

**In Confidence**

Office of the Minister for Disability Issues

Cabinet Social Outcomes Committee

**Action to improve the sustainability of Disability Support Services****Proposal**

- 1 This paper seeks decisions for next steps in responding to recommendations from the Independent Review of Disability Support Services (DSS) on:
  - 1.1 next steps on the rapid review of residential care contract and pricing models (recommendation two)
  - 1.2 consulting with the disability community and sector on the impacts of options: to update assessment and allocation settings (recommendation five); and that establish criteria for access to flexible funding and review the flexible funding guidelines to improve clarity and consistency (recommendation six)
  - 1.3 consulting on the scope of longer-term policy work to deliver fair, consistent, transparent, and sustainable support services for disabled people and families.

**Relation to government priorities**

- 2 Relevant priorities are better public services and fiscal responsibility, as well as fairer access to DSS ensuring those with the greatest needs receive quality support services.

**Executive Summary**

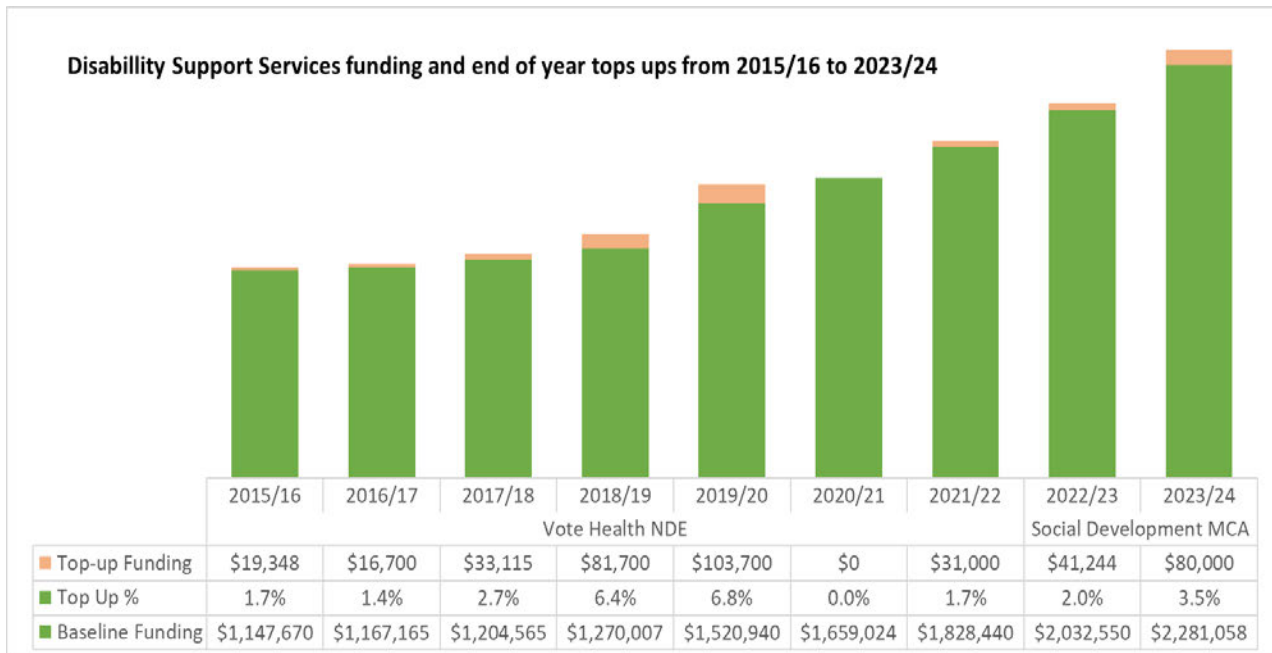
- 3 We took action to gain control of the cost pressures in DSS following the Independent Review's recommendations.
- 4 I now seek Cabinet agreement to the preferred approach to develop the residential care contract and pricing model. s 9(2)(f)(iv)
- 5 After consultation with disabled people, families and the wider disability sector in early 2025, I will return to Cabinet in May 2025 for decisions to: update the assessment and allocation settings for individuals; establish criteria for access to, and review guidelines for, flexible funding.
- 6 I propose a longer-term work programme to address key system issues by setting clear and consistent direction, regulation, policy and rules that will set up DSS to deliver more efficiently and effectively into the future.

**Background**

- 7 DSS provides critical supports to around 50,000 New Zealanders to address the barriers they face in accessing the same opportunities for a good life as other New Zealanders. It also supports 100,000 New Zealanders who receive equipment and modifications that

they need to engage with daily life. DSS fits in a wider system of disability supports across government including in health, education, social development, transport and accident compensation.

- 8 In nine of the last 10 years, DSS expenditure has not remained within the funding allocated at each Budget and has required additional funding. Funding for DSS has grown from \$1.2 billion in 2015/16 to \$2.6 billion in 2024/25 (see Figure 1). This growth has been driven by a range of factors including, in some cases, DSS funding being used to access services that are the responsibility of other areas of government and, therefore, outside of the scope of what DSS funding should be spent on (e.g. health services).



*Figure 1: Disability Support Services budget funding and end of year top-ups (Vote Health 2015/16-2021/22 and Vote Social Development 2022/23- 2023/24)*

- 9 Disabled people have experienced inconsistent access around the country, administration has become unnecessarily complex and inefficient, and there is a lack of fiscal control over the quality and quantity of expenditure. We agreed to take urgent action to address fiscal sustainability and ensure that DSS is fair, consistent and transparent.
- 10 Our priorities are to:
- 10.1 stabilise and strengthen our operations, while planning for a sustainable future
  - 10.2 better manage cost pressures and improve consistency, fairness and transparency
  - 10.3 provide certainty for the future for disabled people, and whānau, family and carers, on these important services and supports.
- 11 I have directed officials to bring operational settings – financial, data and contract management systems, commercial and procurement practices, safeguarding and quality systems – up to the standard needed for the importance and size of the DSS system. The policy work programme discussed in this paper both supports and builds from the operational improvement. Our timeline is:



2024	April	Agreed to undertake an independent review of DSS. [CAB-24-MIN-0141 refers]
	June	Independent Review is delivered - recommendations on actions that should be taken immediately in the 2024/25 financial year
	August	Agreed reviewers' recommendations and transfer DSS from the Ministry of Disabled People to Ministry of Social Development. [Cab-24-MIN-0301 refers]
	29 October - 22 November	Public consultation to gather feedback on future DSS
	4 December (SOU)	Agree next steps on the rapid review of residential care pricing Agree to release consultation document on: <ul style="list-style-type: none"> <li>options for assessment, allocation and flexible funding</li> <li>scope of work to strengthen DSS</li> </ul>
2025	s 9(2)(f)(iv)	
	Late February	Five weeks public consultation on: <ul style="list-style-type: none"> <li>options for assessment, allocation and flexible funding</li> <li>issues to be addressed in the longer-term work programme</li> </ul>
	May (SOU)	Agree implementation pathway for allocation / assessment; and flexible funding Agree scope of further work on strengthening DSS

## Recommendation two: Next steps on residential care contracts and pricing

*A rapid review of residential care contract and pricing models is underway*

- 12 Since Cabinet decisions [CAB-24-Min-0301 refers], I put in place a funding freeze to control the overall spend on residential care. Providers received no price uplift to contracted rates for 2024/25. This freeze is temporary, pending a rapid review of pricing and contracting models (rapid review). It will not be sustainable long-term and providers expect its removal by 1 July 2025 (or earlier) as signalled in the Independent Review.
- 13 Residential care funding has grown about 10 percent in each of the last five years. Cost pressure in the residential care sector comes from increases to: price – providers' funding increased in response to cost pressures; volume – the total number of people in residential care, this has been flat; and composition – change in the care needs of residents, there is some evidence this has increased.
- 14 The rapid review has focused on developing a credible approach to price. Without credible prices, providers are increasingly seeking individualised rates - there are now more than 2,800 different funding rates for around 6,631 residents<sup>1</sup>. This has led to government having poor control on the consistency and fairness of pricing across the country. Individualised rates require significant use of manual transactions. It makes both overall fiscal control and accurate forecasting of future expenditure challenging.
- 15 The rapid review found that there are:
  - 15.1 complex funding arrangements – additional funding streams have been added to address court decisions (e.g. pay equity for support workers, sleepover top-ups and day activity contributions for people over 65)
  - 15.2 multiple and inconsistent pricing tools between providers and across regions, with no mandated consistent practice

<sup>1</sup> As at 30 June 2024. This number is made up of 5,627 people in residential care in Group Homes, 819 in Aged Residential Care, 76 in settings for Children and Young People (via Oranga Tamariki), and 109 in High and Complex settings.

- 15.3 no transparent, regular mechanism for review of contracted rates to ensure funding continues to maintain a credible link to the costs of service provision.

*Three pricing options have been developed to simplify, improve consistency and transparency, moderate cost increases and restore fiscal control*

**Option 1 – banded rates (under an estimated rate of around \$900/day, around 95% of people), with strong exemptions process for remaining people (recommended)**

- 16 Prices would have both fixed facility costs (e.g. rent, insurance, and maintenance) and more variable service costs (e.g. staffing – including pay equity and sleep-over costs, food, transport and medical expenses). These costs form the basis for developing payment bands which are an ‘averages’ of costs derived from a range of factors including facility bed numbers, disability type, and staffing. Future advice will detail choices on how the bands are determined and the impact on providers.
- 17 This option ensures most people in residential care will be funded on rates set by the government. A strongly managed exemptions process will be developed for the top five percent of people with very high support needs.
- 18 I recommend this option because it enhances fiscal control and improves transparency and consistency in pricing. It is also implementable within the current IT, financial management and contract systems and can be phased in by provider.

**Option 2 – shift to paying providers based on capacity, with adjustments based on facility type, location, and quality, and ability of the facility to cater to different needs**

- 19 This option would make payments based on the total number of beds required. This approach would provide strong fiscal certainty and transparency for the Crown and providers. It would require strong central management of demand. If demand exceeds the number of beds purchased in a given year, we would need to manage waiting lists. Poorly implemented, this option could limit choice for disabled people.
- 20 Implementation risks and timeframes are greater than option 1, as it requires significant changes to existing systems. While this option provides stronger fiscal control through managing price and volume, to be workable it would need exemptions for high support clients, including ‘top ups’ in relation to individual needs. This risks undermining consistency across providers and increasing complexity of residential care pricing.
- 21 I am not recommending this option due to the implementation demands and the need to move at pace. We may look at this option in the future as way to shape the market for residential care so that it enhances choice and control for disabled people.

**Option 3 – apply revised individualised rates for all clients accessing residential care, with a new consistent pricing model reflecting market costs**

- 22 This option is close to the current practice of unique funding rates for each individual and comes with the current challenge of providing certainty and consistency over prices and funded required. Achieving consistency and transparency in the way prices are set would require establishing a national process. There would be a high level of risk – particularly if Needs Assessment and Service Coordination organisation (NASCs), Enabling Good Lives sites (EGL sites) and providers continue to determine the rates that



an individual receives. This would result in a lack of consistency, transparency and fairness. The process to transition everyone to individualised rates would require significant manual transactions and take a long time. This option is not recommended.

*The preferred approach is to strengthen use of banded rates*

- 23 I propose that Cabinet agrees to progress option one – banded rates. This option will support us to stabilise and moderate growth in residential care funding. It is implementable in the current system and does not limit potential future changes.

24 s 9(2)(f)(iv)

25 s 9(2)(f)(iv)

*Our next steps need to balance implementation timeframes and risk*

26 s 9(2)(f)(iv)

It is critical that we ensure administrative systems are working effectively and that NASCs, EGL sites and providers have time to understand and prepare for changes. We also need systems to monitor the impacts and implementation of the new approach.

27 s 9(2)(f)(iv)

28 s 9(2)(f)(iv)

29 s 9(2)(f)(iv)

I also seek Cabinet agreement to officials working with providers and sector representatives to inform the report back to Cabinet.

**Policy options to implement recommendations five and six**

- 30 Recommendations five and six of the Independent Review aim to improve consistency, fairness, and transparency across DSS:

30.1 updating the assessment and allocation settings for individuals based on level of need (recommendation five)

30.2 establish criteria for access to flexible funding and review the flexible funding guidelines to improve clarity and consistency (recommendation six)

- 31 The implementation of these recommendations will have an impact on disabled people and their families/whānau. I seek Cabinet's agreement to consult with the disability community and sector and to release the attached discussion documents (Appendix Two). Consultation will occur five weeks from late-February 2025. I will report back to Cabinet in May 2025 with proposed decisions.

*Recommendation five: update the assessment and allocation settings for individuals based on need*

- 32 The tools used to assess disabled people's needs and to allocate supports and services are out of date and inconsistently applied. Assessors commonly over-ride or retrofit the funding allocated through the tool to provide workable allocations. This reduces the ability to benchmark allocations, reducing fairness and transparency for disabled people and creates gaps and inaccuracies in our data. Feedback has highlighted the need to better consider the needs of carers, including assessment for respite supports, and better support the independence of young people.
- 33 I seek agreement to consult on the following options:

33.1 s 18(d)

33.2 s 18(d)

34 s 18(d)

35 s 18(d)

*Recommendation six: establish criteria for access to flexible funding and review the flexible funding guidelines to improve clarity and consistency*

- 36 Flexible funding is one of the fastest growing areas of DSS expenditure. Consultation has shown it is highly valued and has a critical role in supporting many disabled people. But it is also confusing. The rules are hard to understand and there is no national consistency in how flexible funding is administered. There is little monitoring or evaluation, so we do not know what outcomes it is achieving.



37 s 18(d)

37.1 s 18(d)

37.2

37.3

37.4

37.5

37.6

37.7

38 s 18(d)

38.1 s 18(d)

38.2

39 s 18(d)

### **Longer term policy work will ensure the sustainability of DSS into the future**

- 40 The controls proposed to stabilise the system will provide greater transparency and improve fiscal management. It will provide better data, which will improve forecast accuracy enabling a credible sustainable funding path for DSS. My officials will continue to work with the Treasury to reset the overall approach to funding the system.
- 41 With better data we will strengthen the evidence-base to better understand which DSS supports are most effective in providing disabled people access to the same opportunities as all New Zealanders for a good life. This will support us to develop a cohort-based outcomes system, consistent with Social Investment.
- 42 The DSS system needs further strengthening. It lacks overarching policy and regulatory frameworks to set the delivery and administration of supports for disabled people and

their families. There are numerous pilots and trials that have neither been scaled up or stopped. Decisions about the system have been made on an incremental, case by case basis often in response to legal challenge.

- 43 Disabled people have told us that DSS services are not delivered consistently and that is unfair. Different regions have different processes, different providers, different services (and service gaps) and different levels of availability of workforce. Legislation would support transparency, fairness and consistency and clarify high level system settings, such as the purpose of DSS, how eligibility is set, and rights and responsibilities.
- 44 I seek Cabinet agreement to consult on the scope of this longer-term work with the discussion document attached at Appendix Three. I will report back to Cabinet in May 2025 seeking agreement to the scope of the future work programme.

### **Engagement and consultation approach**

- 45 Insights from the first consultation (29 October to 22 November 2024) and consultation in early 2025 will feed into Cabinet decisions and the scope for future work. Further consultation will run for five weeks from late-February 2025 on implementation of options for recommendations five and six and ensuring the sustainability of DSS.
- 46 Informed by Disabled People Organisations (DPOs) and other disability networks (including tāngata whaikaha, Māori, Pacific, youth and older people), we will tailor engagement to the needs of the disability community. It will also include family, whānau and aiga, carers, providers, NASCs and EGL sites. Multiple channels will be used including the DSS website, updates and newsletters, connector organisations, Pacific and Māori community newspapers and radio. Face to face sessions will be supplemented with online sessions and surveys.
- 47 Time is needed to create alternate format versions of the discussion documents. I seek agreement to make amendments as required to support accessibility and plain language.

### **Implementation**

- 48 Implementation planning is occurring alongside the policy work set out in this paper.

### **Cost-of-living Implications**

- 49 There are no cost of living implications from the proposals in this paper.

### **Financial Implications**

- 50 There are no immediate financial implications from this paper. s 9(2)(f)(iv)

### **Legislative Implications**

- 51 This paper has no immediate legislative implications.



## Impact Analysis

### Regulatory Impact Statement

52 A Regulatory Impact Statement is not required for this Cabinet paper.

### Climate Implications of Policy Assessment

53 A Climate Implications of Policy Assessment is not required for this proposal.

## Population Implications

54 These recommendations will support disabled people and carers by reducing inconsistency and unfairness across the disability support system.

## Human Rights

55 Proposals in this paper are consistent with the New Zealand Bill of Rights Act 1993.

## Use of external resources

56 External resources have been used to complete some of the work underpinning this paper, in particular the Rapid Review of Residential Care pricing.

## Consultation

57 This paper has been informed by feedback from the disability community and sector. An online survey was open from 29 October to 22 November 2024 supplemented by face-to-face conversations with peak bodies representing the disability community. Workshops with residential care providers have informed the rapid review. A summary of themes from this consultation is in Appendix One. Complete analysis is underway and will be published once completed.

58 The following agencies were consulted on this paper: Accident Compensation Corporation, Health New Zealand, Oranga Tamariki, Public Service Commission, Social Investment Agency, Te Arawhiti, The Treasury, Te Puni Kokiri, and the Ministries of Disabled People, Education, Ethnic Communities, Health, Housing and Urban Development, Social Development, Transport, Women, and Youth Development. The Department for Prime Minister and Cabinet was informed.

## Proactive Release

59 I intend to proactively release this paper and the relevant Minutes when I announce the decisions. Alternate formats will be published as they become available.

## Recommendations

The Minister for Disability Issues recommends that the Committee:

### *Rapid review of pricing for residential care*

1. **note** that a freeze, at current levels, on funding for residential facility-based care for 2024/25 is in place pending a detailed and urgent review of contract and pricing models

2. **direct** the Ministry of Social Development to progress, including testing with providers and sector groups, a pricing model for funding DSS-funded residential care services:

**either**

- a. Option 1 – banded rates (recommended)

**or**

- b. Option 2 – purchasing capacity (not recommended in the short term)

**or**

- c. Option 3 – individualised rates (not recommended)

3. s 9(2)(f)(iv)

4. s 9(2)(f)(iv)

*Consultation on the implementation of the Independent Review's recommendations 5 and 6 and the scope of longer-term policy work on the sustainability of disability support services*

5. **approve** the public release of the attached discussion documents in late-February 2025 allowing time for translation into accessible formats
6. **authorise** the Minister for Disability Issues to make amendments to the discussion documents
7. **invite** the Minister for Disability Issues to report back to Cabinet in May 2025 on final decisions for the Independent Review's recommendations 5 and 6 and the scope of longer-term policy work on the future sustainability of disability support services (DSS)
8. **agree** that the Minister for Disability Issues may publicly communicate the next steps of this work programme, including the expected timeframes.

Authorised for lodgement

Hon Louise Upston  
Minister for Disability Issues



## Appendix One: Initial summary of consultation feedback

This note is an initial summary of feedback based on a sample of survey responses, submissions and meeting summaries. Analysis of all the submissions is still underway. We will publish the final summary of submissions once this analysis is completed.

1,561 people, groups and organisations made submissions through the consultation process between 29 October 2024 and 22 November 2024. There were 1,433 responses to an online survey and 128 emailed submissions. Officials also met with 9 stakeholders including the Carer Alliance peak body and member organisations from the DPO Coalition. Notes taken from these meetings were also analysed as part of the consultation process.

The consultation focussed on three key areas: overall response to the Independent Review; assessment and allocation settings (recommendation 5); and flexible funding (recommendation six).

The remainder of this summary outlines what we have heard from submitters, and do not represent DSS views.

Key messages from submitters are:

- Better and more accessible communication and information is needed to access services, navigate the system, and understand recent policy changes. Some submitters emphasised the need for connectors within DSS.
- DSS services are not delivered consistently and that is unfair. Different regions have different processes, different providers, and different levels of availability of workforce.
- Services should be more flexible (including services offered by other agencies). Flexibility should reflect and adapt to the diversity of disability and family situations. This would be better supported through greater understanding of disability across the workforce and processes. DSS should not apply a deficit-based approach to disability. There should be greater implementation of the UNCRPD and principles of the EGL vision. Many felt there was a prioritisation to fund other areas of Government and make system level changes to reduce fiscal pressure at the expense of good outcomes for disabled people and their families.

### *Overall response to the Independent Review*

Submitters said DSS should provide enabling, safe, sufficient, and reliable services to support disabled people and their families to achieve their full potential and have equitable participation in society. Submitters do not think the current system does this.

Submitters feel that disabled people are devalued in New Zealand and there is not enough investment into disabled people and their families. The system needs to have more empathy, with a greater understanding of the diversity of disability, and value of cultural sensitivity built in at every level.

Submitters believe the current system contributes to negative outcomes. This includes poor health and wellbeing, loss of opportunities, and potential for family harm.

*Recommendation 5: assessment and allocation settings*

Submitters believe assessment (and reviews process) should reflect the diversity of disability and recognise the role of carers and currently does not. Assessments should be accessible, and assessors should have the time and expertise to understand the individual person and their family situation.

For the most part, submitters say DSS services are useful and appropriate, but submitters feel they are siloed between agencies and services. Also say that allocation is not transparent, and submitters are not able to see their needs reflected in support plans.

*Recommendation six: flexible funding*

It is frustrating that decisions have been made without the involvement of the disability community. Many reiterated the mantra “nothing about us, without us”.

Submitters put a high value on flexible funding and say it is critical to help disabled people and their families navigate life. Prior to the March changes which narrowed the purchasing guidelines, flexible funding enabled access to support that was not available elsewhere in the system and covered the perceived shortfalls of other agencies.

Flexible funding is culturally sensitive, enables greater autonomy in decision making, recognises diverse experiences of disability, and enabled family carers to take breaks in ways that suited them best.

The March changes was experienced as a breach of trust, both in submitters’ ability to trust Government but also feeling they had lost the trust of Government despite feeling they had been following the rules.

There was strong support to reverse the March changes and re-expand flexible funding, and some went further to say flexible funding should be expanded.



## **Appendix Two: Consultation document on Targeted Changes to Stabilise Disability Support Services**

Please note: the contents of this page are withheld under Section 18(d)

### **Appendix Three: Consultation document on Strengthening the System: Establishing the scope of work and legislation for a future DSS system**

Please note: the contents of this page are withheld under Section 18(d)