



B.29[25f]

Oranga Tamariki: Inquiry into procurement and contract management



Photo acknowledgement:
iStock, nazar_ab

Oranga Tamariki: Inquiry into procurement and contract management

Presented to the House of
Representatives under section 20 of
the Public Audit Act 2001.

May 2025

Contents

Auditor-General's overview	4
Our recommendations	8
Part 1 – Introduction	9
Why we were interested in this matter	9
What we looked at	10
What we did	10
What we did not look at	11
Structure of this report	11
Part 2 – Background to the 2024/25 contracting round	12
About contracts with social service providers	12
Procurement and contract management practices before 2024/25	13
Financial pressures in the contracted services budget	14
Preparation for the 2024/25 contracting round	15
Directions from the incoming Government	17
Response to the change in direction	17
Part 3 – Reconciliation process for 2023/24	19
Planning to achieve savings for 2023/24 through reconciliation	19
Communication about the reconciliation process	20
Starting the reconciliation process	20
Providers' reactions to the reconciliation process	22
Results of the reconciliation process for 2023/24	23
Part 4 – Preparing a contracted services plan for 2024/25	24
Planning to reduce spending on contracts in 2024/25	24
Central Contracting Team established	27
Deputy Chief Executives' review of the investment plan	28
Decisions about contracts expiring on 30 June 2024	29
Informing providers with expiring contracts	30
Central Contracting Team disestablished	31
Further decisions about contracts in July 2024	32

Part 5 – Implementing the 2024/25 contracted services plan	34
Internal guidance about implementing decisions	34
Notifying providers about decisions	35
Reactions from providers and the sector	36
Continuing negotiations until the end of 2024	39
Minister for Children’s intervention in early 2025	41
Part 6 – Our findings and recommendations	42
Good foundations were not in place	43
Planning was inadequate and decisions were late	44
Decision-making criteria was inconsistent	46
Evidence to inform decisions was lacking	47
Decisions were not properly documented	49
Additional procurement and contract management concerns	49
Oranga Tamariki did not consistently demonstrate a culture of integrity, transparency, and accountability	54
Part 7 – Events are still unfolding	56
Appendices	
1 – Terms of reference for this inquiry	58
2 – Good procurement and contract management practice	60
Figures	
1 – Contracted services funding for 2024/25, as at 19 July 2024	33

Auditor-General's overview

E ngā mana, e ngā reo, e ngā karangarangatanga maha o te motu, tēnā koutou.

Oranga Tamariki – Ministry for Children is responsible for caring for and protecting some of New Zealand's most vulnerable children. However, it cannot do its job without help and so it contracts with social service providers to deliver services to children and families in need.

These contracts are worth about half a billion dollars each year.

It is crucial that Oranga Tamariki manages these contracts well. Failing to do so might result in children and their families not receiving the support that they need when and where they need it.

If contract decisions are not supported by a sound process, relevant information, and clear decision-making criteria, it is unlikely that contracted services can achieve the desired outcomes for children and value for money for the public. Any perceived failures from this process affects public trust and confidence in critical public services.

In July 2024, concerns were raised with my Office about contract management, particularly the contracting decisions for 2024/25. These services are critical for children and their families, involve significant public spending, and managing the contracts for them poorly could undermine public trust. Given this, I decided to inquire into the concerns that had been raised.

What happened in the contracting round

In 2023/24, Oranga Tamariki spent about \$537 million contracting with about 550 providers of a broad range of services. About one-third of these contracts were due to expire on 30 June 2024.

Before the 2024/25 contracting round, Oranga Tamariki was aware of issues with its procurement and contract management practices. It had also identified financial pressures in its contracted services budget and was forecasting that its 2023/24 spending would go over budget. It had started work to address these issues, but it had not implemented improvements before it began the 2024/25 contracting round.

In November 2023, the Minister for Children directed Oranga Tamariki to refocus its spending on its core functions and activities. The Government also directed Oranga Tamariki to achieve financial savings of 6.5% from its overall budget.

To contribute to these savings and address financial pressures, Oranga Tamariki considered ways to reduce its spending on contracted services.

As part of this process, Oranga Tamariki decided to fully recover any funding that it considered providers had not spent on services (known as reconciliation). Previously,

Oranga Tamariki had generally allowed providers to retain funding even if they had not achieved 100% of all contracted measures. For example, providers could move funding from under-utilised services to over-utilised services to meet demand.

Oranga Tamariki did not provide adequate advance warning of this change in practice. Providers were taken by surprise and the reconciliation process did not go smoothly. Reconciliation occurred at the same time as the 2024/25 contracting round and drew the focus of Oranga Tamariki away from decisions about what services it wanted to contract in the future.

In February 2024, Oranga Tamariki also decided to reduce spending on contracted services in 2024/25 by about \$60 million. To achieve this, it sought to review its entire contracted services budget, including contracts that were expiring on 30 June 2024 and multi-year contracts that were not due to expire.

Oranga Tamariki sought input from its regional staff. However, in the end, senior staff in its National Office made top-down decisions about the contracting round. It was unclear how regional staff's input informed those decisions.

Oranga Tamariki also made decisions late in the process. It did not adequately document the decisions' rationale, or any risks associated with them. We did not see evidence that Oranga Tamariki understood how its decisions would affect children and their families. Decision-making documents did not include information about the consequences for children of funding reductions or whether the reductions could jeopardise providers' financial viability or their ability to provide services for other public organisations.

Oranga Tamariki communicated its decisions to providers late and without enough advance notice. For example, on 27 June 2024 it informed providers whose contracts were set to expire on 30 June 2024. Because of the long weekend for Matariki, those providers effectively had only several working hours' notice that Oranga Tamariki would not renew their contracts. Oranga Tamariki also did not give providers clear reasons why it had made its decisions.

Oranga Tamariki placed the onus on providers whose contracts were expiring or being discontinued to transition children and their families to alternative providers. However, it did not provide adequate support or information to facilitate this process. In some instances, Oranga Tamariki continued to refer children and their families to providers whose services it was discontinuing.

Other matters complicated the contracting round. Oranga Tamariki carried out a major organisational restructure at the same time, and this affected its communication and relationships with providers. At short notice and late in the process, it transferred responsibility for the contracting round away from, and then back to, the team that originally led the work.

Negotiations to vary and exit from contracts continued well into 2024/25. Providers continued to experience difficulties getting clear, timely responses from Oranga Tamariki. Oranga Tamariki used threats of termination and did not pay some providers, which put pressure on them to agree to vary their contracts.

Oranga Tamariki was still carrying out the contracting round when we wrote this report. In early 2025, the Minister for Children asked Oranga Tamariki to pause its review of contracts and extend certain contracts until 31 December 2025. It was working through this request's implications when we prepared this report.

Our findings

Oranga Tamariki was entitled to make decisions about which services it wanted to purchase, including deciding to discontinue services or enter negotiations to vary contracts. It is also important to monitor providers' performance to ensure that public money is being spent in keeping with the contract.

I recognise the challenges that Oranga Tamariki faced and do not doubt that Oranga Tamariki intends its spending to benefit the children who need it and that it wants to target this spending well.

Providers also told us that they understood that Oranga Tamariki was in a difficult situation and that it could not guarantee them funding.

However, Oranga Tamariki was poorly prepared to carry out the 2024/25 contracting round. It did not have a strategic approach to procurement and contract management that was informed by a comprehensive understanding of providers, their services, or most importantly the needs of children and their families. It had not made material improvements to its contracting practices despite being aware of issues with them for some years.

Oranga Tamariki did not plan the contracting round well and left its decision-making until late in the process. It documented its decision-making poorly and its decisions were not adequately informed by evidence of how they would affect children and their families.

The effects of decisions on children and their families are still not known. Given that this is the core role of Oranga Tamariki, it is unacceptable for it to be in this situation.

Many other aspects of procurement and contract management during the 2024/25 contracting round were not in line with good practice. For example, Oranga Tamariki did not demonstrate good practice in:

- setting performance measures and monitoring performance;
- paying promptly for services that had been provided, including ongoing delays in passing on social sector pay equity funding to providers;

- negotiating changes to, and planning to exit from, contracts; and
- managing its relationships with providers and te Tiriti o Waitangi partners.

In addition, Oranga Tamariki was slow in, or resistant to, acknowledging responsibility for errors. At its worst, its public statements appeared to blame providers for a situation that was fundamentally its responsibility.

I consider that these failures have harmed trust and confidence in Oranga Tamariki. In my view, Oranga Tamariki could have avoided many of the issues that arose in the contracting round if it had robust procurement and contract management systems. Oranga Tamariki needed to place as much emphasis on managing contracts and relationships with suppliers well as it did on procuring the services in the first place.

Public organisations need to actively demonstrate that they can act as a trusted partner, including when they have made explicit commitments to partners and providers about te Tiriti o Waitangi. They need to have sound ethical judgement, do what they say they will do, accept where they have made mistakes, and take steps to improve.

I consider that Oranga Tamariki fell short of these expectations in the 2024/25 contracting round.

I acknowledge that Oranga Tamariki had commissioned a review of the contracting process and begun work to improve its procurement and contract management practices. However, it needs to make significant and urgent improvements to address the concerns outlined in this report.

Concluding remarks

I thank Oranga Tamariki, providers, and the many others who contributed information to this inquiry, including iwi and community representatives and staff in other public organisations, for their time in assisting us with this inquiry.

My Office intends to monitor these issues closely and follow up with Oranga Tamariki as it makes improvements in response to this report's recommendations.

Nāku noa, nā



John Ryan

Controller and Auditor-General | Tumuaiki o te Mana Arotake

8 May 2025

Our recommendations

We recommend that Oranga Tamariki – Ministry for Children:

1. prepare and implement a clear strategy for procuring services from, and managing contracts with, social service providers;
2. engage with the social services sector to prepare and implement a standard process for contracting rounds, including consistent time frames for when it will make decisions about Outcome Agreements and notify providers;
3. ensure that, in future contracting rounds:
 - recommendations are informed by a detailed analysis of the likely effect on children, young people, and the sustainability of the social services sector; and
 - it records this analysis clearly in relevant decision-making documents; and
4. urgently improve its contract management practice, including by:
 - linking performance measures to outcomes;
 - taking a consistent, predictable approach to performance monitoring and reconciliation;
 - routinely paying on time for services that have been provided;
 - anticipating and planning for the end of contracts to ensure a smooth transition;
 - communicating with providers in an open and transparent manner; and
 - taking commitments it has made to te Tiriti o Waitangi partners into account in managing contracts.

Introduction

- 1.1 Oranga Tamariki – Ministry for Children (Oranga Tamariki) is a public service department that was established in 2017. It administers the Oranga Tamariki Act 1989. The Act’s purpose is to promote the well-being of children, young persons, and their families, whānau, hapū, iwi, and family groups, including by:
- setting up, promoting, or co-ordinating services;
 - supporting and protecting children and young people to prevent them from suffering harm, abuse, neglect, ill treatment or deprivation, or responding to those things;
 - assisting families and whānau, hapū, iwi, and family groups to:
 - prevent their children and young people from suffering harm, abuse, neglect, ill treatment or deprivation, or responding to those things; and
 - fulfil their responsibility to meet the needs of their children and young persons;
 - ensuring that children who need to be removed have a safe, stable, and loving home as quickly as possible and support to address their needs;
 - responding to alleged offending; and
 - assisting young people to transition out of care to independence.¹
- 1.2 Oranga Tamariki also administers and oversees a substantial amount of public spending on contracting social service providers (providers) to achieve its purpose and functions. When it was established, Oranga Tamariki inherited responsibility for managing the funding and contracting of social services to support vulnerable children and young people from the Ministry for Social Development.²
- 1.3 In July 2024, concerns were raised with our Office about how Oranga Tamariki had managed contracts with providers – in particular, about how it had managed the 2024/25 contracting round. The media also reported extensively on these concerns.
- 1.4 In October 2024, we published terms of reference for our inquiry (see Appendix 1).

Why we were interested in this matter

- 1.5 Public money must be spent prudently and with due attention to transparency, integrity, accountability, and value for money. When public organisations use third-party providers, they need robust procurement and contract management to ensure that procurement spending provides New Zealanders with the best possible outcomes and value for money.

¹ See section 4 of the Oranga Tamariki Act 1989.

² The Ministry for Social Development retained responsibility for funding and contracting other social services, such as services to help people build financial capability. The Ministry also retained responsibility for assessing whether providers meet social services accreditation standards.

- 1.6 The services provided under contract support some of New Zealand's most vulnerable children and their families. Therefore, it is critical that Oranga Tamariki manages the contracts well.
- 1.7 Because of the critical importance of these services, the concerns raised, and the significant amount of funding involved, the Auditor-General decided to carry out an inquiry.
- 1.8 Appendix 2 sets out what we mean by procurement and contract management, the importance of good procurement and contract management, and additional considerations in relation to social services and te Tiriti o Waitangi.

What we looked at

- 1.9 We examined the process Oranga Tamariki used to renew, vary, or allow to expire contracts with providers for 2024/25. This included:
- the processes, frameworks, and practices Oranga Tamariki had to support its decision-making;
 - the criteria and evidence Oranga Tamariki relied on to make its decisions, including the contracts' monitoring and reporting requirements;
 - what Oranga Tamariki communicated to providers – in particular, what it told providers whose contracts it would vary or allow to expire; and
 - what planning Oranga Tamariki did to ensure a smooth transition to new contracts and to exit from others.
- 1.10 Our inquiry focused on the processes, decisions, and actions that Oranga Tamariki took between 1 July 2023 and 30 June 2024. However, we also considered subsequent events to the extent that they were relevant.³

What we did

- 1.11 In carrying out our work, we:
- examined documents that Oranga Tamariki provided and/or were in the public domain;
 - met with Oranga Tamariki officials who were involved in the 2024/25 contracting round;
 - interviewed a range of providers who had been affected by decisions in the 2024/25 contracting round;
 - reviewed information from providers;

³ For example, some important decisions in the 2024/25 contracting round were not made until July 2024. Further, how Oranga Tamariki implemented those decisions are examples of its procurement and contract management practices.

- heard from Te Pai Ora Social Service Providers Aotearoa (Te Pai Ora SSPA) in its role as a representative body for more than 240 providers in the sector; and
- heard from other parties with an interest in our inquiry because of their relationship with Oranga Tamariki as an oversight body or as a te Tiriti o Waitangi partner, including Aroturuki Tamariki – Independent Children’s Monitor, Mana Mokopuna – Children & Young People’s Commission, and representatives from Waikato-Tainui.

What we did not look at

- 1.12 We did not examine the policy decisions or strategy underpinning the contracting decisions Oranga Tamariki made. Commenting on government policy decisions is outside the Auditor-General’s mandate.
- 1.13 We also did not examine the merits of individual decisions about whether to continue to contract with any particular provider or the amount of funding a provider ought to receive.
- 1.14 Our inquiry function relates only to public organisations. We have no role in looking at the activities of private individuals or private organisations. This means that our focus was on Oranga Tamariki and not on the performance of providers.

Structure of this report

- 1.15 In Part 2, we describe the key drivers of the 2024/25 contracting round.
- 1.16 In Part 3, we describe the process Oranga Tamariki used to recover funds from providers for 2023/24.
- 1.17 In Part 4, we describe how Oranga Tamariki decided which providers it intended to contract with in 2024/25.
- 1.18 In Part 5, we describe how Oranga Tamariki implemented its decisions.
- 1.19 In Part 6, we provide our observations on the 2024/25 contracting round, including the effects on the community and providers, and make recommendations for improvement.
- 1.20 In Part 7, we set out our concluding remarks about what Oranga Tamariki told us it intends to do to improve its practices and the aspects that we intend to monitor.

2

Background to the 2024/25 contracting round

- 2.1 In this Part, we describe:
- the scale of contracting with providers;
 - what Oranga Tamariki and providers told us about its approach to procurement and contract management before the 2024/25 contracting round;
 - the financial pressures in the contracted services budget;
 - the preparation Oranga Tamariki did in late 2023 to inform its planning for 2024/25;
 - the changes in strategic direction and need to achieve savings that informed the 2024/25 contracting round; and
 - decisions Oranga Tamariki made in early 2024 about how to achieve a change in strategic direction and make savings in 2023/24 and 2024/25.

About contracts with social service providers

- 2.2 Oranga Tamariki administers a significant budget for contracting with providers. In 2023/24, Oranga Tamariki spent about \$537 million contracting with about 550 providers to deliver a broad range of services.⁴
- 2.3 The types of services that Oranga Tamariki provides under contract are broadly:
- care and care support;
 - youth justice;
 - intensive interventions (for example, family group conference co-ordination);
 - transitional services (for example, transitioning from care to independence);
 - family and sexual violence services; and
 - early support and prevention (for example, educational programmes and counselling services for children and their families, and other family support).
- 2.4 Oranga Tamariki has 10 strategic partnerships with iwi and Māori organisations. To partner with, and invest in, these strategic partnerships, it has set aside separate funding under its “Enabling Communities” work. The goal of this work is to devolve resources and decision-making powers to its strategic partners to help prevent children from needing state care.
- 2.5 Most services were contracted under an Outcome Agreement for three years, but some providers were on annual contracts. We heard that, because the contracts’ expiry dates were staggered, about one-third of contracts came up for review every year.

⁴ This figure does not include social sector pay equity funding of about \$40 million, which was sometimes included in documentation.

- 2.6 Most contracted services were administered by the Māori, Partnerships and Communities group within Oranga Tamariki. After an organisational restructure in 2024, this group is now called Enabling Communities & Investment.
- 2.7 The Service Delivery group, now called Tamariki and Whānau Services, also administered contracted services. Before February 2024, many of the contracts that Service Delivery administered were under Fee for Service arrangements (see paragraph 4.7), including interim care arrangements for children.⁵
- 2.8 As the main government funder of services where employees carry out social work tasks, Oranga Tamariki was designated as the lead funding agency for the social sector pay equity settlement process in 2022.⁶

Procurement and contract management practices before 2024/25

- 2.9 In our interviews with staff and providers, we heard that the social sector had been concerned about procurement and contract management for many years.
- 2.10 We were told that Oranga Tamariki often made decisions about contracts late in the financial year. Providers' contracts were also almost always rolled over without an open, competitive, and transparent procurement process. Some providers had held contracts with Oranga Tamariki (and its predecessors) for many years without any formal testing of the market.
- 2.11 We understand that Oranga Tamariki generally relied on the ability to opt out of the Government Procurement Rules for the provision of welfare services by the government.⁷
- 2.12 Providers' performance reporting periods varied (for example, some were quarterly or six monthly). Their reporting obligations typically contained a mixture of quantitative data (for example, the number of full-time equivalent staff the service employs or the number of visits to whānau it has made), along with a qualitative report to provide context and insight.

5 Oranga Tamariki defines a "Fee for Service" arrangement as "Any arrangement that is for the provision of social sector services where an alternative contracting arrangement is not in place. This includes both Interim Care Arrangements and ad hoc service provision." Another way of describing it is a system where a provider of a service is paid for each unit of service provided.

6 In July 2022, Cabinet agreed to set up a fund to enable the settlement of a pay equity claim for employees of five large providers carrying out social work tasks. Cabinet agreed in November 2022 to extend the pay equity settlement to all workers carrying out social work in the wider social services sector. The new pay rates under the extended settlement took effect on 1 July 2023.

7 In certain circumstances, a public organisation can opt out of applying most of the Government Procurement Rules. For example, public organisations can opt out of the Rules for the provision of certain types of health services, education services, and welfare services. See (3)(k) of "Rule 12: Opt-out procurements", at procurement.govt.nz.

- 2.13 Providers told us that their relationships with the Oranga Tamariki regional staff responsible for contract management were the main strength of its contract management practice. We were told that interactions with these staff were, on the whole, professional, constructive, and respectful.
- 2.14 Oranga Tamariki also generally saw these relationships as a strength, although some staff at National Office said that close relationships could make it difficult for regional staff to be part of decisions that might negatively affect providers.
- 2.15 Both Oranga Tamariki and providers highlighted events in 2022/23 as important context for the 2024/25 contracting round.
- 2.16 In the 2022/23 contracting round, Oranga Tamariki sought to reduce its spending on contracts by about \$20 million. Oranga Tamariki had documented lessons from this contracting round, including that:
- the process was difficult for staff and placed a strain on relationships between regional staff and providers;
 - consistent key messages and a clear process would have helped frontline staff to explain why the funding changes were needed; and
 - the tension in relationships with providers prevented a clearer focus on the strategy Oranga Tamariki wanted to pursue and affected the exercise's effectiveness.
- 2.17 Oranga Tamariki made commitments to providers after that contracting round, including that it would communicate and engage with affected providers better.
- 2.18 Oranga Tamariki also engaged Deloitte New Zealand (Deloitte) to review its social services procurement operating model. Deloitte's report identified several areas where Oranga Tamariki was doing well. However, it also highlighted an extensive set of risks and made recommendations for addressing them – including the need to prepare a strategic procurement plan.⁸
- 2.19 During our inquiry, staff were unclear about the status of the work to implement Deloitte's recommendations.

Financial pressures in the contracted services budget

- 2.20 Oranga Tamariki told us that, in late 2023, it was forecasting that its 2023/24 spending would go over budget and it was at risk of breaching its appropriations.

⁸ An organisation's strategic procurement plan might include, for example, its vision of the outcomes it wishes to achieve, the types of procurement it does, the value and risks associated with the procurement, and an analysis of the market it procures from.

- 2.21 Oranga Tamariki had set a budget envelope of \$490 million for contracted services in 2023/24. This was based on the previous year's \$537 million spending, less savings from the 2022/23 line-by-line review and a reduction to provide funding for Oranga Tamariki's Enabling Communities prototypes.⁹
- 2.22 However, in September 2023, the Finance Team identified that \$537 million had been committed in contracts, including \$27.9 million of contracts that had been entered into without an identified funding source.
- 2.23 Although the Finance Team identified \$22.5 million in one-off funding to add to the budget (taking it to a one-off total of \$512.5 million), this still left potential overspending of more than \$24 million in 2023/24.
- 2.24 In September 2023, Oranga Tamariki also received an additional \$40 million for 2023/24 to provide for social sector pay equity funding.
- 2.25 We understand that Oranga Tamariki had passed on pay equity funding to eligible providers through one-off grants. However, it intended to build pay equity funding into the contracts with eligible providers at an estimated cost of more than \$50 million a year in and from 2024/25.

Preparation for the 2024/25 contracting round

- 2.26 In August 2023, Oranga Tamariki set up a Partnered Spend Investment Approach Taskforce (the Taskforce) to complete a review of its contracted services' value for money and effectiveness.
- 2.27 The Taskforce reported to an internal governance sub-committee (Mana Ōrite) and the primary governance group in Oranga Tamariki (Te Riu), which is made up of the Senior Leadership Team.
- 2.28 The Taskforce and other staff briefed Mana Ōrite and Te Riu about the contracting round in September and November 2023.
- 2.29 The Taskforce advised that it had identified opportunities to reduce the amount Oranga Tamariki spent on contracted services by up to \$50 million in 2024/25 and later years, in part by removing or reducing unused or under-utilised services. The Taskforce told Te Riu that it had reviewed a selection of programmes and provided Te Riu an assessment of the available evidence about the effectiveness of these programmes, noting that there was varying quality of evidence. The Taskforce also provided a risk assessment of different savings options and implementation time frames.

⁹ These prototypes help Oranga Tamariki to test its approach to decentralising funding to iwi Māori and other communities. See, for example, "Community-led contact centre goes live in Whakatāne" at orangatamariki.govt.nz.

- 2.30 The Taskforce also told Te Riu that it had reviewed providers' spending and identified under-utilised funding for 2023/24.¹⁰ Oranga Tamariki intended to recover as much of this funding as individual contractual arrangements permitted. The Taskforce said that it had "carefully considered the impact on tamariki, whānau and communities of this approach". In its view, the impact would be minimal given the focus on under-utilisation. However, although the paper indicated that the Taskforce had reviewed a selection of providers, it was otherwise unclear how it assessed the potential impact.
- 2.31 Māori, Partnerships and Communities said that it intended to review all contracts before 31 December 2023 to give providers enough notice of any intended changes. It also intended to make several changes to processes. These included:
- changing its processes for approving and varying contracts;
 - centralising its contracting processes to improve their quality, consistency, and timeliness;
 - introducing new contract clauses that would require providers to submit copies of audited annual financial statements and, in some instances, detail on the cost of services;
 - improving the information that it would use to make future decisions on contracts; and
 - improving the reporting system and information received from providers.
- 2.32 We also heard that, around this time, some Oranga Tamariki staff had formed a narrative that some providers had "done well" from Oranga Tamariki funding and were not providing services.
- 2.33 We understand that Oranga Tamariki intended to review its pricing model and individual provider funding, but this did not happen. Oranga Tamariki told us that, after looking at providers' financial information on the Charities Commission website and providers' utilisation data, it formed a view about whether some or all of the money held in providers' reserves had come from funding that was meant for contracted services.¹¹ However, as we mention in paragraph 6.47, Oranga Tamariki did not test these assumptions directly with providers.
- 2.34 Te Riu said that the time frames for making the changes to processes were challenging and that early engagement with providers and partners was crucial.

10 The term "under-utilised" or "under-utilisation" describes where a provider has not provided the full level of service that Oranga Tamariki has funded it for. Oranga Tamariki has also used similar terms to express this, such as "under-delivery", "under-performance", and "underspend". We use "under-utilisation" to recognise that there might be a variety of reasons why service provision might not match the funding provided.

11 In its documentation, Oranga Tamariki used the terms "retained earnings", "underspends", and "surpluses" to refer to funds that it considered had not been spent on services. We use the term "reserves" to describe financial reserves a provider might have without implying a reason why that might be the case.

2.35 Te Riu also said that the Deputy Chief Executives for System Leadership, Māori, Partnerships and Communities, and People, Culture and Enabling Services would work together to provide advice to the Chief Executive on assessing contracts, preparing a communications approach, and assessing the risks of savings and opportunities for reinvestment and capability-building in the organisation.

2.36 We understand that the Taskforce was disestablished in November 2023.

Directions from the incoming Government

2.37 On 27 November 2023, a new Government was sworn in. The incoming Government made two significant policy decisions that were relevant to this inquiry. These were about the strategic focus for Oranga Tamariki and the need to achieve savings.

2.38 Oranga Tamariki told us that it received a clear direction from the Minister for Children (the Minister) that Oranga Tamariki needed to focus on its core purpose. Staff told us that they understood this to mean that Oranga Tamariki should focus on about 4000 tamariki for whom it has statutory care responsibilities. Oranga Tamariki also told us that its strategic direction involved a strong emphasis on maintaining family violence and sexual violence services for tamariki.

2.39 In response to our draft report, the Minister told us that the direction provided for contracted services was not about achieving a savings target but about ensuring that the services funded by Oranga Tamariki were delivering outcomes sought, that the services were connected to its core business, and that there was not duplication of services.

2.40 In December 2023, the Treasury issued guidance for departments that provided an overview of the Budget 2024 process and how to submit Budget initiatives.

2.41 The guidance said that Cabinet had agreed to a baseline savings target of 6.5% for most agencies and 7.5% for agencies with more than a 50% increase in fulltime-equivalent staff since 2017/18. Oranga Tamariki was required to meet the 6.5% baseline savings target.

2.42 In Budget 2024, Oranga Tamariki's total appropriated baseline funding decreased by \$56.5 million, from \$1,584.4 million in 2023/24 to \$1,527.9 million in 2024/25.

Response to the change in direction

2.43 In early 2024, Oranga Tamariki set out to achieve these baseline savings. It aimed to make them primarily from an organisational restructure and its contracted services budget, including recovering funding from providers in 2023/24 (see Part 3) and reducing contracted services in 2024/25 and beyond (see Part 4).

- 2.44 The organisational restructure ran in parallel to the 2024/25 contracting round and was finalised in July 2024. The new structure changed how the teams responsible for contracting were resourced and structured.
- 2.45 Oranga Tamariki told us that the restructure reduced the number of staff working on contract development and management by about 50%.¹² Affected staff included contract managers in the regional offices. We discuss the impact of this in Part 6.

¹² Before the restructure, four fulltime-equivalent staff were responsible for preparing contracts and 70 fulltime-equivalent staff were responsible for managing contracts, mostly in the regions.

Reconciliation process for 2023/24

3.1 In this Part, we describe:

- how Oranga Tamariki planned to achieve savings for 2023/24 through reconciliation;¹³
- correspondence about the reconciliation process with providers and the Minister in March 2024;
- providers' reactions to the approach to reconciliation; and
- the results of the reconciliation process for 2023/24.

Planning to achieve savings for 2023/24 through reconciliation

- 3.2 In February 2024, Te Riu was briefed on a plan to recover under-utilised funds from providers to contribute to achieving baseline savings in 2023/24.
- 3.3 Māori, Partnerships and Communities advised Te Riu that, although recovering funding for under-utilisation was an annual business-as-usual contract management activity, the recovery process “has been strengthened because of the criticality of managing within baselines for this financial year”.
- 3.4 Māori, Partnerships and Communities also said that “All options will be canvassed with a focus on realising every available underutilisation whilst at the same time, maintaining good relationships with our provider workforce.”
- 3.5 At that time, Oranga Tamariki estimated that, based on reporting from providers from 1 July to 30 November 2023, this new approach would affect 98 contracts with 82 organisations.
- 3.6 Te Riu was told that Māori, Partnerships and Communities regional managers and its National Operations Team had recently implemented changes, including “declining all requests [from providers] to repurpose underutilisations to other service lines” (which it had previously allowed).
- 3.7 However, it is unclear whether staff communicated this change to providers before having individual discussions about the amounts they wanted to recover.
- 3.8 Māori, Partnerships and Communities also advised Te Riu that it had set up regular staff meetings to maintain progress and confirm the value of under-utilisations “in real time”.

¹³ The term “reconciliation” describes the process that Oranga Tamariki uses to reconcile the amount of funding that it has paid a provider for services in advance with reporting about services provided in the relevant period. The term also refers to the process Oranga Tamariki uses to seek to recover funding that it considers has not been needed and/or used for the contracted services.

Communication about the reconciliation process

- 3.9 On 27 March 2024, the Deputy Chief Executive, Māori, Partnerships and Communities emailed all providers to update them on Māori, Partnerships and Communities' work on the annual contracting processes for 2024/25, the move from Fee for Service arrangements to Outcome Agreements (where relevant), planned updates to contracts' terms and conditions, and the reconciliation process for 2023/24.
- 3.10 The email from the Deputy Chief Executive, Māori, Partnerships and Communities said:
- It's also important to let you know that we have initiated the annual reconciliation process. If you have an identified underutilisation, my team will be in touch to confirm this with you and to discuss full recovery.*
- 3.11 The messaging in this communication was informed by the "Partnered Spend Communications Strategy" (the Communications Strategy), dated 27 March 2024. The Communications Strategy estimated that, based on reports from providers after the second quarter of the year, the 2023/24 under-utilisation amount for the Māori, Partnerships and Communities and Service Delivery groups was \$18.5 million.
- 3.12 The Communications Strategy instructed Oranga Tamariki to state in external communications that reconciliation was a business-as-usual process. The media team acknowledged that people might consider that savings targets were driving the process. However, it said that communications should be clear that these were standard annual processes.
- 3.13 On 27 March 2024, Oranga Tamariki briefed the Minister about its planned reconciliation process and its communications plan. The briefing said that Oranga Tamariki carried out reconciliation every year but that its contractual terms meant that it could not always recover the full amount.
- 3.14 Oranga Tamariki indicated that it was looking to strengthen these terms in the future, that it would seek full recovery wherever possible now, and that providers "may view this as a reduction in funding and frontline services".

Starting the reconciliation process

- 3.15 After emailing providers, Oranga Tamariki began to implement its planned approach to reconciliation.
- 3.16 We understand that Oranga Tamariki used utilisation rates for the first three quarters of 2023/24 to determine the amount to be repaid – rather than, for example, looking at providers' performance over the whole financial year as it normally did.

- 3.17 Oranga Tamariki had said internally and to the Minister that it would seek to recover as much funding as possible between utilisation and the full amount funded. Once Oranga Tamariki agreed an amount with a provider, it recovered the funds by deducting them from its payments to the provider for the fourth quarter of 2023/24.
- 3.18 National Office led reconciliation discussions with “the top” 35 largest providers. This later increased to 44 providers after requests for additional support from regional offices.
- 3.19 Oranga Tamariki staff and providers described difficult meetings trying to agree on the amounts to be recovered. We were told that meetings were particularly difficult when Oranga Tamariki suggested that a provider’s reserves indicated that it had not spent money on providing services for Oranga Tamariki.
- 3.20 Staff also indicated that the concurrent restructure resulted in the loss of regional staff whose in-depth knowledge of providers would have helped with this process. Providers echoed these sentiments, and several told us that they felt that some staff they dealt with had a poor understanding of their services and associated costs.
- 3.21 On 11 April 2024, the Deputy Chief Executive, Māori, Partnerships and Communities emailed regional staff to reinforce that he expected full recovery. He also reiterated that regional staff no longer had the same discretion as they had previously had (for example, to allow funding to be redistributed from under-delivered services to those that the same provider over-delivered).
- 3.22 Oranga Tamariki staff and providers told us that, despite statements about reconciliation (and recovery of funding) being a business-as-usual process, it was clear that it was taking a “starkly different” approach to that taken in previous years.
- 3.23 Staff and providers told us that Oranga Tamariki had not carried out reconciliation in a consistent or disciplined way for many years. For example, we heard that, previously, Oranga Tamariki:
- had not necessarily expected providers to reach 100% of all their agreed deliverables to retain all of their funding;
 - often took an overall view of service provision – for example, if a provider reported under-utilisation of one service line but over-utilisation of another funded service, Oranga Tamariki generally allowed funding to be redistributed and did not seek to recover funding for the under-utilised services;
 - did not seek to recover any funding from providers during periods of the Covid-19 pandemic; and
 - had a variety of contractual terms that often required providers to report little, if any, of their financial information and use of funding.

Providers' reactions to the reconciliation process

- 3.24 Te Pai Ora SSPA began hearing from providers about the reconciliation process. We heard that the concerns raised by providers included that the approach to reconciliation was new, that it had not been adequately communicated or consulted upon, and that the process did not appear to be consistent or clear.
- 3.25 The approach to reconciliation placed an immediate strain on providers who had planned their finances and those who used some of the funding they received from Oranga Tamariki for costs such as staff contracts, property leases, and other running costs.
- 3.26 Some providers disputed the amounts Oranga Tamariki sought to recover and its assumptions that their reserves derived from unspent Oranga Tamariki funding. For example, one large provider told us that Oranga Tamariki sought to recover hundreds of thousands of dollars despite issues that the provider raised. These included that:
- the provider forecast that it would achieve 100% utilisation for one affected service type by the end of 2023/24; and
 - information held by Oranga Tamariki about the provider's delivery and costs was inconsistent with the information that the provider held.
- 3.27 Another large provider said that Oranga Tamariki told them that, as part of contract negotiations, it wanted to review their "substantial reserves" and how Oranga Tamariki would "reinvest" these funds. The provider's response to Oranga Tamariki noted that its service revenue from the contract with Oranga Tamariki was managed separately to its other finances. The provider also emphasised that its reserves had come from many years of good financial management, including asset management and investment, and that it needed its reserves to operate safely in case of changes in funding.
- 3.28 Providers also explained that they were required to hold a certain amount in reserves to meet social services accreditation standards.
- 3.29 Oranga Tamariki updated the Minister on 7 June 2024, saying that it was close to finalising the reconciliation process but that providers had been "sensitive to this process" and had needed "greater transparency". Oranga Tamariki said that the process was resource intensive and that this had delayed the 2024/25 contracting process.¹⁴

¹⁴ The update also said that a Centralised Contracting Team had been set up as a result. We discuss this further in paragraphs 4.28-4.59.

Results of the reconciliation process for 2023/24

- 3.30 Where it was agreed that a provider would repay an amount, Oranga Tamariki deducted that amount from its payments to that provider for April-June 2024. We were told that, in some instances, Oranga Tamariki withheld payments – including for services that both parties agreed had been provided – until it agreed the amount to be repaid.
- 3.31 As at 20 June 2024, Oranga Tamariki still owed payments to 41 providers that had been due on 20 April 2024. The payments amounted to almost \$14 million. Oranga Tamariki documentation indicated that most of these payments were overdue because reconciliation amounts had yet to be agreed or it was awaiting sign-off on a contractual variation. Oranga Tamariki told us that there might have been other reasons for withholding payments, including that it needed to receive reporting from the provider before it could release payment or there were services being provided outside of contract.
- 3.32 We understand that some providers successfully disputed the amount of funding Oranga Tamariki sought to recover on the basis that the process Oranga Tamariki used to calculate it was inconsistent with the contract's terms.
- 3.33 Using the information available to us, Oranga Tamariki recovered about \$20-\$22 million from providers. However, the disputes, the protracted nature of the negotiations about reconciliation, and inconsistencies in documentation make it difficult to confirm the amount.
- 3.34 The delays in completing the reconciliation process meant that the process began to overlap with discussions about contracts for 2024/25. Staff told us that reconciliation and discussing new or varied contracts with providers would usually have been separate processes.
- 3.35 However, the processes merged in 2024 because of the different approach to reconciliation, the time it took to receive the data needed for this, and difficulty agreeing with providers the amounts to be recovered.
- 3.36 As a result, there was no “clear air” between the processes. This contributed to a lack of timely communication, delayed decision-making, and ultimately damaged relationships between Oranga Tamariki and providers.
- 3.37 We discuss our views on the reconciliation process in Part 6.

4

Preparing a contracted services plan for 2024/25

- 4.1 In this Part, we describe how Oranga Tamariki prepared its contracted services plan for 2024/25.¹⁵ We discuss:
- how Oranga Tamariki planned to reduce spending on contracts in 2024/25;
 - concerns that were raised about a lack of progress with the 2024/25 contracting round;
 - how Deputy Chief Executives reviewed the investment plan to make recommendations; and
 - the decisions about the contracting round that Oranga Tamariki made in late June and its notification to providers whose contracts expired on 30 June 2024.

Planning to reduce spending on contracts in 2024/25

- 4.2 In February 2024, Oranga Tamariki identified that, to achieve its baseline savings, it would need an “annual reduction of at least \$30 million in contracted spending budgets”. Te Riu considered ways to reach this target.
- 4.3 The first approach involved setting an overall regional budget that matched the level of baseline savings needed, enabling regional staff to determine the right mix of services in the area. Māori, Partnerships and Communities advised that this would need strong controls and that there were several risks (for example, that regional staff would make decisions without an investment strategy).
- 4.4 The second approach involved addressing “inefficiencies in national legacy programmes” such as Family Start, Services in Schools, Gateway, Targeted Supports post-Gateway, and Strengthening Families.¹⁶
- 4.5 Oranga Tamariki told the Minister in March 2024 that these national programmes cost about \$100 million a year. Recent reviews of them suggested that they had one or more of the following features:
- low utilisation rates;
 - poor evidence of outcomes;
 - misalignment with the new strategic direction for Oranga Tamariki; or
 - potential duplication of services with other agencies.

¹⁵ We use the phrase “contracted services plan” to refer to decisions Oranga Tamariki made about which providers it would contract with in 2024/25, the services it intended to contract, and the cost of these services.

¹⁶ **Family Start** is an early home visiting programme. **Services in Schools** include Social Workers in Schools, Multi-agency Services in Secondary Schools, and Youth Workers in Secondary Schools. **Gateway** is specialist assessment that aims to comprehensively identify children and young people’s needs and develop a co-ordinated plan to meet those needs. **Targeted Supports post-Gateway** are primary-level mental health services, alcohol and drug services in residences, and support services for children with a diagnosed disability or mental health disability and/or their primary caregiver. **Strengthening Families** is a programme for vulnerable whānau with tamariki who need support, where a co-ordinator helps to co-ordinate government services.

- 4.6 A Cabinet paper in May 2024 emphasised that Oranga Tamariki needed to develop its proposed changes to these programmes with other agencies involved in the programmes. Staff told us that they did not engage further with other agencies after the Cabinet paper or before Oranga Tamariki made decisions about contracts for 2024/25.
- 4.7 In February 2024, Te Riu also decided to discontinue Fee for Service arrangements and transition providers under these arrangements to an Outcome Agreement, where possible and appropriate. This was intended to provide more predictability about the cost of these services and meant that all contracted services would be covered by a single budget.

Reduced budget envelope for 2024/25

- 4.8 To meet its baseline savings targets, Oranga Tamariki decided to reduce its contracted services spending by \$60 million in 2024/25.
- 4.9 Oranga Tamariki set its internal budget envelope for contracted services in 2024/25 at \$400 million, compared to the \$490 million set in 2023/24. The 2024/25 budget was intended to allow for other anticipated expenses and priorities, such as social sector pay equity, the Enabling Communities project,¹⁷ and the transition from Fee for Service arrangements to Outcome Agreements.
- 4.10 Taking these factors and other adjustments into account, the then Chief Financial Officer said that the budget represented a reduction of about \$82.6 million for 2024/25. The Chief Financial Officer also said that there were options to close the \$22.6 million gap between the estimated reduction and the intended \$60 million reduction Oranga Tamariki had agreed on.
- 4.11 We found it difficult to reconcile these numbers with other estimated spending in the contracting round, and Oranga Tamariki had not settled its total spending on contracts for 2024/25 when we prepared this report.

Oranga Tamariki formally notified providers of the contracting round in March 2024

- 4.12 As mentioned in paragraph 3.9, Oranga Tamariki wrote to providers on 27 March 2024 to update them on the 2024/25 contracting round and related work. The letter for providers whose contracts expired on 30 June 2024 said that Oranga Tamariki was forecasting its needs, that it wanted to start discussing the future of their contracts “over the coming weeks”, and that it could not “guarantee the on-going funding of services”.

¹⁷ The Enabling Communities project describes the work Oranga Tamariki engaged in to decentralise its funding and functions to te Tiriti o Waitangi and community partners.

- 4.13 An email to all providers stated that “the well-being and best interests of children and young people are the first and paramount consideration in everything we do”. It also said that contracting would focus more on performance and outcomes, in line with the Minister’s expectations.
- 4.14 We understand that some providers had been given informal notice of these communications earlier. However, for many providers, this was the first communication from Oranga Tamariki about the 2024/25 contracting round.
- 4.15 Te Pai Ora SSPA and Oranga Tamariki also arranged an online hui, attended by more than 180 providers, to hear directly from Oranga Tamariki about the contracting round.

Regional staff input sought in April and May 2024

- 4.16 On 8 April 2024, National Office staff asked regional teams to provide investment proposals setting out which services should be continued, discontinued, or reduced in 2024/25. National Office provided regional staff with guidance and data to help them prepare these regional plans.
- 4.17 The guidance for regional staff set out three investment priorities, which were:
- *children receiving statutory services and supports (must have);*
 - *partnered responses (must have); and*
 - *prevention and early support (would like to have).*
- 4.18 The data given to regional office staff to help inform their advice included:
- the total number of children in the region based on 2018 census data;
 - children-in-need data from 2021; and
 - an indication of service volumes in the regions.
- 4.19 National Office determined that, due to budget sensitivity, regional staff could not be told about the contracted services budget for 2024/25.
- 4.20 National Office asked for the regional plans to be submitted by 12 April 2024. This effectively gave regional staff one week to review the relevant contracts in their region and make recommendations. National Office then collated the recommendations.
- 4.21 Each region provided the same core information. It included the provider’s name; a description of the service; the 2023/24 contracted service volumes, rates, and total spend; and a recommended approach to the contract for 2024/25.
- 4.22 Some regions provided little or no commentary to explain their recommendation. Others explained why the service was needed, why it could be reduced, or the risks

associated with reducing funding. However, not even the most detailed responses had a supporting rationale for every recommendation.

- 4.23 Oranga Tamariki told us that the collated regional investment proposals exceeded the indicative \$400 million budget by about \$20 million.
- 4.24 On 19 April 2024, National Office asked the regional teams to look again at the guidance it had provided on 8 April 2024 and review their regional investment plans accordingly. However, despite National Office's hope that the regional plans would propose savings, the total proposed funding in the revised regional plans increased to about \$491 million.
- 4.25 At this stage, of 559 identified providers, Oranga Tamariki estimated that:
- 108 providers would have all contracted funding discontinued;
 - 233 providers would receive reduced funding;
 - 170 providers would have no change to their 2023/24 funding;
 - 43 providers would receive an increase in funding; and
 - five new providers would be contracted for 2024/25.
- 4.26 An update to Te Riu in May 2024 said that proposed funding exceeded the budget.¹⁸ The update also included an appendix setting out more specific funding changes for programme areas (such as care, care support, early support, family and sexual violence services, strategic partnerships, and prevention).
- 4.27 The update did not include any specific information about risks to, or opportunities for, providers or the community, including the impact of the decisions on children. However, it did say that "In the absence of a system that makes clear the specific needs of tamariki and whānau to inform investment decisions, regional teams are best placed to understand those needs."

Central Contracting Team established

- 4.28 On 29 May 2024, the then Chief Investment Advisor raised concerns about the lack of progress on the contracting round with the Chief Executive. The Chief Investment Advisor had raised similar concerns before, including in formal weekly updates from March 2024. For example, an earlier update of 27 March 2024 raised concerns about a lack of planning for the contracting round, overdue payments, and noted he was seeking access to data on reconciliations. The update of 29 May 2024 reiterated similar concerns and emphasised that there were only four weeks until the end of the financial year and decisions had still not been made.
- 4.29 The Chief Investment Advisor advised the Chief Executive that delaying the decisions would cost "tens of millions". This was largely because of the need to

¹⁸ This was provided in an update to Te Riu dated 24 May 2024, and was minuted at the Te Riu Governance Hui on 28 May 2024.

fund transition periods for providers into 2024/25. Earlier decisions could have allowed Oranga Tamariki to exit the contracts by 30 June 2024.

- 4.30 The Chief Investment Advisor recommended setting up a central team to provide “instruction rather than engagement or consultation with staff to implement purchasing decisions”. The Chief Executive agreed that there was a “need to come over the top now” and asked the Chief Investment Advisor for further advice on this approach.
- 4.31 The Chief Executive signed new instruments of delegation on 4 June 2024 that transferred responsibility for the contracting round to the Central Contracting Team. Te Riu was informed on 5 June 2024.

Deputy Chief Executives’ review of the investment plan

- 4.32 Because the regional staff’s proposed funding exceeded the budget, a small group of Deputy Chief Executives went through the contracted services plan line by line over several days to recommend which services to continue, discontinue, or vary.
- 4.33 Oranga Tamariki provided us with a picture of a whiteboard from the meeting room that set out the decision-making factors for contracts that the Deputy Chief Executives referred to during the line-by-line review. Deputy Chief Executives had information on utilisation levels for the services, and we understand that National Office staff provided support during this process.
- 4.34 However, no minutes of the Deputy Chief Executives’ discussions were taken, and the reasons for decisions about particular service lines were not formally recorded. We are not aware that staff gave any formal briefings or advice to support these discussions, and Oranga Tamariki did not provide us with any.
- 4.35 We also understand that regional staff had no further input into this process, despite Māori, Partnerships and Communities previously stating that regional staff were best placed to understand the impact of decisions on children and their families.
- 4.36 The Deputy Chief Executives completed their line-by-line review on 6 June 2024. On 7 June 2024, Māori, Partnerships and Communities gave the contracted services plan to the Chief Investment Advisor. It also provided a handover document containing key information and links to various documents and spreadsheets about reconciliation work and the 2024/25 contracting round.
- 4.37 The handover document said that, at this point, the projected budget for 2024/25 was about \$393 million. This represented a reduction of almost \$100 million from the revised regional proposals. However, the estimated impacts on providers did not appear to have been updated from when the revised regional funding proposals were prepared to take the reduced funding into account.

- 4.38 On 9 June 2024, the Chief Investment Advisor provided an analysis of the contracted services plan to the Chief Executive. The Chief Investment Advisor said that the plan did not set out:
- the purchasing choices available to Oranga Tamariki;
 - how decision criteria had been applied;
 - how the decisions linked to policy settings, fiscal sustainability requirements, and the Enabling Communities programme of work;
 - the preferred approach's benefits and risks; or
 - how the plan aligned with the approach communicated to the Minister and Cabinet.
- 4.39 The analysis also modelled several different scenarios to understand potential budget implications. The Chief Investment Advisor estimated that, under each scenario, there would be a likely budget shortfall of millions of dollars, even if mitigations were put in place.

Decisions about contracts expiring on 30 June 2024

- 4.40 The Central Contracting Team was set up on 10 June 2024 and took on responsibility for the 2024/25 contracting round. It was a multidisciplinary team from throughout Oranga Tamariki, including legal and finance support.
- 4.41 On 11 June 2024, the Central Contracting Team emailed providers about the indicative timeline for the contracting round. The email stated that Oranga Tamariki would write to all providers with expiring Outcome Agreements in the next two weeks and that it would also write to those providers whose current arrangements Oranga Tamariki wanted to change.
- 4.42 The email said that Oranga Tamariki intended to have contracts in place in July 2024. It also said that, if this was not possible, then Oranga Tamariki would continue to purchase the services on the understanding that:
- *either party can terminate the service that was due to expire with 30 days' notice until such time as the new Outcome Agreement or variation is executed; and*
 - *funding for the services will be payable in accordance with the terms of the new Outcome Agreement or variation, upon its execution.*
- 4.43 The Central Contracting Team carried out further work during June 2024. This included:
- providing regular updates to the Chief Executive and Te Riu;
 - providing a brief update to the Minister on progress most days between 10 June and 4 July 2024;

- segmenting providers into categories based on their 2023/24 funding (excluding pay equity) – large (more than \$3 million), middle, or small (less than \$0.2 million); and
 - engaging with some large providers and Te Pai Ora SSPA on 25 June 2024 to discuss the approach to the contracting round and concerns from the sector.
- 4.44 On 24 June 2024, the Central Contracting Team gave the Chief Executive a memorandum setting out an approach to deciding about contracts and communicating that decision to affected providers. We understand that, to help prepare this memorandum, the Chief Investment Advisor directed members of the Central Contracting Team to contact regional managers to ask about risks associated with allowing contracts to cease.
- 4.45 The memorandum mainly focused on contracts that were set to expire on 30 June 2024. In particular, the memorandum set out the contracts Oranga Tamariki did not intend to renew on 30 June 2024 and sought agreement to inform the affected providers. The memorandum said that the team had not identified any risks with ceasing these contracts, although it did not state exactly how Oranga Tamariki had determined this (for example, what type of risks had been considered).
- 4.46 The memorandum recommended renewing other contracts that were due to expire on 30 June at their current level (for example, because regional managers had identified risk with ceasing the contract or there was a need to maintain programmes that aligned with Government priorities), or varying the contracts to their 2023/24 utilisation levels.
- 4.47 The Central Contracting Team recommended that, after it had notified providers with expiring contracts, it should consider contracts that were not expiring on 30 June 2024 that Oranga Tamariki wanted to cease.
- 4.48 The Chief Executive agreed to the memorandum's recommendations on 25 June 2024.

Informing providers with expiring contracts

- 4.49 The Central Contracting Team began to notify providers whose contracts were expiring on 30 June 2024 about the decisions Oranga Tamariki had made.
- 4.50 Letters communicating the decisions were sent on 27 June 2024. The next day was a public holiday for Matariki, followed by the weekend of 29-30 June.
- 4.51 Documents from Oranga Tamariki show that 29 providers with contracts expiring on 30 June 2024 were notified on 27 June 2024 that their contract would not be

renewed. We understand that these contracts were worth about \$3.9 million in total. The timing of the notification meant that these providers were effectively given several working hours' notice of the decision not to renew their contract. The emails notifying providers that we have seen were generic and did not explain why Oranga Tamariki would not renew the contracts.

- 4.52 Some providers whose contracts ended on 30 June 2024 told us that they had heard earlier that year that Oranga Tamariki might make changes and could not guarantee funding for expiring contracts. However, when they heard nothing further, they were taken by surprise when their contracts were not rolled over as had been the practice in previous years. We were told this included providers who had contracted with Oranga Tamariki (and its institutional predecessors) for many years and had not been given any indication that it had concerns about their performance.
- 4.53 Oranga Tamariki also notified the remaining providers whose contracts expired on 30 June 2024 and who it wanted to continue contracting with.
- 4.54 This email reaffirmed that, because new Outcome Agreements would not be in place by 1 July 2024, Oranga Tamariki would continue to purchase services within the scope of providers' expiring Outcome Agreements, on the understanding that either party could "terminate any service that was due to expire with 30 days' notice".
- 4.55 Oranga Tamariki indicated that it would communicate on 1 July 2024 whether it wanted to renew some of the services in full or vary them.

Central Contracting Team disestablished

- 4.56 On 4 July 2024, the Chief Investment Advisor raised concerns about difficulty getting access to Māori, Partnerships and Communities staff to support the contracting round. He informed the Chief Executive that the contracting round could not be completed under these circumstances.
- 4.57 We understand that, at this point, the Chief Executive decided that responsibility for the contracting round should return to Māori, Partnerships and Communities. Its title after the organisational restructure was Enabling Communities & Investment.
- 4.58 The Chief Investment Advisor provided a handover to staff in the Office of the Chief Executive and resigned effective 5 July 2024. The Minister for Children was notified on 12 July 2024 that the Deputy Chief Executive, Enabling Communities & Investment was "now leading the provider work".

- 4.59 We understand that the Central Contracting Team was not formally disestablished at this time and that some of its staff continued to support Enabling Communities & Investment. However, we also heard that, from this point, there were fewer opportunities for staff from some teams (particularly the legal team) to contribute to the contracting round.

Further decisions about contracts in July 2024

- 4.60 On 12 July 2024, the Deputy Chief Executive, Enabling Communities & Investment wrote to all remaining providers with expired contracts.
- 4.61 The letter stated that “provisions were made to extend services for four weeks to ensure services continue to be provided at the levels described in your expired Outcome Agreement”. We understand that this was a reference to the ability for either party to terminate any service with 30 days’ notice, which earlier communications to providers had mentioned.
- 4.62 Enabling Communities & Investment prepared two sets of advice for the Chief Executive. These briefings did not explicitly refer to the previous advice from late June 2024 (see paragraphs 4.40-4.48) or continue the approach of segmenting providers. We understand that advice and decisions from this point were based instead on the contracted services plan prepared by Deputy Chief Executives in early June.
- 4.63 Oranga Tamariki made its first set of decisions on 16 July 2024. They included:
- releasing payments due on 20 July 2024 to providers who were currently “in contract” with no changes to services or who received Tākai (previously SKIP)¹⁹ grant funding;
 - drafting Outcome Agreements for, and engaging with, providers that Oranga Tamariki wanted to continue contracting with; and
 - agreeing a notice period of three months for the 29 providers who received formal notice that their services were no longer needed.
- 4.64 Oranga Tamariki made its second set of decisions on 19 July 2024. They focused on:
- reducing or discontinuing services, including services under contracts that did not expire on 30 June 2024; and
 - drafting Outcome Agreements for, and engaging with, providers to give effect to decisions to reduce or discontinue services.

- 4.65 The briefing in the second set of advice said that staff had reviewed and analysed all contracts and service lines. It also that the Chief Financial Officer and the Deputy Chief Executives of Enabling Communities & Investment, Tamariki and Whānau Services (formerly Service Delivery), and Residences and Homes had endorsed the proposals.
- 4.66 The briefing stated that total 2024/25 contracted services funding was \$423.26 million and provided a breakdown of this spending. The briefing did not discuss how this aligned with the previous budget of \$400 million, its impact on providers, or its implications for children, young people, and their families.

Figure 1
Contracted services funding for 2024/25, as at 19 July 2024

Category of contracted service	Funding \$ million	Percentage of funding
Early support	131.81	31.0
Care	117.04	28.0
Care support	64.91	16.0
Youth justice	33.48	8.0
Transitions	26.03	6.0
Strategic partnerships	22.54	5.0
Family violence and sexual violence	9.81	2.0
Intensive intervention	8.97	2.0
Prevention	4.75	1.0
Enabling communities	3.92	1.0
Total	\$423.26m	100%

Source: Data provided by Oranga Tamariki.

- 4.67 The briefing said that funding had been set aside for matters such as additional care capacity if needed, social sector pay equity, maintaining funding for family and sexual violence services, and a notice period for those services Oranga Tamariki was exiting in 2024/25.
- 4.68 The final budget amount in the contracted services plan for 2024/25 was about \$429 million, excluding pay equity, transitional or support funding, and other projected expenditure.²⁰ The excluded expenditure totalled almost \$100 million, bringing the projected total cost to \$529 million.

²⁰ The information provided to us did not explain the variance between the figure presented in the 19 July 2024 briefing (\$423 million) and the final contracted services plan (\$429 million). However, we understand that there were some relatively minor adjustments to the plan after it had been approved.

5

Implementing the 2024/25 contracted services plan

5.1 In this Part, we describe:

- advice within Oranga Tamariki about implementing decisions;
- how Oranga Tamariki notified providers of its decisions;
- the reaction from providers and the wider social services sector;
- how contract negotiations continued until the end of 2024; and
- the Minister’s intervention in early 2025.²¹

Internal guidance about implementing decisions

5.2 On 19 July 2024, after the Chief Executive signed off the second set of contract decisions, National Office notified regional staff of the 2024/25 contracted services plan. National Office also provided staff with an Advice Note on 22 July 2024 that had guidance on how to implement the decisions.²²

5.3 The Advice Note included:

- template letters to send to providers of services that Oranga Tamariki had decided to reduce or discontinue;
- an instruction that, where Oranga Tamariki had decided to reduce a contract and where it had not yet paid providers their first quarterly payment, staff should assess whether it should pay this before the contract was varied to “ensure that no overpayment is made based on the proposed change to the service”; and
- a new approach to purchasing care services that involved paying for 70% (nine months) of care provision, using monthly reporting and quarterly reconciliation, and adjusting funding after that in line with actual usage.

5.4 The Advice Note also gave regional staff advice about their responsibilities when discontinuing a service, including guidance on what Oranga Tamariki expected of providers and Oranga Tamariki staff in terms of winding down services and referring clients elsewhere.

5.5 The Advice Note said that providers were responsible for identifying other local services to refer clients to, communicating with clients about their needs, facilitating referral, or encouraging clients to self-refer.

5.6 The Advice Note said that the role of staff included monitoring the transition plan, working to confirm the funding needed for transition, and sharing a list of other available services with providers.

²¹ It was not possible to provide specific dates for all events discussed in this Part.

²² This version replaced an earlier Advice Note circulated on 3 July 2024.

Notifying providers about decisions

- 5.7 Oranga Tamariki contacted providers between late July and mid-August 2024 to notify them of the decisions it had made about their contracts – in particular, about changes to contracts for 2024/25.²³
- 5.8 We saw examples of the letters Oranga Tamariki sent to providers to give them formal notice of its decisions. The letters followed the templates set out in the Advice Note. The letters included a table of affected contracts and what the change in 2024/25 would be (for example, that Oranga Tamariki would reduce or discontinue the contract).
- 5.9 However, the letters also set out all possible scenarios that could apply depending on what decision Oranga Tamariki had made. It was difficult for providers to identify which parts of the letter were about their contract(s).
- 5.10 For example, the letters did not explicitly state the effective end date of contracts for services that Oranga Tamariki was discontinuing. Instead, they gave scenarios – for example, that Oranga Tamariki would stop its funding either by 30 September 2024 if the contract had expired on 30 June or after the notice period listed in the terms of a contract that allowed termination for convenience. Providers had to determine which scenario applied to them.
- 5.11 The letters to providers did not provide any rationale for the decisions or explain why Oranga Tamariki was varying or ceasing contracts for services.
- 5.12 After notifying providers of decisions to reduce their funding or no longer fund their services, Oranga Tamariki discussed transition planning with them. It confirmed that it would provide an agreed amount of funding to assist with winding down services. We were told that Oranga Tamariki was not contractually required to do this in all cases (for example, where the contract had ceased on 30 June 2024) but did in recognition of the need to allow time to wind down services.
- 5.13 We understand that, in line with the Advice Note, Oranga Tamariki sent providers a template to fill out. We were told this template asked for information about staffing and other financial implications, how providers would use funding from Oranga Tamariki to address these, and where they would refer children and families to.
- 5.14 However, providers told us that they did not know where to refer clients. Some were not aware of any other similar local services or were unsure which providers were still going to be funded. Some told us that other services already had long waiting lists, such as counselling for parents and whānau.

23 Oranga Tamariki did not inform all providers on the same date.

- 5.15 We heard from providers who received no response or information after asking Oranga Tamariki for support with identifying services to refer clients to. We are aware that, in some instances, regional staff worked with providers on their transition plans. In other instances, providers were simply given the transition plan template and told that they needed to fill it out.
- 5.16 Providers and Te Pai Ora SSPA told us that, in some instances, Oranga Tamariki continued to refer new clients to providers whose services it was discontinuing. Oranga Tamariki told us that, in its view, services were still active when referrals were being made because discontinued services had a notice period before ceasing. However, it was not clear to us why a referral would be made to a service that Oranga Tamariki was discontinuing rather than to services Oranga Tamariki intended to continue to fund.
- 5.17 We were also told that Oranga Tamariki withheld payments it owed to some providers, as well as transitional funding, until they completed a transition plan. We saw correspondence from Oranga Tamariki to providers that appeared to confirm this.

Reactions from providers and the sector

- 5.18 It is clear from our inquiry work that these decisions took providers by surprise and that they were not given a clear rationale for them.
- 5.19 Many providers were not expecting changes to their contracts, particularly when the contract was not due to expire. Others were used to the previous practice of rolling contracts over and were not expecting 2024/25 to be any different.
- 5.20 Some providers said that, because their services were over-utilised, they could not understand why their contract was being terminated or reduced.
- 5.21 Providers also said that the late notification of the decisions to reduce or exit contracts:
- impeded their ability to do financial and operational planning for 2024/25; and
 - undermined planning and investment decisions that they had already made on the basis that they had a multi-year contract or because they expected their contract to be renewed as it had been in previous years.
- 5.22 For example, some providers had committed to investments to help build their capacity to provide services, signed new lease agreements, extended subcontracts, and hired new staff or extended staff employment agreements.

- 5.23 Several providers said that their contracts being discontinued or varied at late notice (some of which had been signed relatively recently) meant that they unexpectedly needed to restructure and make staff redundant or redeploy them.
- 5.24 Providers reported difficulties in communicating with Oranga Tamariki about their concerns about decisions. We were told about, and saw, examples where queries from providers about the decisions went days or even weeks without a response. We understand that at least one provider submitted a request under the Official Information Act 1982 to try to understand the reasoning behind the decision about its contract.
- 5.25 We also heard that many of the regional staff that providers had been working with were made redundant in the organisational restructure shortly before or after providers were notified about the contract changes. This meant that providers either had new people to work with or did not know who to contact.
- 5.26 In some instances, providers felt that the best information they could get was from other providers rather than Oranga Tamariki. For example, Te Rūnanga o Toa Rangātira – with whom Oranga Tamariki has a formal partnership and contracts – led a hui with other affected providers in Porirua to discuss the changes being made and explore ways to work together to reduce the affect on the vulnerable children and communities they work with.
- 5.27 Concerns among providers also led to an escalation in concern from bodies such as Te Pai Ora SSPA, Aroturuki Tamariki – Independent Children’s Monitor (Aroturuki Tamariki), and Mana Mokopuna – Children & Young People’s Commission (Mana Mokopuna).
- 5.28 Te Pai Ora SSPA told us that it heard many concerns from its members about funding decisions, how they were being treated, and the limited information they had received. In August 2024, Te Pai Ora SSPA surveyed its members and reported that:
- where services were being reduced or discontinued, Oranga Tamariki did not know where children and whānau would now go for support;
 - rushed decision-making, poor communication, and a lack of clarity were causing distress to the social services sector and its communities; and
 - a lack of transparency and clear rationale for decisions had broken trust between Oranga Tamariki and the sector.
- 5.29 Aroturuki Tamariki and Mana Mokopuna raised similar concerns with Oranga Tamariki. For example, Aroturuki Tamariki wrote to the chief executive of Oranga Tamariki seeking any documentation describing the overall funding strategy and the rationale for change. Aroturuki Tamariki told us it considered that no clear

evidence or rationale was provided in response to this request. With respect to changes to prevention and early intervention services, Aroturuki Tamariki also said that no evidence had been provided to it to show how a social investment approach had been used to inform decisions.

- 5.30 Representatives from Waikato-Tainui, with whom Oranga Tamariki has a formal partnership, also told us that they were seriously concerned about the decision-making. Waikato-Tainui compiled a detailed summary of the outcomes that it had observed in its rohe, based on information from its staff and from Oranga Tamariki.
- 5.31 In response to concerns that providers raised publicly, Oranga Tamariki and the Minister issued separate media releases. The media release from Oranga Tamariki provided data on the number of affected providers and contracts. It said that:
- *50 services (with 35 providers) ended naturally and as intended on 30 June 2024 – the contracted funding was one off, and or the service reached its intended end date.*
 - *269 services (with 142 providers) are being reduced to align to service levels based around forecasted utilisation and need.*
 - *337 services (with 190 providers) are being discontinued due to a change in prioritised need, under performance, and or underutilisation in previous years.*
 - *1470 services (with 451 providers) are already contracted in FY2025, or being re contracted with the same level of service from FY2024.*
 - *We are in the process of procuring at least 50 new services during FY2025.*
- 5.32 Both releases said that Oranga Tamariki had reviewed its contracts line by line to improve the efficiency of its spending and focus on caring for and protecting children in state care.
- 5.33 The releases emphasised that Oranga Tamariki was focused on funding services that had performed well. The media release from Oranga Tamariki said that “some providers have been able to accumulate significant surpluses and this is unacceptable”. The Minister’s release said that “For too many years Oranga Tamariki has been the cash cow for community service providers who say they will provide services, and then don’t.”
- 5.34 Every provider we interviewed emphasised that these releases significantly harmed their trust and confidence in Oranga Tamariki – at a time when many of them were actively discussing their contracts with Oranga Tamariki.

- 5.35 Providers told us that they recognised the importance of performance monitoring and funding effective services. However, they also said that the media releases made generalised, offensive statements about poor provider performance that unfairly affected public perception of all providers, including those who had had their contracts reduced or discontinued even though they had met or exceeded their performance measures.

Continuing negotiations until the end of 2024

- 5.36 Discussions between Oranga Tamariki and providers continued throughout 2024 as Oranga Tamariki sought to vary contracts.
- 5.37 Oranga Tamariki continued to provide delayed responses to providers' queries. In some instances, providers managed to get a response to questions about the future of their contract only if they escalated their concerns to the Chief Executive or Acting Chief Executive.
- 5.38 Several providers tried to contact Oranga Tamariki to negotiate the proposed variations to their contracts and come to an agreement. Some providers also counter-offered with a lower reduction than the one that Oranga Tamariki proposed.
- 5.39 However, these providers told us that Oranga Tamariki said that decisions were final. They generally found Oranga Tamariki unwilling to engage in negotiation, despite the contracts requiring that both parties agree to any variation.
- 5.40 Providers told us that Oranga Tamariki intended for contracts to be varied with retrospective effect (for example, backdating a reduction in services to take effect from 1 July 2024). Some providers also told us that Oranga Tamariki had said that, if they did not agree to a variation by a given date, they should "familiarise" themselves with the termination for convenience clauses in their contracts.
- 5.41 At least one provider was given notice of termination for convenience, with the stated intention of negotiating a new contract. Some Oranga Tamariki staff told us that they considered that this was a legitimate way to put commercial pressure on providers to accept a variation in the contract.
- 5.42 Providers also told us that Oranga Tamariki withheld payments it owed for services provided under their contracts until they agreed to variations. We heard that this left providers, especially small providers and those who relied heavily on Oranga Tamariki funding, with little option but to agree.
- 5.43 In response to our draft report, Oranga Tamariki told us that restraints within its systems required a signed variation before the payment could be made, which

led to payments not being made. It also told us it was looking to remove those restraints to help ensure that providers are paid in a timely way, even if a variation is not yet signed. It was unclear to us why a signed variation would be required in order to pay providers for services under an existing contract, or why the system restraints were not remedied at the time issues with payments were being identified.

- 5.44 The ongoing negotiations delayed finalising the contracting round. Several providers told us that, in late October and early November, they either had not received new contracts to formally propose variations or had only just received a proposed variation.
- 5.45 We also heard that, despite work in 2024 to refresh the contracts' terms and conditions, these had not been consistently rolled out in all contracts. Similarly, Oranga Tamariki had repeatedly said that pay equity variations would be completed in September 2024, which it later delayed until December 2024. As at April 2025, Oranga Tamariki had still not provided pay equity funding to eligible providers through their contracts.
- 5.46 Several disputes emerged during this period, and providers sought legal support for potential or actual disputes. This resulted in Oranga Tamariki also seeking internal legal support.²⁴

Attempt to close the contracting round

- 5.47 The Acting Chief Executive held several hui with providers and partners in late 2024 in an attempt to recognise that there had been issues with the process, listen to their concerns, and try to reset relationships.
- 5.48 Providers and partners told us that these meetings were generally positive and they appreciated the effort. However, they also said that there did not appear to be any identifiable change in behaviour from Oranga Tamariki after those conversations.
- 5.49 On 2 December 2024, the General Manager, Commissioning and Investment wrote to providers. The letter stated that Oranga Tamariki would end negotiations for service contracts for 2024/25 by 13 December 2024 (excluding contract variations for pay equity), given the need to look ahead and plan arrangements for 2025/26.
- 5.50 On 10 December 2024, before Oranga Tamariki intended to close the contracting round, Stand Tū Māia publicly announced that it would take legal action against

²⁴ Oranga Tamariki's contracting policy requires it to seek legal advice if any significant dispute arises under a contract, there is any threat of litigation from a current or former contracting party, or if there is any indication of unlawful activity from the other party.

Oranga Tamariki.²⁵ Specifically, Stand Tū Māia announced that it intended to seek an injunction against the decision to terminate a three-year integrated contract worth \$21 million each year.²⁶ This announcement followed several months of engagement and dispute between Stand Tū Māia and Oranga Tamariki about the termination of the integrated contract.

- 5.51 On 13 December 2024, Stand Tū Māia issued a further release stating that it had reached a resolution with Oranga Tamariki, including agreeing a different end date to the contract. The contract end date was extended again to 30 June 2025 and, at the time of this report, no decision had been made about the future of the contract.

Minister for Children’s intervention in early 2025

- 5.52 In January 2025, media outlets reported that Barnardos’ “0800 What’s Up” helpline, a nationally available counselling service for children and young people, was at risk of closing because of changes to Barnardos’ funding. We understand that there had been ongoing funding negotiations between Barnardos and Oranga Tamariki, as part of which Barnardos included a proposal to reduce the funding for the helpline to try to preserve its funding for core social work. We also understand that Barnardos told Oranga Tamariki of its intention to make a public announcement about the potential funding changes for the helpline.
- 5.53 On 30 January 2025, the Minister issued a media release stating that she had “intervened in [the] review of social service provider contracts to ensure that Barnardos can continue to deliver its 0800 What’s Up hotline”.²⁷ The release said that the Minister had sought an explanation from Oranga Tamariki and that, based on the information available, its handling of the situation did not meet the Minister’s stated expectations.
- 5.54 The release also stated that the Minister asked Oranga Tamariki to pause its review of contracts and “extend existing contracts for providers who do not have a current contract, or have a contract that will end shortly, until 31 December 2025”.
- 5.55 In February 2025, Oranga Tamariki told us it was preparing advice on how to implement the Minister’s request, including seeking further clarification from the Minister on which categories of contracts were included in the request to extend existing contracts. It had also provided initial estimates of the financial implications of different scenarios.

25 Stand Tū Māia describes itself as a “charity providing an Intensive Wraparound social service response through its Stand for Children service.” See “Who we are” at standtumaia.nz.

26 The contract had been signed in October 2023 and was due to run until 2026.

27 See “Barnardos decision reversed” at beehive.govt.nz.

6

Our findings and recommendations

- 6.1 In this Part, we describe our concerns with how Oranga Tamariki managed the 2024/25 contracting round. In particular, we discuss:
- how Oranga Tamariki did not have good foundations in place;
 - how its planning was inadequate and its decisions were late;
 - its inconsistent decision-making criteria;
 - the lack of evidence to inform its decisions;
 - its poor documentation of the reasons for its decisions;
 - additional concerns about its procurement and contract management practices; and
 - how it did not consistently demonstrate a culture of integrity, transparency, and accountability.
- 6.2 Oranga Tamariki was entitled to make decisions about which services it wanted to purchase, including deciding to discontinue services or enter negotiations to vary contracts.
- 6.3 We also acknowledge that Oranga Tamariki wanted to significantly reduce its spending on contracted services to meet baseline savings targets, and to respond to the Minister's direction to refocus on its core purpose and avoid duplication of services. As such, it faced difficult decisions and trade-offs in the 2024/25 contracting round.
- 6.4 Oranga Tamariki also faced further challenges, including:
- it was effectively reviewing its entire spending on contracted services, including contracts that were not expiring on 30 June 2024, rather than the one-third of contracts that it would normally review in its annual process;
 - it was taking a different approach to reconciliations at the same time as it needed to plan and complete its contracting round; and
 - it carried out the contracting round in parallel with a significant organisational restructure that occupied senior leaders' attention, created uncertainty for staff, and resulted in reduced capacity (at both regional and national levels) to support the contracting round.
- 6.5 Several staff members also noted that they or their colleagues often had to have difficult conversations with providers despite having little insight into, or understanding of, the decision-making process.
- 6.6 Staff shared their frustration that commentary in the public domain has, at times, been inaccurate or unfair. They described a sense of frustration at their inability to respond to some of the criticisms being made. We appreciate that the matters at

issue have been a personal and professional challenge for many staff, as well as for providers and the community.

- 6.7 That said, many aspects of the 2024/25 contracting round were not in line with good procurement or contract management practice.
- 6.8 Taken as a whole, these failures have significantly harmed trust and confidence in Oranga Tamariki – in particular, from the social services sector, which Oranga Tamariki relies on to provide services to vulnerable children and their families.

Good foundations were not in place

- 6.9 Oranga Tamariki did not have robust procurement and contract management systems leading into the 2024/25 contracting round.
- 6.10 As mentioned in paragraphs 2.9-2.19, Oranga Tamariki and providers generally agreed that:
- its previous practice had been poor;
 - it routinely made contracting decisions with little analysis and late in the financial year;
 - its contract performance measures did not focus on outcomes; and
 - it did not monitor performance in a meaningful way.
- 6.11 We also consider that an annual contracting cycle that reviews about a third of contracts each year puts significant pressure on Oranga Tamariki.
- 6.12 Successive audit reports have found that procurement and contract management in Oranga Tamariki have not reached the standards of practice we expect, given the significance of external providers to achieving its objectives. Other independent evaluations have also highlighted weaknesses in the approach to social sector procurement and contract management.
- 6.13 Although Oranga Tamariki knew that it needed to improve its processes and lift its capability, and despite various work programmes, new frameworks, and restructuring, practices at Oranga Tamariki do not appear to have materially improved.
- 6.14 Oranga Tamariki is a large organisation and change will take time. However, if Oranga Tamariki does not take decisive action to improve its systems, it will continue to perform procurement and contract management poorly.
- 6.15 A priority for attention is the lack of a clear strategy for procurement and contract management. An organisation's strategic procurement and contract management plan might include, for example, its vision of the outcomes it wishes to achieve,

the types of procurement it does, the value and risks associated with the procurement, and an analysis of the market it procures from.²⁸

- 6.16 Oranga Tamariki had many documents, in various stages of implementation, that set out its strategy and policy framework for procurement and contract management.²⁹ It had also begun developing an Oranga Tamariki Investment Strategy, but it had not completed this work and its status was unclear when we carried out our inquiry.
- 6.17 The proliferation of frameworks and policies inevitably introduced the prospect of inconsistency. It does not present a coherent organisational vision of what Oranga Tamariki wants to achieve through its procurement and contract management. It can also be a source of confusion about what is expected of staff.
- 6.18 Oranga Tamariki needs a clear organisational approach to its social sector investment, and staff need to understand which policies and frameworks should guide their actions. We did not see evidence that policies and procedures guided decision-making in the 2024/25 contracting round.
- 6.19 In our view, Oranga Tamariki needs to urgently review and consolidate its suite of relevant policies and frameworks to provide clarity for its staff.

Recommendation 1

We recommend that Oranga Tamariki – Ministry for Children prepare and implement a clear strategy for procuring services from, and managing contracts with, social service providers.

Planning was inadequate and decisions were late

- 6.20 We did not see evidence that Oranga Tamariki had a clear plan for the contracting round. It consistently pushed back time frames and reassessed its decisions, which left little time for considered decision-making.
- 6.21 There was no detailed reporting against milestones. It was difficult to see how the team responsible for leading most of the contracting round measured, monitored, and reported on progress. Trying to review the entire contracted services budget line by line at the same time as running a significant organisational restructure exacerbated these planning issues.

²⁸ See “Procurement” in the Good practice and Publications sections of our website, at oag.parliament.nz.

²⁹ For example, Oranga Tamariki Commissioning Framework (working draft updated 28 June 2017), Social Service Procurement Policy (July 2020), Social Services Procurement Guidance (July 2022), Funding Policy and Guidance for Shared Care (July 2022), and Contracting Policy (November 2023).

- 6.22 Although the Central Contracting Team attempted to introduce more discipline and planning to the contracting round, it was under extreme pressure by the time that responsibility was transferred to it.
- 6.23 Staff also said that an annual contracting cycle made planning difficult. They were effectively in a constant cycle of planning and implementing contracting.
- 6.24 We understand that, in 2024/25 and previous years, Oranga Tamariki had been reluctant to make contracting decisions until the Budget had been delivered and it knew the amount that could be spent.
- 6.25 We recognise that conventions about Budget secrecy might have constrained what Oranga Tamariki could say publicly about potential changes in its appropriation. However, because the Budget is traditionally delivered in May, delaying decisions about contracts that are due to expire in June clearly runs significant risk. Oranga Tamariki also knew early in the process that it needed to make savings and that this would mean significant changes in contracted services for 2024/25.
- 6.26 Even if Oranga Tamariki could not make final decisions about contracts before the Budget was delivered, it should have been able to make material progress earlier. For example, Oranga Tamariki could have considered:
- identifying the core services that it needed to purchase (or continue purchasing) in 2024/25 and those services that it definitely did not need any more;
 - testing the market to see which providers might be able to offer the services that Oranga Tamariki needed most effectively and at a fair price; and
 - scoping different purchasing options based on different Budget scenarios.
- 6.27 Providers noted that other public organisations sometimes provided letters of comfort (contingent on Budget decisions). They also gave significantly earlier notice that they were likely to discontinue a contract and would encourage providers to start contingency planning.
- 6.28 The issues with planning also contributed to Oranga Tamariki not completing some related projects – namely, rolling out revised terms and conditions in providers’ contracts and providing social sector pay equity funding.
- 6.29 Overall, given the contracting round’s importance – both financially and in terms of potential outcomes for children and whānau – we expected Oranga Tamariki to plan and monitor the contracting round with more rigour and structure.

- 6.30 Oranga Tamariki needs to consider having a standardised process for contracting rounds to promote consistency and certainty for both it and providers. This process needs to have clear decision-making milestones that allow it to engage with providers early and give them adequate notice of its decisions. It also needs to have clear reporting and accountability mechanisms if these processes are not followed.
- 6.31 We encourage Oranga Tamariki to work with the social services sector, including representative bodies such as Te Pai Ora SSPA and its Tiriti partners, to set up this process.

Recommendation 2

We recommend that Oranga Tamariki – Ministry for Children engage with the social services sector to prepare and implement a standard process for contracting rounds, including consistent time frames for when it will make decisions about Outcome Agreements and notify providers.

Decision-making criteria was inconsistent

- 6.32 Oranga Tamariki did not consistently set out its aims or decision-making criteria for the 2024/25 contracting round. It had multiple formulations of what it was trying to achieve, and we could not see a settled, coherent vision to deliver on its strategic direction from the Minister.
- 6.33 For example, we identified at least four ways that the decision-making criteria were framed – in the Regional Investment Guidance in April 2024, the Cabinet paper in May 2024, the criteria on the whiteboard that the Deputy Chief Executives used in June 2024, and the decision-making principles that the Central Contracting Team set out in July 2024.
- 6.34 Although these four sets of decision-making criteria had some overlap, they varied in their emphasis and specificity. Sometimes, the criteria were specific that areas were exempt from funding reductions (such as services relating to family and sexual violence).
- 6.35 Some versions of the criteria clearly set out that early support and prevention services were being deprioritised, but other versions made no mention of this. Early versions of the decision-making criteria were framed around what Oranga Tamariki wanted to invest in but the focus of criteria changed back to what Oranga Tamariki would not fund.
- 6.36 Oranga Tamariki needed a consistent organisational view of what it wanted to achieve throughout the contracting round.

Evidence to inform decisions was lacking

- 6.37 Decisions made during the contracting round were not adequately informed by evidence of how they would affect children and their families and what they would mean for the social services sector's sustainability.
- 6.38 Oranga Tamariki has said publicly that it centred its decisions on the needs of children. It had some data and insights available, including from regional staff. However, its records do not demonstrate how it used this evidence in its decision-making, and it is unclear how much regional staff's advice informed the final decisions.
- 6.39 Overall, we found no evidence that decision-making was informed by good information or evidence to help Oranga Tamariki understand:
- the number of children and whānau that would be affected by decisions made in the contracting round;
 - how those children and whānau would be affected and, in particular, whether they would be able to access the services they needed; or
 - whether there were enough levels of service (nationally or regionally) to compensate for any changes, whether funded by Oranga Tamariki or someone else.
- 6.40 Staff told us that they did not understand exactly how many children or whānau the changes to contracts in 2024/25 would affect. During our interviews, we heard about a range of consequences that were or could be occurring. They included increased waiting lists, an inability for whānau to access services, distress at seeing the news that trusted providers might close, and the prospect of more tamariki going into state care.
- 6.41 The lack of evidence or analysis of benefits or risks to children casts doubt on the ability of Oranga Tamariki to demonstrate that its purchasing decisions:
- were informed by an understanding of children's needs;
 - were consistent with its strategic direction and legislative obligations; and
 - would achieve value for money by ensuring that public resources achieve the best possible outcomes for children and young people.
- 6.42 Similarly, decisions do not appear to have been informed by a clear understanding of how they would affect the social services sector's sustainability – and, in turn, the sector's ability to provide services to children and their families.

- 6.43 For example, decision-making documents did not include any information about whether funding reductions could jeopardise providers' financial viability, staffing levels, or their ability to provide contracted services for other public organisations.
- 6.44 Staff acknowledged during interviews that the reductions would have a significant impact, but this was not reflected clearly in any decision-making documents provided to us.
- 6.45 Oranga Tamariki acknowledged that it relied heavily on quantitative performance data that could be affected by a range of factors unrelated to performance and did not actually relate to the outcomes providers were achieving.
- 6.46 Likewise, Oranga Tamariki focused heavily on making decisions based on, and communicating to the sector about, the state of providers' reserves. There was an assumption that reserves (as shown on the Charities Commission website) meant that providers had under-delivered or had improperly retained funding that Oranga Tamariki had provided, or both.
- 6.47 However, providers do not appear to have been given a reasonable opportunity to respond to these assumptions. Oranga Tamariki appeared to have given little, if any, consideration or recognition to:
- the possibility that providers might have received revenue from a variety of sources, including other public organisations, private fundraising, and income derived from long-held assets (that they had not purchased with funding from Oranga Tamariki intended for services); or
 - the prudence of maintaining reserves, as is consistent with good financial management, and the need to be financially viable to meet social services accreditation standards.
- 6.48 We do not see how Oranga Tamariki could have confidence in its understanding about providers' financial reserves.
- 6.49 Fundamentally, Oranga Tamariki needs good information to inform its procurement decisions. It must have reliable evidence about the outcomes for children and their whānau to inform its future contracting rounds. It also needs to clearly document its use of this evidence to demonstrate to the public and to Parliament that its use of resources achieve value for money.

Recommendation 3

We recommend that Oranga Tamariki – Ministry for Children ensure that, in future contracting rounds:

- recommendations are informed by a detailed analysis of the likely effect on children, young people, and the sustainability of the social services sector; and
 - it records this analysis clearly in relevant decision-making documents.
-

Decisions were not properly documented

- 6.50 Oranga Tamariki did not properly document its decisions in the 2024/25 contracting round – in particular, its rationale for decisions or advice about their risks and benefits.
- 6.51 The spreadsheets and briefings we saw set out the decisions about each contract (such as terminate, reduce, or continue). However, they did not usually explain how Oranga Tamariki made decisions about any given contract or service.
- 6.52 Although Oranga Tamariki had high-level criteria for assessing contracts (such as whether they duplicated services in a region), none of the documentation showed how its final decisions about contracts aligned with those criteria.
- 6.53 The lack of documented rationale meant that staff did not have a record to refer to when responding to queries about why decisions had been made. This made it difficult for staff to justify decisions publicly or in negotiations with providers.
- 6.54 Not documenting the rationale for decisions also means that those decisions cannot be easily understood or scrutinised, particularly when they were made late and at speed.

Additional procurement and contract management concerns

- 6.55 We identified a range of other poor procurement and contract management practices in the 2024/25 contracting round. These show that Oranga Tamariki urgently needs to improve its systems and processes.

Lack of market testing or opportunities for competitive tender

- 6.56 With limited exceptions, the contracts that Oranga Tamariki awarded in 2024/25 were not subject to any open, transparent, and competitive procurement process.³⁰ We were told that Oranga Tamariki had not formally tested the market for many years.
- 6.57 The opt-out provision in the Government Procurement Rules that Oranga Tamariki relied on allows public organisations a degree of flexibility. However, Oranga Tamariki needed to:³¹
- consider options and use good judgement to decide whether opting out of the Rules was the best way to meet its needs; and
 - keep a record of each opt-out decision and the reasons for it.

³⁰ We understand that Oranga Tamariki used closed competitive procurement processes to procure several contracts relating to Fast-track services, mentoring services for rangatahi in the Military-Style Academy, and court support services for young people who have experienced sexual violence.

³¹ See “Rule 12: Opt-out procurements” at procurement.govt.nz.

- 6.58 We saw no evidence that Oranga Tamariki used good judgement in applying the opt-out rule. In future contracting rounds, we expect to see Oranga Tamariki:
- actively demonstrate that it considers how to apply the Government Procurement Rules; and
 - explore opportunities for open, transparent, and fair procurement processes.

Performance measures were not linked to outcomes

- 6.59 Oranga Tamariki describes its contracts with providers as Outcome Agreements. However, the contracts generally set performance measures based on inputs (such as the number of staff) or outputs (such as the number of visits), rather than outcomes.
- 6.60 These types of performance measures are simple to track. Some outputs, such as visits to provide whānau with support, might well have a link to a positive outcome for tamariki.
- 6.61 However, the performance measures that Oranga Tamariki generally uses do not provide a clear, measurable way of assessing providers' contribution to the outcomes Oranga Tamariki wants to achieve.
- 6.62 We acknowledge that measuring outcomes for social services can be complex and might need significant work. We encourage Oranga Tamariki to prioritise work on improving the performance measures it includes in providers' contracts, with a particular focus on linking them to tangible, positive outcomes that align with its purpose.

Performance monitoring and reconciliation practice

- 6.63 As we mentioned in paragraphs 3.15-3.29, Oranga Tamariki went from not adequately monitoring performance or routinely asking providers to return funding if they did not meet their target measures to seeking to fully recover funding.
- 6.64 It is essential that public organisations such as Oranga Tamariki carefully scrutinise providers' performance to ensure that they are using public money in keeping with their contract. However, public organisations need to raise issues in a timely, considered way as they arise, and providers need a reasonable opportunity to understand and address performance issues. We did not see evidence that this was happening.
- 6.65 Oranga Tamariki also clearly needed to improve its approach to reconciliation with providers. However, the changes to reconciliation were not driven by a desire to improve its contract management practice but rather by the need to achieve savings. That these changes took providers by surprise also demonstrates poor contract management practice.

- 6.66 We encourage Oranga Tamariki to take a consistent, predictable approach to monitoring performance, providing feedback, and reconciliation.

Unilateral approach to variations and lack of negotiation strategy

- 6.67 Oranga Tamariki appeared to consider that it could unilaterally vary contracts. However, the parties needed to agree variations.
- 6.68 Providers told us Oranga Tamariki had limited willingness to negotiate – even where they provided evidence that questioned assessments by Oranga Tamariki or offered alternative solutions to help meet its needs.
- 6.69 We were also concerned to hear that, in some instances, Oranga Tamariki appeared to use payments that it owed to providers as leverage against them when it was agreeing reconciliation, attempting to impose unilateral variations to contracts, and completing transition plans (see paragraphs 5.36-5.46).
- 6.70 We did not see evidence that Oranga Tamariki understood the power imbalance between it and providers in these negotiations. Oranga Tamariki would have benefited from a clear, fair negotiation strategy that was informed by a good understanding of the service(s) in question, the specific reasons why change was needed, consistent terms of engagement, and a robust understanding of the contract's terms.

Oranga Tamariki did not consistently pay providers on time

- 6.71 Oranga Tamariki did not consistently pay providers on time. In some instances, payments were weeks or months overdue and involved significant amounts.
- 6.72 Delays meant that providers had to pay staff or provide services out of their reserves, which Oranga Tamariki criticised them for holding, while waiting for Oranga Tamariki to pay them. This was exacerbated by ongoing delays in providing pay equity funding to eligible providers (whether as a grant or by embedding the pay equity funding into contracts).
- 6.73 Some delays in payments appear to have been caused by issues with systems in Oranga Tamariki. In other instances, Oranga Tamariki appeared to have actively decided to withhold payments until contract variations were signed off or transitional plans were provided.
- 6.74 There will, of course, be legitimate circumstances where contracts allow for Oranga Tamariki to suspend or withhold payments in full or in part – most obviously, for a failure to provide the contracted services. However, we do not consider that pressuring providers into accepting contract variations or completing transitional plans by withholding payment for services that have been provided is an appropriate strategy.

- 6.75 We expect Oranga Tamariki to take whatever action it needs to ensure that it promptly pays all providers the amounts that it legitimately owes them.

Failure to adequately plan for the transition of services

- 6.76 Oranga Tamariki did not adequately anticipate and plan for expiring contracts, those where it wanted to reduce service volumes, or those that it wanted to terminate for convenience.
- 6.77 We consider that, although providers had an important role to play in transition planning, it was ultimately the responsibility of Oranga Tamariki to ensure that there was a smooth transition of services for children and their whānau.
- 6.78 We acknowledge that Oranga Tamariki set aside about \$39 million in transitional funding for services it was ceasing to purchase, which it was not always contractually required to do. In our view, however, Oranga Tamariki placed the onus for transition planning on providers and, with some exceptions at regional level, did not give providers enough information or support.
- 6.79 We were also concerned to hear about situations where Oranga Tamariki continued to refer clients to services that it was discontinuing. Oranga Tamariki needs to ensure that its referrals to, or requests of, providers fall within the scope of an existing Outcome Agreement and that it funds the provider accordingly.

No system for identifying or managing conflicts of interest in the contracting round

- 6.80 We were concerned that Oranga Tamariki did not have a specific process to identify or manage conflicts of interests in its decision-making on the 2024/25 contracting round.
- 6.81 Oranga Tamariki gave us a register of declarations that senior staff had made and told us that conflicts were declared at the start of Te Riu meetings. However, it confirmed that it did not have a specific register or system for identifying conflicts of interest in the contracting round. Minutes from Te Riu meetings for key decision-making stages were also not available.
- 6.82 Given the scale of the contracting round, it is not difficult to conceive of a situation where one or more decision-makers could have a real or perceived conflict of interest. In our view, Oranga Tamariki needs to implement a system to help it identify and manage conflicts of interest in future contracting rounds.

Communication and engagement were not open or timely

- 6.83 We did not see evidence of Oranga Tamariki engaging with providers openly, constructively, and in a timely way. The terms and conditions that form part of its contracts with providers require Oranga Tamariki to do this.
- 6.84 We acknowledge that there were efforts by some people within Oranga Tamariki to increase the level of communication with the sector at various stages of the contracting round. However, delays in responding to queries or concerns from providers were common throughout the contracting round. Sometimes, the delays would be weeks or months, even when providers followed up with Oranga Tamariki multiple times. We also consider that at least one provider feeling the need to submit an Official Information Act request to understand decisions about its contract indicates poor communication by Oranga Tamariki.
- 6.85 Further, notifying providers of decisions to exit contracts with effectively hours of notice – as happened on 27 June 2024 – was unacceptable contract management practice. Although there was not, to our knowledge, any formal requirement that Oranga Tamariki notify providers that it was not going to renew a contract, the lack of earlier communication was unfair to providers.
- 6.86 Our experience talking with te Tiriti partners and providers suggests that they would prefer open, direct communication about the challenges that Oranga Tamariki is facing and what action they need to take as a result.
- 6.87 Providers told us that they understood that Oranga Tamariki was in a difficult situation and that it could not guarantee them funding. However, providers wanted clear, accurate, and timely information to understand funding decisions. In our view, Oranga Tamariki could have mitigated many of the issues that emerged during the contracting round by engaging with providers in an open and timely manner.

Failure to account for obligations to te Tiriti partners

- 6.88 We also did not see Oranga Tamariki factor its Tiriti relationships into its decision-making or how it engaged with kaupapa Māori, iwi, and hapū providers.
- 6.89 Te Tiriti partners told us that this – in particular, the lack of consultation or engagement before decisions – had undermined their trust and confidence in Oranga Tamariki. They were at pains to emphasise that they had worked hard at building respectful, trusting relationships with Oranga Tamariki and that these relationships were particularly healthy at local levels. However, as with providers, they considered that keeping the relationship constructive needed a significant, and sometimes one-sided, investment of their time.

- 6.90 In our view, Oranga Tamariki needs to take the commitments that it has made to its Tiriti partners into account in future contracting rounds and actively demonstrate to its partners how it has done so.

Recommendation 4

We recommend that Oranga Tamariki – Ministry for Children urgently improve its contract management practice, including by:

- linking performance measures to outcomes;
 - taking a consistent, predictable approach to performance monitoring and reconciliation;
 - routinely paying on time for services that have been provided;
 - anticipating and planning for the end of contracts to ensure a smooth transition;
 - communicating with providers in an open and transparent manner; and
 - taking commitments it has made to te Tiriti o Waitangi partners into account in managing contracts.
-

Oranga Tamariki did not consistently demonstrate a culture of integrity, transparency, and accountability

- 6.91 We expect public organisations to act with integrity when using public resources. This requires sound ethical judgement, demonstrated accountability, and transparency. In this context, Oranga Tamariki needed to actively demonstrate that it could act as a trusted partner – particularly given its stated intentions to decentralise funding to providers through its Enabling Communities project.
- 6.92 This means doing what it says it would do, accepting where it made mistakes, and taking steps to improve. On balance, we consider that Oranga Tamariki did not consistently meet our expectations.
- 6.93 Providers told us that their interactions with Oranga Tamariki did not show respect for their contribution or foster trust in the organisation. During our interviews with Oranga Tamariki, it became apparent that the organisation's attitude towards providers was not always respectful or constructive. For example, we heard providers' legitimate concerns about the process characterised as "noise".

- 6.94 In our view, Oranga Tamariki was slow in, or resistant to, acknowledging responsibility for errors. It made assertions about its decision-making process that we have found difficult to reconcile. At its worst, public statements about providers were ill-considered. Oranga Tamariki appeared to blame providers for a situation that was fundamentally its responsibility.
- 6.95 A general theme in the 2024/25 contracting round was the emphasis on the importance of meeting the organisation's goals. However, Oranga Tamariki did not have the requisite focus on fostering relationships and acting consistently with its obligations.
- 6.96 We saw a narrow focus on contractual provisions that would allow Oranga Tamariki, for example, to terminate contracts for convenience. However, we did not see an equal focus on considering how those actions accorded with the overarching legal principles embedded in the contracts – such as acting honestly and in good faith and working collaboratively and constructively.
- 6.97 The lack of regular involvement of the legal team – apart from when the Central Contracting Team operated – exacerbated these issues. We also heard that staff who sought legal advice or support did not routinely follow that advice. Several interviewees, including senior staff at Oranga Tamariki, raised this as a concern.
- 6.98 Oranga Tamariki did not resolve issues at an early stage and it did not take concerns seriously and address them until disputes escalated. This is a matter that Oranga Tamariki needs to urgently address.

7

Events are still unfolding

- 7.1 As we have mentioned, events resulting from the 2024/25 contracting round have continued to unfold as we completed this report.
- 7.2 Oranga Tamariki assured us that it was improving its processes, in part in response to an independent review of its social service provider contract management that it commissioned from Ernst & Young Limited (EY) in August 2024.³²
- 7.3 We asked Oranga Tamariki to provide us with further information on the steps it had taken to implement EY's recommendations. Oranga Tamariki told us that it considered that, of the 12 recommendations EY had made in its December 2024 report:
- five were actively progressing;
 - five were in the early scoping stage; and
 - two recommendations had been completed.
- 7.4 However, at the time we wrote this report, Oranga Tamariki had not provided information that was detailed enough to reassure us that it had made material improvements to its procurement and contract management systems.
- 7.5 We were told that the Minister's announcement on 30 January 2025 that Oranga Tamariki had been asked to extend a range of contracts to 31 December 2025 delayed many of the actions Oranga Tamariki had planned to implement.
- 7.6 We understand that Oranga Tamariki was asked to provide advice about the Minister's request the evening before it was announced. This meant that, when we wrote this report, Oranga Tamariki was assessing the implications of the Minister's request and rethinking how and when it would implement changes.
- 7.7 As mentioned in paragraph 6.28, Oranga Tamariki also had yet to finish work on refreshed terms and conditions and providing social sector pay equity funding.
- 7.8 Our inquiry did not focus on the Minister's request to pause the contracting round and extend certain contracts to 31 December 2025. However, it has a strong link to our work. When we were finalising our inquiry, there was a lack of clarity about the financial implications of the request and the processes that had been followed to approve a potentially significant use of public resources.

³² This work was intended to be completed in two phases. However, Oranga Tamariki discontinued the second phase after we publicly announced that we would inquire into its procurement and contract management practices.

- 7.9 In addition to the actions being taken to address the EY recommendations, Oranga Tamariki announced changes to roles and responsibilities in its senior leadership team in February 2025. Specifically, Oranga Tamariki:
- changed the focus of the Deputy Chief Executive, Enabling Communities & Investment's role to devolving services and functions to its partners; and
 - established and appointed a new Deputy Chief Executive, Commissioning and Investment role.
- 7.10 Oranga Tamariki told us that the new Deputy Chief Executive had begun planning for a revised Commissioning and Investment strategy and action plan, which was due to Cabinet for consideration by the end of August 2025.
- 7.11 We intend to monitor this situation closely and follow up with Oranga Tamariki as it makes improvements in response to this report's recommendations.

Appendix 1

Terms of reference for this inquiry

October 2024

The Auditor-General has decided to carry out an inquiry into the procurement and contract management practices of Oranga Tamariki – Ministry for Children (Oranga Tamariki). These terms of reference set out the background and scope for the inquiry.

Background

Oranga Tamariki administers and oversees a significant amount of public spending on contracting services to support tamariki, rangatahi, and their whānau.

Concerns have been raised with our Office about the processes Oranga Tamariki has followed to manage its contracts with social service providers, particularly its decision-making process for the 2024/25 contracting round.

It is important that public organisations have robust procurement and contract management processes to ensure that they are buying goods or services at a reasonable price and receiving value for money.

Public organisations should use evidence and analysis to inform their decisions about how to spend public money. They should manage their relationships with suppliers effectively and have robust mechanisms in place to monitor supplier performance. Without robust processes, services may be delivered poorly, relationships with suppliers can be damaged, and public trust and confidence in a public organisation can be undermined.

The services being delivered under the contracts in question support some of New Zealand's most vulnerable tamariki and rangatahi, and their whānau. It is vital that these contracts are managed well from beginning to end.

Because of the importance of these services, the concerns we have heard, and the amount of funding involved, we have decided to carry out an inquiry.

The inquiry

The inquiry will be carried out under section 18(1) of the Public Audit Act 2001. We will examine the process by which Oranga Tamariki decided to renew, vary, or allow to expire contracts with social service providers for 2024/25, including:

- the processes, frameworks, and practices Oranga Tamariki had in place to support its decision-making;
- the criteria and evidence Oranga Tamariki relied on to make its decisions, including the monitoring and reporting requirements for existing contracts;

- what Oranga Tamariki communicated to providers – in particular, those whose contracts would be varied or allowed to expire;
- what planning was done to ensure a smooth transition to new contracts and to exit from others; and
- any other related matter that the Auditor-General considers it desirable to report on.

The focus of our inquiry will be on the processes, decisions, and actions taken by Oranga Tamariki between 1 July 2023 and 30 June 2024. However, we will also consider subsequent events to the extent they are relevant. We may choose to use sampling methodology in our work.

We will not examine or comment on policy decisions underpinning contracting decisions or strategy, or the merits of individual decisions about whether to continue to contract a particular provider.

We will not make any public comment while our work is under way. We will publish a report once we have completed the inquiry and the report has been tabled in Parliament.

Appendix 2

Good procurement and contract management practice

In this Appendix, we discuss:

- what we mean by procurement and contract management;
- why good procurement and contract management is important;
- what good looks like; and
- additional considerations about social services and te Tiriti o Waitangi.

What we mean by procurement and contract management

Procurement is the process that public organisations use to acquire goods and services to support their work. Procurement is more than just “buying something”. It includes all the processes involved in public organisations planning what they need, acquiring goods and services, and subsequently managing the ongoing delivery with the provider of the goods and services.

Contract management is a critical stage of the procurement life cycle. We use the term “contract management” to describe activities that take place once goods and services have been sourced and those goods and services have been delivered. It covers creating the contract, executing it, monitoring and analysing performance under it, and managing relationships.

Good procurement and contract management is important

Procurement that achieves the public organisation’s strategic intent and is managed well throughout the process can deliver more effective and efficient public services that improve outcomes for New Zealanders.

Effective contract management also contributes to effective and efficient public services by ensuring that:

- the business benefits that were expected from the contract are realised;
- all parties to the contract meet their respective obligations;
- issues and risks are identified in enough time to be resolved or mitigated;
- the likelihood of disputes with suppliers is minimised; and
- suppliers are prepared to enter into future contracts.³³

Although these considerations have a strong emphasis on process, managing those processes well has a direct link to substantive outcomes for public organisations and – more importantly – the people and communities they serve.

Good practice for public organisations

We have identified the following key principles that apply to the use of public resources, including procurement and contract management:

- **Accountability** – Public organisations should be accountable for their performance and be able to give complete and accurate accounts of how they have used public funds, including funds they have provided to others for particular purposes. They should also have suitable governance and management arrangements to oversee funding arrangements.
- **Openness** – Public organisations should be transparent in how they administer funds, both to support accountability and to promote clarity and a shared understanding of the respective roles and obligations of organisations and any external parties entering into funding arrangements.
- **Lawfulness** – Public organisations must act within the law and meet their legal obligations.
- **Value for money** – Public organisations should use resources effectively, economically, and without waste, with due regard for an arrangement's total costs and benefits and its contribution to the outcomes they are trying to achieve. Where practical, this might involve considering the costs of alternative supply arrangements.
- **Fairness** – Public organisations have a general public law obligation to act fairly and reasonably. Public organisations must be, and must be seen to be, impartial in their decision-making. Public organisations might also at times need to consider the imbalance of power in some funding arrangements and whether it is significant enough for them to need to conduct the relationship in a different way.
- **Integrity** – Anyone who is managing public resources must do so with the utmost integrity. The standards applying to public servants and other public sector employees are clear, and public organisations funding other organisations need to make clear that they expect similar standards from them.

These principles are similar to the principles of Government Procurement. Those principles apply to all procurement activity by government agencies and are embedded in the New Zealand Government Procurement Rules.³⁴

To apply these principles, a public organisation needs to take a strategic approach to procurement and contract management that demonstrates its knowledge of the services it needs to procure.

³⁴ See [procurement.govt.nz](https://www.procurement.govt.nz).

It must also:

- have good policies and procedures to guide its decision-making;
- set out clear roles, responsibilities, and processes for decision-making and oversight;
- have performance measures that are linked to the intended outcomes;
- have robust processes to monitor supplier performance;
- pay providers promptly; and
- plan for the end of a contract and facilitate a smooth transition of services.

Additional considerations about social services and te Tiriti o Waitangi

Social services play a vital role for the public, including supporting the most vulnerable and disadvantaged people in New Zealand.

We recognise that procurement and contract management with social services can be difficult because:

- there might be few suppliers of a service;
- service providers might be small and have limited resources;
- services can be complex and assessing their quality can be difficult;
- people using the service might have multiple and complex needs;
- demand for services is not always consistent; and
- government budgeting processes and accountability mechanisms often use prescriptive contracts, a short contract period, and onerous reporting requirements.³⁵

In 2021, the Government agreed to adopt a relational approach to commissioning from the social sector in the *Social Sector Commissioning 2022–2028 Action Plan* (the Action Plan).

Oranga Tamariki is one of the public organisations that the Action Plan applies to. The Action Plan aims to transform how public organisations commission social services, including by putting trusted, meaningful relationships at the heart of commissioning with the social sector.

The Action Plan includes principles that align with our Office's good practice guidance (for example, a focus on transparent decision-making and grounding the work in the needs of the people being served). The Action Plan also emphasises shared accountability and outcomes, ensuring the sector's sustainability, and enabling individuals, whānau, and communities to exercise choice.

The Action Plan has a strong emphasis on giving practical effect to te Tiriti o Waitangi, including that partnership, equitable outcomes, and self-determination of whānau, hapū, and iwi are key principles that the sector can work towards together.

About our publications

All available on our website

The Auditor-General's reports are available in HTML and PDF format, and often as an epub, on our website – oag.parliament.nz. We also group reports (for example, by sector, by topic, and by year) to make it easier for you to find content of interest to you.

Our staff are also blogging about our work – see oag.parliament.nz/blog.

Notification of new reports

We offer facilities on our website for people to be notified when new reports and public statements are added to the website. The home page has links to our social media accounts and email subscribers service.

Sustainable publishing

The Office of the Auditor-General has a policy of sustainable publishing practices. This report is printed on environmentally responsible paper stocks manufactured under the environmental management system standard AS/NZS ISO 14001:2004 using Elemental Chlorine Free (ECF) pulp sourced from sustainable well-managed forests.

Processes for manufacture include use of vegetable-based inks and water-based sealants, with disposal and/or recycling of waste materials according to best business practices.

Office of the Auditor-General
PO Box 3928, Wellington 6140

Telephone: (04) 917 1500

Email: publishing@oag.parliament.nz
Website: www.oag.parliament.nz