
- 43 MSD will manage routine and operational IT functions on behalf of both agencies, however strategic, planning and performance IT functions need to be embedded within MVCOT to ensure it can plan the role IT will play in its future strategic direction and operating model. This is critical for MVCOT as it looks to modernise its IT systems and architecture to enhance the new operating model, including actively pursuing ‘asset lite’ and ‘as-a-service models’.
- 44 As set out above, both agencies will need strong research and analytics functions to support the management of the respective actuarial valuations and data-driven funding approaches. Additional funding is required to ensure MVCOT has the capability it needs in this area and within the Information Development Unit to meet the additional MVCOT demand for service.

Out-of-cycle agreement to the corporate services funding is required to ensure MVCOT is operational from 1 April 2017

- 45 In order to ensure that the operating model agreed by the Chief Executives of MVCOT and MSD is effective from 1 April 2017, work to implement it will need to begin immediately. Certainty over the funding for the corporate services arrangements is required to ensure necessary systems, processes and capability are in place for Day One. As the implementation timeframes are not aligned to the standard Budget processes, out-of-cycle agreement to the additional funding is sought.
- 46 Should the additional funding not be confirmed at this time, both agencies will face operating risks. A reprioritisation of MSD outcomes on an ongoing basis would be required to ensure it has sufficient capability to support its function of providing shared corporate services to MVCOT. The additional resources for MVCOT in the areas of human resources, strategic IT

and research and analytics services are key enablers to drive the level of change necessary to achieve Government's objectives for the transformation of the vulnerable children's sector.

- 47 The corporate services operating model costs will begin to accrue from 1 April 2017 and gradually increase as MVCOT builds its corporate capability, additional staff are recruited and the corporate services model is fully implemented. It is anticipated that MVCOT will get to its full corporate capability requirement by 2018/19. Other costs associated with ensuring MVCOT is operational from Day One, such as establishing new email addresses, system changes to payroll, and initial branding, are being met from within existing baselines and the Transformation budget.
- 48 It is proposed that funding be set aside from the Budget 2017 operating allowance for the provision of corporate services from 1 July 2017 with a corresponding impact on the operating balance as follows:

Initiative Name	\$m - increase/(decrease)				
	2016/17	2017/18	2018/19	2019/20	2020/21 & Outyears
Provision of Corporate Services for the Ministry for Vulnerable Children, Oranga Tamariki	-	17.824	22.059	22.133	22.133

- 49 Following agreement to fund the shortfall for the provision of corporate services on an ongoing basis, it is proposed that the additional funding required from 1 April 2017 to 30 June 2017 (estimated at \$2.4m) be met from within baselines and the Investing in Children Contingency established in Budget 2016.
- 50 Treasury recommend that \$17.824m per annum be appropriated within the MVCOT Vote to enable the establishment of the new agency and the employment of key staff, with the remaining \$4.309m held in contingency pending the outcome of the review of corporate services arrangements.
- 51 The focus of the provision of shared corporate services in the immediate term is to support the establishment and effective ongoing operation of MVCOT. Over the longer-term there is the potential for this capability to be deployed across the system and to support wider machinery of government priorities.
- 52 As previously agreed by Cabinet, the Chief Executives of MSD and MVCOT will jointly commission an independent review of the corporate services arrangements between the agencies no later than 1 April 2019 [SOC-16-MIN-0053]. The Chief Executives will consult with the State Services Commission and The Treasury on the Terms of Reference to ensure the machinery of government implications are addressed and that the review supports an assessment of the effectiveness and efficiency of the corporate services arrangements for the two agencies. Any financial changes required as a result of the review will take effect from the beginning of the following financial year.
- 53 Cabinet agreed that all between-Budget spending proposals would complete a cost benefit analysis using the CBAX model where appropriate [CAB-16-MIN-0307]. Due to the nature of this proposal Treasury have advised that a CBAX analysis would not further inform the decision, and has therefore not been undertaken. However, in considering options for the provision of corporate services for MVCOT, the model outlined above is considered to provide

the optimum approach for the least amount of additional funding to ensure that MVCOT has access to the capability and levers it requires to deliver on Government objectives.

Operationalising these arrangements

- 54 The common and intersecting client groups both agencies support will provide numerous touch points between the agencies both at an operational and corporate services level. Work is underway to ensure that the operating models of each agency and the day-to-day management of shared services support both agencies to fulfil their functions and ensure clients and providers receive continuity of service with minimal disruption.
- 55 Agreed protocols and processes for services for shared and common clients across the agencies are being developed. These processes will be refined over time as both agencies develop and embed their operating models and the nature and needs of these clients are more fully understood. The Chief Executives of both agencies are committed to a successful implementation of the corporate services model. Service Level Agreements will be established between the agencies to ensure that corporate services functions continue to be provided at the current level of service or better.

Implementation Requirements

Establishment of a new Vote

- 56 The transfer of functions and capability to MVCOT requires the creation of a new Vote in line with requirements of the Public Finance Act 1989 that each Vote is administered by one department. Agreement is sought to establish a new Vote to be administered by MVCOT with effect from 1 April 2017. It is proposed that the name be Vote Vulnerable Children Oranga Tamariki, to align with the new agency.
- 57 Work is underway to develop the appropriation structure and associated performance measures for Vote Vulnerable Children Oranga Tamariki, to enable the funding flexibility associated with implementing the investment approach within this Vote. It is proposed that the Minister of Finance and the Minister for Social Development/Minister for Vulnerable Children designate (joint Ministers) be delegated authority to approve the structure of appropriations, how performance will be assessed for each appropriation, and Imprest Supply to incur expenses against appropriations from 1 April 2017 within Vote Vulnerable Children Oranga Tamariki. It is also proposed that joint Ministers be delegated authority to make fiscally neutral adjustments from Vote Social Development to Vote Vulnerable Children Oranga Tamariki.
- 58 It is proposed that Cabinet direct officials (from MSD, the Treasury and the State Services Commission) to report to joint Ministers by 30 November 2016 on the details of the Vote Vulnerable Children Oranga Tamariki appropriation structure, and new appropriations to be established in Vote Social Development resulting from the change, including titles, purpose, scope and achievement statements, and performance measures.

Allocation of baselines

- 59 Existing MSD property, assets, liabilities (including employee related provisions) and equity are being allocated to each agency in accordance with the functions each will have. Specialised Child, Youth and Family assets, such as residences and family homes will be transferred to MVCOT, along with the associated capital charges, depreciation and valuation

changes. Properties and facilities used as office accommodation by MVCOT and MSD will remain owned/leased and managed by MSD on behalf of both agencies. Independent verification of the allocation of baselines to both agencies will be sought to confirm that the allocation does not compromise the ongoing financial viability of either agency.

- 60 The changes will be made through the March Baseline Update process, with a final reconciliation through the 2016/17 Supplementary Estimates of Appropriations once the results for the period ended 31 March 2017 are available. Any subsequent changes or adjustments will be made through the normal baseline update process.
- 61 MVCOT will receive sufficient funds to manage its expenditure and depreciation from 1 April 2017 through the Day One appropriation transfer. This may include early drawdown of Crown funding to ensure sufficient funds are available for any payments from 1 April 2017.

Staff transition strategy

- 62 The establishment of MVCOT and the transition of functions and capability to the new agency impacts directly or indirectly on up to 5,000 staff in operational and corporate areas of MSD. For the majority of impacted staff, this will be a straight forward transition to the new agency or a change in reporting line within MSD. Staff directly transitioning to the new agency will be in place by 1 April 2017.
- 63 The practicalities of separating some corporate functions across both agencies and the establishment of shared services approaches mean that not all corporate services will be fully operationalised or embedded by 1 April 2017. A staggered transition of corporate services is envisaged for the bulk of these services between 1 April and 1 October 2017. A detailed transition plan is being developed that will include the management of staff during the transition period. MSD will continue to support MVCOT through the provision of corporate services until such time as MVCOT has the additional staff required to address its capacity needs.
- 64 A people transition process has been developed and will form part of the consultation process with staff and unions. Following Cabinet decisions on the allocation of capability between the two agencies, a joint consultation document will be issued to staff in early November. All staff will be informed of the outcome of the consultation process by early December 2016.

Administration of Legislation

- 65 Administrative instructions are being drafted to transfer the responsibility for administering the Child, Youth and Family Act 1989 from MSD to MVCOT.

Consultation

- 66 The Ministries of Health, Education, Justice, Business Innovation and Employment and Pacific Peoples, the Department of Corrections, NZ Police, Te Puni Kōkiri, Accident Compensation Corporation, Housing New Zealand, Statistics New Zealand, the State Services Commission and the Treasury have been consulted in the development of this paper. The Department of Prime Minister and Cabinet has been informed.
- 67 The Vulnerable Children's Board has been consulted in the development of this paper.

Financial implications

- 68 The allocation of capability and corporate services between MSD and MVCOT has financial implications for both agencies. In addition to the splitting of the existing MSD baseline appropriations between the agencies, additional funding of \$22.133m per annum will be required to support the provision of corporate services arrangements.
- 69 Cabinet agreed to establish a contingency fund to support the initiatives required to implement the new operating model to improve outcomes for vulnerable children and young people. Whilst final decisions on the allocation of this funding are still to be made, it is already clear that the contingency will be fully subscribed to support initiatives that are central to the operating model. In order to avoid compromising the viability of these initiatives, it is recommended that the funding required for the provision of corporate services is set aside from the Budget 2017 operating allowance.

Human rights implications

- 70 There are no direct human rights implications arising from the proposals in this paper.

Legislative implications

- 71 There are no legislative implications arising from the proposals in this paper.

Regulatory impact and compliance cost statement

- 72 The Regulatory Impact Analysis (RIA) requirements do not apply to the proposals outlined in this paper.

Gender implications and disability perspective

- 73 The allocation of capability and corporate services between the two agencies does not, in itself, have any gender or disability implications.

Publicity

- 74 Following Cabinet decisions on the allocation of appropriations to support the capability each agency will require to give effect to its roles, functions and responsibilities, a consultation process is planned with affected staff in MSD. The consultation document is expected to be released in early November and it is anticipated this paper will be publicly released to coincide with the release of the consultation document. A detailed communications approach is being developed to support this. Stakeholder communications are also being developed.

Recommendations

- 75 It is recommended that the Committee:

- 1 **note** that in July 2016, Cabinet agreed to the roles, responsibilities and functions MVCOT and MSD will have from 1 April 2017 and agreed that MSD would provide some corporate services to MVCOT for at least the first two years of its operation [CAB-16-MIN-0039]

Allocation of capability to support the functions of each agency

- 2 **note** that to implement these decisions, the Chief Executives of the two agencies have identified the capability to be allocated to each agency to ensure each can support its functions, with a high level allocation of FTE staff numbers in line with key functions as follows:

MVCOT Function	FTE	MSD Function	FTE
Statutory Care and Protection	2,071	Social Housing, Welfare and Employment Support	4,816
Youth Justice Services	757	Office for Seniors and Services for Seniors	18
Adoptions and International	5	Office for Disability Issues	7
Children's Action Plan	59 ⁹	Social Sector Policy	16
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Community Investment	166	Community Investment	70
Other (including High and Complex needs, funding for services to support vulnerable children and young people)	91	Other (including Fraud/Overpayments, concession cards, contract management and Simplification)	757
Corporate Services	132	Corporate Services	332
		Shared Corporate Services	669
Total FTE	3,317	Total FTE	6,776

- 3 **agree** that to minimise disruption to providers, all Community Investment funding associated with non-government organisations and community providers remain within existing appropriations in Vote Social Development until 30 June 2017 and be split into respective appropriations under each Vote effective 1 July 2017
- 4 **agree in principle** to the baselines for MVCOT and MSD for 1 April – 30 June 2017 based on the proposed allocation of functions and capability with actual splits to be approved in November 2016 by the Ministers of Finance and Social Development along with the use of Imprest Supply and confirmed in the 2017 March Baseline Update:

	\$ Million			
	MVCOT (1 April – 30 June 2017)	MSD (1 July 2016 – 31 March 2017)	MSD (1 April- 30 June 2017)	Total
2016/17 Appropriations by Class				
Departmental Output Expenses ¹⁰	146.5	580.2	43.0	769.7
Departmental Other Expenses	3.6	10.9	-	14.5
Multi-Category Appropriations				
<i>MCA – Departmental</i>	-	523.2	174.4	697.6
<i>MCA - Non -departmental Expenses</i>	-	639.0	213.9	852.9
Non-Departmental Output Expenses	-	274.1	57.4	331.5
Non-Departmental Other Expenses	-	73.1	23.6	96.7
Benefit or Related Expenses	-		5,135.7	20,251.9

⁹ CAP FTE numbers exclude those staff working in CAP who are paid by their home agency

¹⁰ This includes the Children's Action Plan appropriation for 2016/17 of \$12.0m

		15,116.2		
Departmental Capital Expenses	-	62.5	41.1	103.6
Non- Departmental Capital Contributions	-	1,520.3	309.4	1,829.7
Total Baseline 2016/17	150.1	18,799.5	5,998.5	24,948.1

- 5 **agree in principle** to the baselines for MVCOT and MSD from 1 July 2017 based on the proposed allocation of functions and capability with actual splits to be approved by the Ministers of Finance and Social Development in November 2016 and finalised in the 2017/18 Estimates of Appropriations:

2017/18 Appropriations by Class	\$ Million		
	MVCOT	MSD	Total
Departmental Output Expenses ¹¹	590.3	171.7	762.0
Departmental Other Expenses	17.0	-	17.0
Multi-Category Appropriations (MCA)			
<i>MCA - Departmental</i>	-	672.9	672.9
<i>MCA - Non -departmental Expenses</i>	-	940.3	940.3
Non-Departmental Output Expenses	147.5	174.9	322.4
Non-Departmental Other Expenses	-	96.8	96.8
Benefit or Related Expenses	-	20,778.1	20,778.1
Departmental Capital Expenses	-	76.5	76.5
Non- Departmental Capital Contributions	-	1,865.3	1,865.3
Total Baseline 2017/18	754.8	24,776.5	25,531.3

- 6 **note** that the appropriation allocations are based on the 2016/17 allocations to MSD through Budget 2016 and may be subject to change for the 2017/18 financial year, such as changes relating to the end of time-limited funding

Operating model for the provision of corporate services

- 7 **note** that the Chief Executives of MVCOT and MSD have agreed an operating model for the delivery of corporate services that ensures MVCOT has direct access to the levers it needs to drive the level of internal and system change required to achieve Government's objectives
- 8 **endorse** the model for corporate services and that the services be provided through two approaches:
- 8.1 services that are embedded in each agency
- 8.2 services that will be provided by MSD to MVCOT through shared services arrangements tailored to the nature of the function provided
- 9 **note** that additional funding will be required to ensure both agencies have sufficient capability to support the delivery of corporate services
- 10 **note** these costs are driven by the need to establish organisational management and governance support within MVCOT, the costs associated with the provision of shared

¹¹ This includes the Children's Action Plan appropriation for 2017/18 of \$11.2m

services, and the additional capability required to support MVCOT to achieve Government's transformation objectives for the vulnerable children's system

- 11 **agree** to set aside the following amounts from the Budget 2017 operating allowance for the provision of corporate services from 1 July 2017, with a corresponding impact on the operating balance:

Initiative Name	\$m - increase/(decrease)				
	2016/17	2017/18	2018/19	2019/20	2020/21 & Outyears
Provision of Corporate Services for the Ministry for Vulnerable Children, Oranga Tamariki	-	17.824	22.059	22.133	22.133

- 12 **note** that the funding required for the provision of corporate services from 1 April to 30 June 2017 of \$2.4m will be met from within MSD baselines and the Investing in Children contingency established in Budget 2016
- 13 **authorise** the Minister of Finance and the Minister for Social Development/Minister for Vulnerable Children designate to draw down from this contingency to the new appropriation structure up to the amount of \$17.824m per annum, with the remaining \$4.309m to be held in contingency pending the outcome of the review of corporate services arrangements
- 14 **note** that, as previously agreed by Cabinet, the Chief Executives of MSD and MVCOT will jointly commission an independent review of the corporate services arrangements no later than 1 April 2019
- 15 **note** that the Chief Executives will consult with the State Services Commission and The Treasury on the Terms of Reference for the review to ensure the machinery of government implications and opportunities are addressed and that the review supports an assessment of the effectiveness and efficiency of the corporate services arrangements for the two agencies

Implementation Requirements

- 16 **note** that the transfer of functions and capability to MVCOT requires the creation of a new Vote in line with the requirements of the Public Finance Act 1989
- 17 **agree** to establish a new Vote, named Vote Vulnerable Children Oranga Tamariki, to be administered by MVCOT with effect from 1 April 2017, and that the Minister responsible for the appropriations within the Vote be the Minister for Vulnerable Children
- 18 **authorise** the Minister of Finance and the Minister for Social Development/Minister for Vulnerable Children designate (joint Ministers) to approve the structure of appropriations, how performance will be assessed for each appropriation, and Imprest Supply to incur expenses against appropriations from 1 April 2017 within Vote Vulnerable Children Oranga Tamariki, and to make fiscally neutral adjustments from Vote Social Development to Vote Vulnerable Children Oranga Tamariki
- 19 **direct** officials (from MSD, Treasury and the State Services Commission) to report to joint Ministers by 30 November 2016 on the details of the Vote Vulnerable Children Oranga Tamariki appropriation structure, and new appropriations to be established in

Vote Social Development resulting from the change, including titles, purpose, scope and achievement statements, and performance measures.

- 20 **note** that the allocation of existing MSD properties, assets, liabilities (including employee related provisions) and equity between MSD and MVCOT will be made through the March Baseline Update process with a final reconciliation through the 2016/17 Supplementary Estimates of Appropriations once the results for the period ended 31 March 2017 are available.
- 21 **note** that MVCOT will receive sufficient funds to manage its expenditure from 1 April 2017, and that this may include an early drawdown of Crown funding to ensure sufficient funds are available for any payments from 1 April 2017
- 22 **note** that a people transition process has been developed and will form part of the consultation process with staff and unions, and has been prepared on the basis that staff will be informed of the outcome of the process by early December 2016

Authorised for lodgement by:

Hon Anne Tolley
Minister for Social Development

_____ / _____ / _____

Ministry for Vulnerable Children, Oranga Tamariki – Functions and Capabilities

<p>Statutory care and protection</p> <ul style="list-style-type: none"> • CYF assessment and triage • CYF investigations • Statutory care placements • Care and protection residences • CYF case reviews/practice guidance • CYF recruitment/training/review of caregivers
<p>Youth Justice services</p> <ul style="list-style-type: none"> • Youth justice social work • Youth justice conferences • Youth justice residences • Funding for Youth and youth crime services
<p>Adoptions and International</p> <ul style="list-style-type: none"> • Operational adoption services • International agreements with respect to children
<p>Children's Action plan</p> <ul style="list-style-type: none"> • CAP directorate/Children's teams
<p>Funding and contracting for vulnerable children services</p> <ul style="list-style-type: none"> • Community investment operational policy/service development • Community relationship management • Funding for services to support vulnerable children and young people • Family and sexual violence services relating to child victims or perpetrators
<p>Supporting capability</p> <ul style="list-style-type: none"> • Children and Youth Justice policy • Strategic social and cross sector policy in relation to vulnerable children • CYF gateway • Family group conferences/plans • Complaint and grievance panel services (post 2008) • High and complex needs unit • Privacy and Official information requests (POI) • Investment approach capability/data and analytics capability • Design and improvement/operational policy
<p>Portfolios</p> <ul style="list-style-type: none"> • Vulnerable Children, Oranga Tamariki

Ministry of Social Development – Functions and Capabilities

<p>Assessment and payment of welfare benefits and entitlements</p> <ul style="list-style-type: none"> • Eligibility assessments and payment of benefits/entitlements • Service delivery contact centres • Benefits review • Income support and employment policy
<p>Employment support and training</p> <ul style="list-style-type: none"> • Employment skills/readiness training • Employer liaison
<p>Social housing assessments and management of social and emergency housing</p> <ul style="list-style-type: none"> • Eligibility assessment for social housing • Social housing • Social housing contracts and supply • Emergency housing • Social housing policy
<p>Strategic social policy provision</p> <ul style="list-style-type: none"> • Strategic social policy • Cross sector policy • International agreements policy
<p>Office for Seniors and Services for Seniors</p> <ul style="list-style-type: none"> • Office for Seniors • Older peoples policy
<p>Office for Disability Issues</p> <ul style="list-style-type: none"> • Office for Disability Issues • Disability policy
<p>Funding and contracting for social services not focused on vulnerable children</p> <ul style="list-style-type: none"> • Elder abuse and neglect funding • Building Financial Capability • Ministry for Youth Development • Funding for youth development • Funding for family/sexual violence services (not directly related to child victims or perpetrators) • Residual community funding (e.g. resettlement support, community engagement) • Young people, family and community policy
<p>Supporting capability</p> <ul style="list-style-type: none"> • Case management • Design and improvement/operational policy • Concession cards • Fraud/overpayments and recovery (including fraud policy) • Claims resolution (historic and contemporary claims) • Investment approach capability/data and analytics capability
<p>Portfolios</p> <ul style="list-style-type: none"> • Social Development • Seniors • Disability Issues • Youth • Social Housing

