

Reference: 20150465

16 December 2015



Thank you for your Official Information Act request, received on 30 October 2015. You requested the following:

- *Joint Report: BPS Result Area One Refresh: Further Information (31 October 2014)*
- *Joint Report: Proposed Cross Agency Approach to achieving the revised BPS Result 1 target (13 March 2015)*
- *All joint reports on BPS targets result 1 and results 2-4 since March 2015 sent to the Minister of Finance and other relevant Ministers.*

Where information is withheld, I request you provide the title and date of the communication/document withheld, the reason for refusal and the grounds in support of that reason as required by section 19(a)(i) and (ii) of the Official Information Act.

On 23 November 2015 the Treasury transferred the third bullet point of the request to the Ministry of Social Development, and also extended the due date for deciding on the request by an additional 15 working days.

Information Being Released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	14 October 2014	Joint Report: BPS Result Area One Refresh: Further Information	Release in part
2.	13 March 2015	Joint Report: Proposed Cross Agency Approach to achieving the revised BPS Result 1 target	Release in part

I have decided to release the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- section 9(2)(a) – to protect the privacy of natural persons, including that of deceased natural persons;
- section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials;
- section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Information about Result One has been withheld to enable Ministers to give due consideration to advice. The constitutional convention protected by section 9(2)(f)(iv) provides that Ministers are entitled to keep advice confidential while it is being considered, and that it is necessary for the effective and orderly process of government for such advice to be kept confidential.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This fully covers the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

David Mackay
Manager, Labour Market and Welfare

Information Being Released

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**MINISTRY OF SOCIAL
DEVELOPMENT**
TE MANATŪ WHAKAHIATO ORA



THE TREASURY
Kaitohutohu Kaupapa Rawa

Joint Report: Joint Report: Better Public Services Result Area One Refresh

Date:	14 October 2014	Report No:	T2014/1712
		File Number:	SH-3-2-4-12

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Agree to the recommendations in this report	20 October 2014
Minister for Social Development (Hon Anne Tolley)	Agree to the recommendations in this report	20 October 2014

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[Withheld under s9(2)(g)(i)]			[Withheld under s9(2)(a)] ✓
Fiona Carter-Giddings	Manager, Labour Market and Welfare, Treasury	04 917 7021 (wk)	
Eric Judd	Head of Actuarial, Ministry of Social Development	(04) 916 3641 (wk)	
Debbie Power	Deputy Chief Executive, Work and Income, Ministry of Social Development	(04) 918 0079 (wk)	

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Enclosure: No

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Joint Report: Joint Report: Better Public Services Result Area
One Refresh

Executive Summary

This report sets out three potential options for Ministers to refresh the BPS result area one to strengthen its alignment to the Investment Approach being applied across the Welfare System

- Option (1) retains the status quo, with a focus only on Jobseekers of more than 12 month durations. This covers only 16% of the total liability.
- Option (2) expands the target to also focus on clients receiving Sole Parent Support (SPS) and recent exits (clients that have left benefit but who are likely to return). This would cover 65% of the liability.
- Option (3) extends the target across all main benefit types including those on Supported Living Payment (SLP). This covers 100% of the liability but includes groups who do not have work obligations.

The expanded targets (option (2) and (3)) represent a significant stretch for Work and Income as both targets significantly increase the share of clients covered by the BPS target. Specifically they reflect that:

- SPS clients have the highest average lifetime cost (\$212k) across the main benefit categories, and are four times more likely (than other family types) to suffer long-term material deprivation. Work and Income's recent performance with these clients also captures reductions due to broader policy and messaging impacts
- there is a high rate of return to the welfare system for previous benefit recipients, and
- while MSD's experience shows that SLP clients are not as amenable to employment interventions, they represent a large proportion of the total liability.

This report presents targets calculated from client numbers in 2012. It would be possible for officials to provide targets calculated from 2014 client numbers also.

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Recommended Action

1. **note** that the current welfare dependency Better Public Services (BPS) target was agreed by Cabinet prior to welfare reform policy changes in July 2013 and the liability valuations of the benefit system undertaken by the actuarial firm Taylor Fry
2. **note** that the current welfare dependency BPS target does not fully align with an investment approach to welfare reform
3. **agree** to:
 - 3.1 retain the current BPS welfare target (option (1));
Agree/disagree. *Agree/disagree.*
 - OR
 - 3.2 expand and increase the current BPS welfare target to include, in addition to Jobseekers, Recent Exits and Sole Parent Support clients (option (2));
Agree/disagree. *Agree/disagree.*
 - OR
 - 3.3 expand and increase the current BPS target to include all clients including Recent Exits, Sole Parent Support and Supported Living Payment clients (option (3))
Agree/disagree. *Agree/disagree.*
4. **note** that the outcome of recommendation (3) above will be incorporated into a report to Cabinet considering the broader ten BPS results.

Fiona Carter-Giddings
Manager
Labour Market and Welfare
Treasury

Debbie Power
Deputy Chief Executive,
Work and Income
Ministry of Social Development

Hon Bill English
Minister of Finance

Hon Anne Tolley
Minister for Social Development

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Joint Report: Joint Report: Better Public Services Result Area
One Refresh

Purpose of Report

1. This report sets out potential options for Ministers to increase and expand the Better Public Services target (BPS) for reducing long term welfare dependence (result area 1). This builds on the Ministry of Social Development's (MSD) strong performance in tracking to its current BPS target. This review of BPS 1 is part of a larger stock-take being carried out across all public sector target areas.

Background

2. Underpinning Welfare Reform changes is an 'investment approach' for reducing long term benefit receipt. This approach has focused Work and Income's investment in case management and services on a broader range of clients to improve employment outcomes and better manage the lifetime costs of the benefit system.
3. At the core of the investment approach are several key building blocks:
 - clear performance goals and accountability mechanisms
 - actuarial valuation of forward liability (risk of long term benefit receipt for particular cohorts)
 - financial and operational flexibility to target funds (and service responses) to those groups with amenable risk profiles, through the introduction of the first Multi-Category Appropriation (MCA) and the delegation of decision rights from Ministers to the Chief Executive
 - trialling and testing new service responses (both internally and externally delivered)
 - monitoring and evaluation, and
 - potential to re-invest funding in proven effective service responses (which may be directly delivered or externally purchased).
4. The aim is to reduce long term benefit receipt by improving the employment rates of existing and potential clients and hold Work and Income accountable for its management of the forward liability.
5. This paper discusses options for strengthening the alignment between the BPS target and the investment approach to reducing long-term benefit receipt.

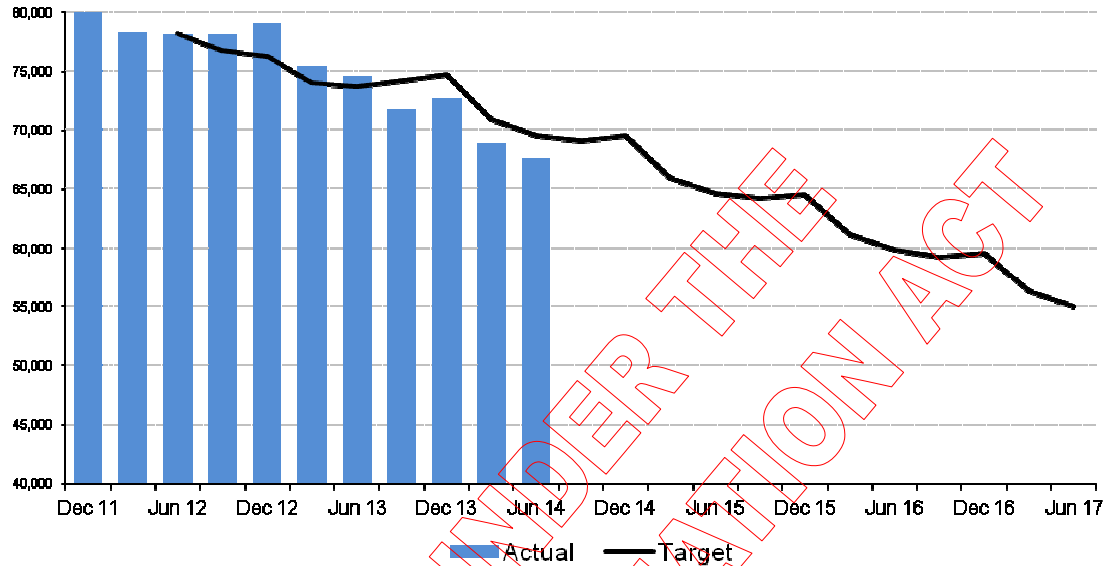
The current Better Public Services target

6. MSD has been achieving good results for longer-term Jobseekers and is on track to achieve the 2017 BPS target.
7. The current BPS target (established in April 2011) aims to: "*reduce the number of people continuously receiving Jobseeker Support for more than 12 months by 30 per cent, from 78,000 in April 2012 to 55,000 by June 2017*".
8. Since 2011, MSD has reduced the longer-term Jobseeker population from 78,000 to 67,531, and is continuing to outperform interim targets. This is displayed on the graph

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below. The black line shows the interim targets MSD is required to achieve in order to meet the 2017 target.

Figure One: BPS – Progress to Target 2012- 2017



Options to refresh the target

9. The current target was set prior to the first welfare valuation. Adopting an investment approach and measuring the cost of long term benefit receipt, has highlighted the significant long term social, economic and fiscal costs associated with welfare dependency.
10. Officials have developed three options for Ministers to consider in refreshing the current target:
 - Option (1): retain the current target.
 - Option (2): expand and increase the current target to also include Sole Parent Support clients and recently exited clients (the focus on Jobseeker Support clients is retained).
 - Option (3): expand the target to include clients on all main benefits (including Supported Living Payment clients).
11. Each is discussed below.

Option (1): Retain the current target

12. Whilst MSD is making good progress with the current target group, it does not focus effort on the most vulnerable clients who are at risk of long term benefit receipt. Officials believe that the differences between the current BPS target group and the high liability beneficiaries identified by the Valuation (and supported by Work and Income's Key Performance Indicator framework) sends conflicting signals about how priorities are to be directed.

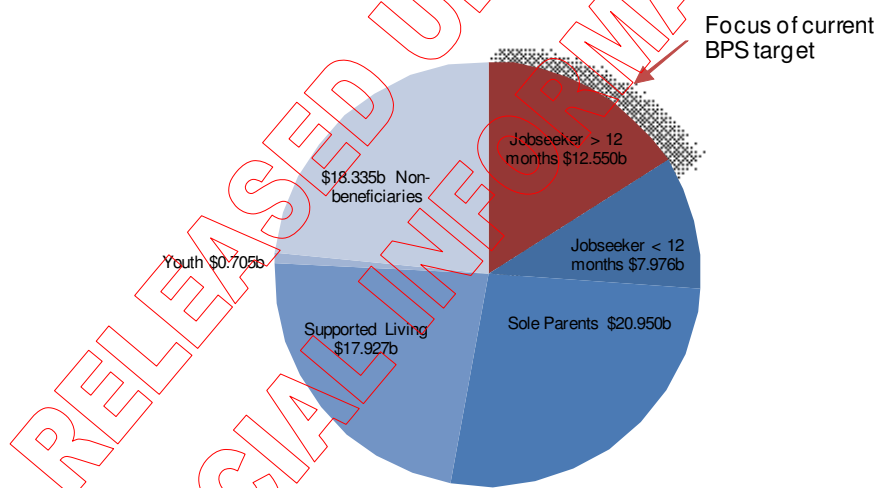
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13. The table below outlines the changes in client numbers and liability expected under the current BPS target and PREFU forecasts. It should be noted that achieving the PREFU forecast numbers will still require a significant effort on the part of MSD.

Number of Clients at 30 April 2012 (original baseline of BPS)		
All clients	321,000	
BPS group	78,000	
Expected to 30 June		Reduction
Client Numbers All clients	271,000	-16%
BPS group	56,000	-28%
Liability at 30 June 2013	\$ 78.5 billion	
Forecast Liability at 30 June 2017	\$ 69.9 billion	-\$ 8.6 billion

14. In addition, the BPS target covers only 16 per cent of the cost of clients at risk of long term benefit dependency (as measured by the valuation). This is shown in figure two below.

Figure Two: BPS coverage of the cost of clients (by liability) at risk of long term benefit dependency



Option (2): expand the current target to also include Sole Parent Support (SPS) clients and recently exited clients

15. Officials have developed this target using the valuation to identify groups of clients most at risk of long term benefit receipt.
16. The expanded target would be to:

“reduce the number of people continuously receiving Jobseeker Support for more than 12 months or Sole Parent Support for more than 12 months by 30 per cent, from 150,000 in April 2012 to 103,000 by June 2017”.

17. Specifically, this target covers 65% of the liability and incorporates a reduction in the:
- number of long term Jobseeker Support (JSS) clients (over 12 months) from 78,000 at April 2012 to 55,000 at June 2017 (a reduction of 30 per cent)

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- number of SPS clients (over 12 months) from 72,000 at April 2012 to 48,000 at June 2017 (a reduction of 33 per cent), and
- percentage of people returning to the benefit system within 12 months of exiting by 10% (Recent Exits).

18. The table below outlines the changes in client numbers, liability and fiscal savings (compared to PREFU):

Table one: option (2) as a reduction in the number of clients on benefit, fiscal savings, and reduction in the actuarial valuation

Number of Clients at 30 April 2012 (original baseline of BPS)		
All clients	321,000	
BPS group	150,000	
<u>Expected to 30 June 2017</u>		Reduction
Client Numbers All clients	259,000	-19%
BPS group	103,000	-31%
Liability at 30 June 2013	\$ 78.5 billion	
Forecast Liability at 30 June 2017	\$ 67.5 billion	-\$ 11.0 billion
(reduction compared to PREFU)		-\$ 2.4 billion
3 Year Fiscal Savings (compared to PREFU)		\$ 350.0 million

Why expand the clients covered?

19. Sole Parents on benefit were identified by the Welfare Working Group as making up almost 30 per cent of long term beneficiaries. They also have the highest average lifetime cost (\$212k) across the main benefit categories and are four times more likely (than other family types) to suffer long term material deprivation.
20. Experience over the past two years has shown that these clients are amenable to case management and other employment services and MSD has made good progress. Explicitly including them in the target is likely to cement these gains and support continued performance. The expanded target would assume that the rate of Sole Parents exiting the welfare system continues at the same level. Between April 2012 and 30 September 2014 14,673 clients exited the benefit system into employment. Sustaining this level of performance is considered a 'stretch' because:
 - recent performance captures client reductions due to broader policy and messaging impacts
 - after the 2013 Valuation the rate of expected new Sole Parent clients was reduced to a lower level (i.e. it now assumes fewer Sole Parents enter the benefit system in each quarter and higher rates of exit) whilst this was reflected in the 2013 liability reduction, it makes future liability reduction goals more challenging to achieve, and
 - as the number of clients decreases MSD will need to work with an increasingly higher proportion of clients with less amenability due to more challenging barriers to work.

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21. Achieving the target also requires:
 - Reducing new benefit grants (across all benefit categories) by 5 per cent.
 - Economic conditions as forecast in PREFU (this is discussed further below).
22. These factors will make it increasingly more difficult for MSD to sustain performance at the level required to meet the targets.
23. Importantly from a wider liability context – SPS clients are also the parents of the children that are most likely to enter the benefit system in the future, so represent a clear opportunity to address inter-generational welfare dependency in a meaningful way.

MSD comment (paragraph 24 and table two only)

Possible risks of including all Sole Parents

24. Including all Sole Parent clients into a refreshed target does carry some risk, particularly for those with very young (0-1 years) children. Whilst this would be carefully managed by case managers and operational staff (particularly for those with new born children) it would be possible to explicitly exclude Sole Parents with children aged under 1 year from the target group. This is consistent with existing paid parental leave provisions whereby a job must be held for one year whilst the parent is on parental leave. If Ministers wished to make this exclusion, the numbers would change to those in table two below.

Table two: option (2) excluding SPS clients with children under 1 year

Number of Clients at 30 April 2012 (original baseline of BPS)			
	All clients	321,000	
	BPS group	143,000	
<u>Expected to 30 June 2017</u>			Reduction
Client Numbers	All clients	261,000	-19%
	BPS group	99,000	-31%
	Liability at 30 June 2013	\$ 78.5 billion	
	Forecast Liability at 30 June 2017	\$ 67.8 billion	-\$ 10.7 billion
	(reduction compared to PREFU)		-\$ 2.1 billion
3 Year Fiscal Savings (compared to PREFU)			\$ 300.0 million


25. The expanded target also requires working with those who recently exited the welfare system in the last 12 months.
26. The Benefit System Performance Review recommended explicitly recognising the recent exits group due to their continuing vulnerability. This is due to the high rate of return to the welfare system for previous benefit recipients. For those people who have had multiple periods on benefit over the last five years, 84 per cent of the durations off benefit were for less than one year. Including this group in the refreshed target also ensures they are included in internal MSD management reporting.

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Working with Supported Living Payment (SLP) clients

27. Under this option SLP clients would not explicitly be included in a refreshed BPS target. Whilst SLP clients have high average liabilities (\$169k), these clients do not have work obligations (meaning any participation into employment services would be voluntary on the client's part). A 'blanket approach' may also result in perverse outcomes for vulnerable clients (such as those that are terminally ill or severely disabled). Therefore further analysis to segment this group is recommended prior to targeting interventions towards achieving employment outcomes.
28. MSD has a work plan to begin to work with this group (in the absence of explicitly setting off-benefit targets). The critical components of the work plan include:

[Withheld under s9(2)(f)(iv)]



29. In addition, as part of trialling interventions for SLP clients, a move to making all future trials with SLP clients compulsory could be considered. This would require a legislative change. MSD's voluntary trial for 1000 clients with mild to moderate health had low client participation rates. Low client participation rates can prohibit MSD from drawing meaningful results to inform future activities.

Option (3): increase and expand the target to cover all client groups

30. Officials have also developed a target which would cover all client groups, including those with the highest lifetime costs: Jobseeker Support, Sole Parent Support, Supported Living Payment Youth, Emergency Benefit and Emergency Maintenance Allowance recipients.
31. This expanded target would be to:

"reduce the number of people receiving a main benefit by 20 per cent from 321,000 in April 2012 to 256,000, by June 2017"
32. The table below outlines the changes in client numbers, liability and fiscal savings (compared to PREFU):

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Table three: option (3) as a reduction in the number of clients on benefit, fiscal savings, and reduction in the actuarial valuation

Number of Clients at 30 April 2012 (original baseline of BPS)		
All clients	321,000	
BPS group	321,000	
Expected to 30 June 2017		Reduction
Client Numbers		
All clients	256,000	-20%
BPS group	256,000	-20%
Liability at 30 June 2013	\$ 78.5 billion	
Forecast Liability at 30 June 2017 (reduction compared to PREFU)	\$ 67.0 billion	-\$ 11.5 billion -\$ 2.9 billion
3 Year Fiscal Savings (compared to PREFU)		\$ 410.0 million

Why expand the clients covered?

33. This expanded target, covering 100% of the actuarial valuation, is considered a substantial stretch. Achieving it would require MSD attaining a rate of reduction in SPS clients in option (2) as well as an additional:
- 100 SLP clients exiting per month (a 0.1% increase per month).
 - 50 JSS clients exiting per month.
 - Economic conditions as forecast in PREFU (discussed further below).

Possible risks of including all client groups

34. As stated in paragraph 31 above, SLP clients do not have work obligations. Therefore Work and Income has not traditionally focused on this group. It is likely to take time for Work and Income to develop successful strategies to work with these clients who are likely to require 'stair-casing' towards employment, meaning employment outcomes take longer than for JSS or SPS clients.
35. As part of Welfare Reform, legislative changes also established a 'simplified access' process to SLP for clients who are seriously ill or disabled and should not be expected to be available for work. If SLP clients are included in the BPS target, any operational response would need to factor in the simplified access legislative arrangements.

Analysis of the Different Options

36. Table five compares all three options in terms of the reduction in the number of clients on benefit, fiscal savings, and reduction in the actuarial valuation.
37. All the options:
- a. Use the same economic assumptions which have been taken from the PREFU forecasts. The rate of unemployment is shown in the table below.

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Table four: PREFU forecast unemployment rates from June 14 to June 18					
	June 14	June 15	June 16	June 17	June 18
Unemployment Rate	5.6%	5.3%	5.1%	4.8%	4.5%

b. Have been developed using the actuarial valuation to 30 June 2013. The 2014 valuation is expected to be released in early 2015. This is likely to result in a change in the liability calculation.

38. A variation in economic conditions will change the estimated number of clients, fiscal savings and liability reduction. In particular, higher rates of unemployment will make it more difficult for MSD to place people in employment, and changes to the inflation rate will impact the actuarial valuation calculation. Communication of a refreshed target in terms of the number of clients would avoid the need to re-publish a new liability target on an annual basis.

Fiscal Implications of Options Two and Three

39. MSD's Service Delivery Model offers differentiated case management to respond to different client needs. This includes

- Work Focused Case Management (WFCM) - intensive one-to-one case management for those that need assistance to overcome barriers to gain employment.
- Work Search Support (WSS) – for clients that are closer to the labour market and can undertake their job search with a minimum of support.
- General Case Management (GCM) – clients that are unlikely to gain employment in the near future and are provided income support under a one-to-many case management model.

40. Any change to the BPS target is likely to impact Work and Income's case management levels. Expanding the BPS to include more clients is likely to require Work and Income to increase the level of case managers. Currently Work and Income has capacity to serve 80,000 clients within WFCM and 25,000 clients within WSS.

41. MSD considers that additional funding would be required to achieve either option (2) or option (3). MSD do not believe it would be possible to reprioritise spending away from clients currently being worked with to new clients, without also reducing employment outcomes. If the BPS target is changed to option (2) or (3) a new initiative (based on the costing model currently being developed by MSD and Treasury) would be sought through Budget 2015. This would also include funding required to meet other manifesto commitments.

42. MSD considers the additional funding impact will be particularly large if SLP clients are included with the refreshed BPS target (option (3)).¹ This is due to the nature of the services these clients require and that SLP clients are likely to require incentive payments to participate in employment services. An indicative assessment of the cost over the next three years is \$200m (however this includes funding for the Youth Service extension). MSD and ACC officials have undertaken work comparing services and supports for similar clients. This work has highlighted that ACC case management

¹ In 2014/15 the MCA contains \$639,548 million. This incorporates \$24 million additional funding (received in Budget 2013) received to pay for the additional staff requirements associated with Welfare Reform. This funding is due to taper off by \$6m per annum (to \$17m) starting in 2015/16. This reduction is in line with the forecast reduction in client numbers to maintain a constant client-staff ratio.

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levels are 63% lower than MSD for clients receiving intensive one-to-one support (WFCM).

43. MSD and Treasury have previously presented options for future funding the MCA (REP/14/5/405 T2014/894 refers). Officials will be reporting back in November on the cost model underpinning this work. An investment in case management and employment interventions for SPS and SLP clients would need to be made ahead of putting any such arrangements in place. Alternatively, MSD would develop a final Budget 15 bid, in consultation with the Treasury, subsequent to Ministerial decisions.
44. It would also be possible for Ministers to extend the time horizon of the refreshed target in order to manage any fiscal implications. Officials could provide advice on what this would look like if requested.

Next Steps

45. If joint Ministers agree to change the target, officials will prepare advice for Cabinet. This will occur as part of a broader work-stream to look across all ten result areas. It is anticipated that this broader work will go to Cabinet in late November 14.

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Table five: total client numbers, liability estimation and fiscal savings under the current target and the proposed new target										
		Performance under option (1) – based on Pre-election Fiscal and Economic Update			Performance under option (2)			Performance under option (3)		
	June 2014 number of clients	Number of Clients in 2017	Liability impact from 2013 based on PREFU	Additional fiscal savings over PREFU	Number of Clients in 2017	Liability impact over PREFU	Additional fiscal savings over PREFU	Number of Clients in 2017	Liability impact over PREFU	Additional fiscal savings over PREFU
Working Age (18-24 years) Main Benefit	296,000	271,000	\$8.6 billion	n/a	259,000	\$2.4 billion	\$350 m over 3 years	256,000	\$2.9 billion	\$410 m over 3 years

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New Zealand Government



Joint Report: Proposed cross-agency approach to achieving the expanded Better Public Services Result 1 target

Date:	13 March 2015	Report No:	T2015/109
		File Number:	SH-3-2-4-10

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Discuss the contents of this paper at the appropriate Social Sector Priorities Ministers' Meeting on 14 April 2015	14 April 2015
Minister for Tertiary Education, Skills and Employment (Hon Steven Joyce)	Discuss the contents of this paper at the appropriate Social Sector Priorities Ministers' Meeting on 14 April 2015	14 April 2015
Minister for State Services (Hon Paula Bennett)	Discuss the contents of this paper at the appropriate Social Sector Priorities Ministers' Meeting on 14 April 2015	14 April 2015
Minister of Health (Hon Dr Jonathan Coleman)	Discuss the contents of this paper at the appropriate Social Sector Priorities Ministers' Meeting on 14 April 2015	14 April 2015
Minister of Justice (Hon Amy Adams)	Discuss the contents of this paper at the appropriate Social Sector Priorities Ministers' Meeting on 14 April 2015	14 April 2015
Minister of Education (Hon Hekia Parata)	Discuss the contents of this paper at the appropriate Social Sector Priorities Ministers' Meeting on 14 April 2015	14 April 2015
Minister for Social Development (Hon Anne Tolley)	Discuss the contents of this paper at the appropriate Social Sector Priorities Ministers' Meeting on 14 April 2015	14 April 2015
Minister for ACC (Hon Nikki Kaye)	Discuss the contents of this paper at the appropriate Social Sector Priorities Ministers' Meeting on 14 April 2015	14 April 2015
Minister for Māori Development (Hon Te Ururoa Flavell)	Discuss the contents of this paper at the appropriate Social Sector Priorities Ministers' Meeting on 14 April 2015	14 April 2015

Contact for Telephone Discussion

Name	Position	Telephone	1st Contact
[Withheld under s9(2)(g)(i)]		N/A	Y
Carolyn Palmer	Principal Analyst, Labour Markets and Welfare, Treasury	04 890 7262 (wk)	
Damian Edwards	General Manager, Investment Approach, MSD	04 918 9551 (wk)	[Withheld under s9(2)(a)] Y

Actions for the Minister's Office Staff

Return the signed report to Treasury.

Enclosure: No

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Joint Report: Proposed cross-agency approach to achieving the expanded Better Public Services Result 1 target

Executive Summary

This report outlines the progress made in developing a cross-agency work programme which will build towards the achievement of the revised Better Public Service Result 1 (BPS 1) target. Initial work has focused on three workstreams:

1. Information to support investment decisions (what do we know and what are the gaps).
2. Operational flexibility and innovation (given what we know, what shall we do).
3. Accountability/assurance (what to do about structural or other barriers to cross-agency work as they arise).

The BPS 1 target is a challenging target and there is no single intervention that will get us there. The diversity of the client base means reaching the target within the current fiscal context will require us to think beyond simply increasing levels of case management; it will require more targeted and different mixes of services from across government and more matched labour market opportunities for clients. The expanded target will require Work and Income to partner with other agencies to both build on the existing strategies which have proven effective for specific client groups, and find innovative ways to work across agencies and with a larger mix of clients (and also with people at risk of becoming clients) than under the previous target.

Using the information arising from the 2014 actuarial valuation of the benefit system as a starting point, the client segments to focus on (as high liability or at risk of long-term welfare dependency) are long-term Job Seeker Work-Ready clients, Sole Parents, Job Seeker, Health Condition or Disability, Supported Living Payment clients and Youth. The analysis has also highlighted common challenges across client groups, such as low skills, low education levels and limited work experience. This will mean providing different responses and a cross-agency approach, with Work and Income partnering with Health, Education, ACC and MBIE to leverage expertise and experience across the system. Some client groups' work obligations may also affect MSD's ability to work with these groups.

Additionally, stemming the flow onto benefit (and flow between benefits) will be important for reaching the BPS 1 target. Progress against other BPS targets will help reduce long-term welfare dependency. In particular, Results Areas 5 and 6 relate to achievement of NCEA level 2 (or an equivalent qualification) and NZQF level 4 or above. The education system is achieving well against these targets, and, like Result 1, the goal for Result 6 has also been recently lifted (to a target of 60% of 25-34 year olds attaining level 4 or above in 2018, from 55% in 2017). Progress against the Result 5 target of 85% of 18 year olds achieving NCEA 2 in 2017 is also positive, although further progress is needed to ensure equity across the population. Achieving these results will ensure more people gain the skills they need early in life to support further skill development and sustainable careers (and therefore reduce flows onto benefit).

We propose to begin in the short-term by trialling approaches for client groups identified as high liability and at risk of long-term benefit receipt with whom we have not traditionally

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worked closely. Six potential trials have been identified, focusing on clients with health conditions or disabilities in the first instance, in order to identify approaches that work. Agencies will develop the detail of trials, and where possible these will be designed to be funded from within baselines. Where there are fiscal implications for agencies, or where it is not possible to cover the costs from baseline, the Social Sector Board will work through implications.

In and of themselves, these trials are likely to have a relatively small impact on achievement of the target. Alongside establishing the trials officials propose a longer term strategic work programme, with proposals to be developed by October 2015 to inform Budget 2016. These proposals are likely to involve cross-agency initiatives which will require a more fundamental revision of the way in which we provide services. Indicatively, this suite of interventions is likely to require policy, legislative or funding changes.

Agencies will also identify how they can best support the achievement of BPS 1 through their core work. As both the short-term and strategic initiatives are developed, officials will actively identify and look for opportunities to enhance cross-agency working.

Officials will report back to Social Sector Priority Ministers in October 2015 on progress and with any proposals for consideration in Budget 2016, including funding options. Interim performance monitoring will be undertaken by the Social Sector Board. Progress against the new BPS 1 target will be reported as part of the regular BPS Results reporting.

Recommended Action

We recommend that you:

- a **note** that Treasury and the Ministry of Social Development along with the Ministry of Health, the Ministry of Education and the Accident Compensation Corporation were required to report to the State Sector Reform Ministers in February 2015, on options for meeting the revised Better Public Services Result 1 target and associated fiscal implications [CAB Min (14) 38/8]
- b **note** that this report goes some of the way towards fulfilling the Cabinet directed report back, but further work is required to identify the fiscal implications, and quantify the potential impact on the Better Public Services Result 1 target of the short and longer term proposals
- c **note** that achieving the revised Better Public Services Result 1 target will require both that agencies individually work to identify how they can best support the achievement of BPS 1 through delivering on their core work, and work together to identify how best to collaborate to achieve a collective impact
- d **note** the proposed approach for achieving the revised Better Public Services Result 1 target, is to develop of short-term trials focused on clients with Health Conditions or Disabilities, alongside developing of a longer term, strategic cross-agency work programme
- e **note** that officials have identified a number of potential short-term cross-agency trials, targeting high liability client groups with whom MSD has not traditionally intensively engaged, which will be developed for investment decision by the Social Sector Board – these are:

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1. an employer-led trial in Christchurch, focusing on getting 300 clients with a disability or health condition into work across three MSD sites

[Withheld under s9(2)(f)(iv)]

- f **note** that findings from proposed short-term trials around what works for these client groups and opportunities identified to improve cross-agency working will inform development of a strategic cross-agency work programme
- g **note** that officials are developing a strategic cross-agency work programme in parallel with the development of the short-term trials, with proposals to be developed by October 2015 to inform Budget 2016 and these proposals are likely to involve cross-agency approaches which may lead to more fundamental revision of the way in which agencies work together to provide services. These areas include

[Withheld under s9(2)(f)(iv)]

- h **note** that the Social Sector Board will provide governance over the strategic cross-agency work programme, and provide Ministers with advice on any significant policy decisions and trade-offs that may be required
- i **discuss** the proposed approach, including any specific trials or longer term proposals, at a Social Sector Priority Ministers' meeting on 14 April 2015; and

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- j **note** that officials will report back to Social Sector Priority Ministers in October 2015 on progress of the trials, longer term work, and options for any further work.

Fiona Carter-Giddings
**Manager, Labour Markets and Welfare
Treasury**

Damian Edwards
**General Manager, Investment Approach
Ministry of Social Development**

Paula Martin
**Acting Deputy Director General, Policy
Ministry of Health**

Claire Douglas
**Deputy Secretary, Graduate
Achievement, Vocations and Careers
Ministry of Education**

Bridget White
**Deputy Commissioner, SAPG
State Services Commission**

Gaye Serancke
**Chief Governance and Strategy Officer
ACC**

Hon Bill English
Minister of Finance

Hon Steven Joyce
**Minister for Tertiary Education,
Skills and Employment**

Hon Paula Bennett
Minister of State Services

Hon Dr Jonathan Coleman
Minister of Health

Hon Amy Adams
Minister of Justice

Hon Hekia Parata
Minister of Education

Hon Anne Tolley
Minister for Social Development

Hon Nikki Kaye
Minister for ACC

Hon Te Ururoa Flavell
Minister for Māori Development

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Joint Report: Proposed cross-agency approach to achieving expanded Better Public Services Result 1 target

Purpose of Report

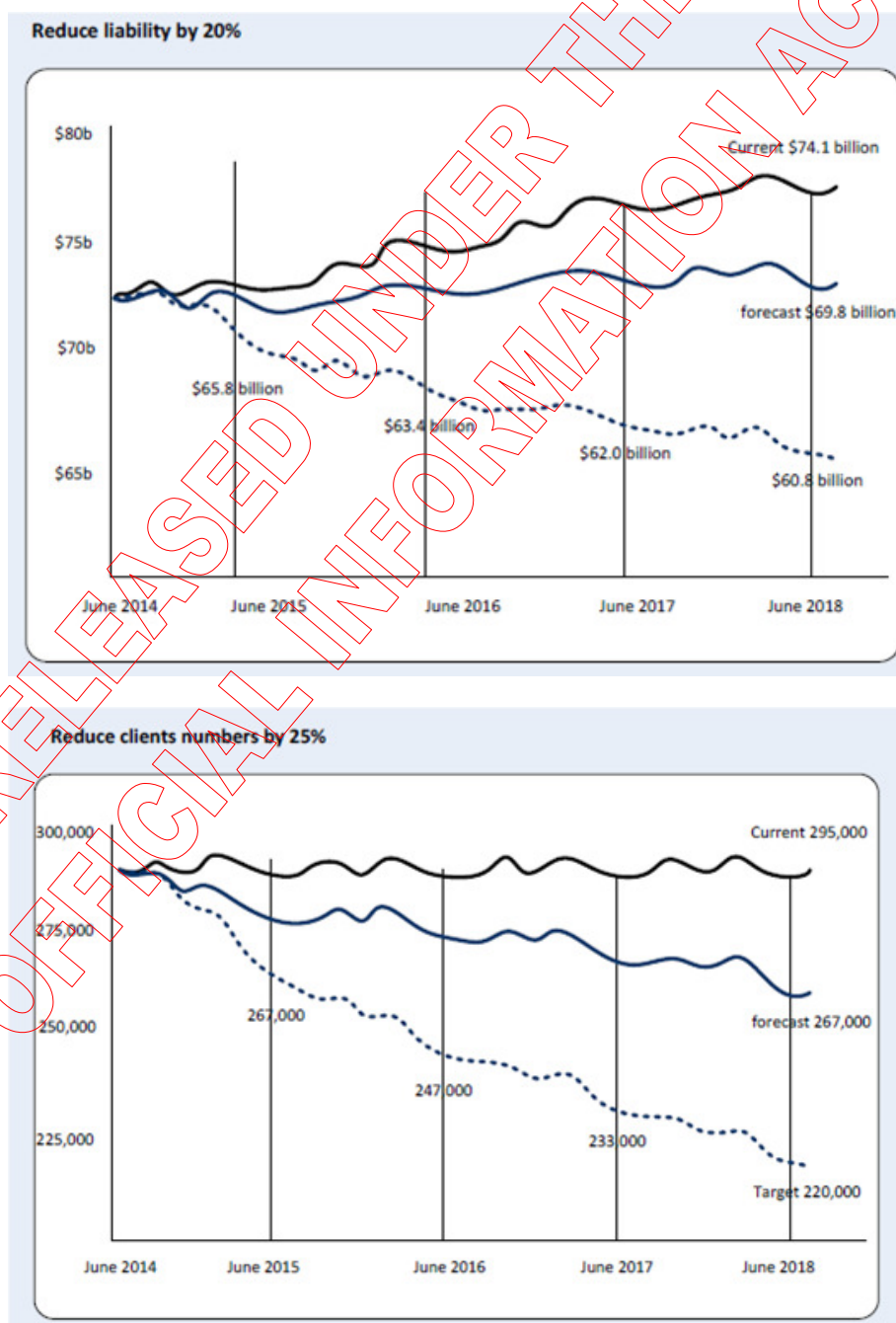
1. On 1 December 2014, Cabinet:
 - agreed to expand the Result 1 target to reduce the total number of people receiving benefits by 25 percent, from 295,000 in June 2014 to 220,000 by June 2018, and reduce the long-term cost of benefit dependency by \$13 billion as measured by an accumulated Actuarial Release, by June 2018; and
 - noted that officials from the Treasury and the Ministry of Social Development (MSD) along with the Ministry of Health (MoH), the Ministry of Education (MoE) and the Accident Compensation Corporation (ACC) will report to the State Sector Reform Ministers in February 2015, on options for meeting the target and associated fiscal implications [CAB Min (14) 38/8].
2. This report outlines the progress made in developing a cross-agency work programme which will build towards the achievement of the target. Initial work has focused on three workstreams:
 1. Information to support investment decisions (what do we know and what are the gaps).
 2. Operational flexibility and innovation (given what we know, what shall we do).
 3. Accountability/assurance (what to do about structural or other barriers to cross-agency work as they arise).
3. This report informs Social Sector Priorities (SSP) Ministers Budget 2015 discussions and a SSP Ministers meeting on 14 April 2015 to enable a broader discussion beyond State Sector Reform Ministers. The working group that developed this report included representatives from the Treasury, MSD, MoH, MoE, ACC, State Services Commission (SSC) and Ministry of Business, Innovation and Employment (MBIE).

Strategic context

4. The new BPS Result 1 target is deliberately ambitious, such that Work and Income, on its own, will not be able to achieve it. There are many factors which contribute to welfare dependency, including ones which are not within the control of MSD (eg education attainment, labour market demand, health profiles). Achieving the refreshed BPS target will be a significant challenge for the social sector.
5. There is no single intervention that will get us to the target. The diversity of the client base means that simply increasing the number of people with the current skill set providing the same suite of services (eg by funding more case managers) is not enough to meet the target. In particular, the new target will require agencies across the social sector to work collaboratively, aligning focus and resources.

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6. Reducing the number of people receiving benefits to 220,000 by June 2018 would be equivalent to 47,000 more people off benefit by June 2018 compared with the MSD forecasts for the Pre-Election Economic and Fiscal Update (which have already built in the expected gains from welfare reform to date). As an illustration this level of change might look like approximately 600 more Jobseeker (Work Ready) exits, 600 Jobseeker (Health Condition or Disability) exits, 800 more Sole Parent Support exits and 100 more Supported Living Payment exits every month from December 2014 until June 2018. The scale of this challenge is illustrated in the graphs below.




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7. MSD approaches the refreshed target from a foundation of having achieved strong results to date and having continued to innovate in meeting the challenge of improving the outcomes of its clients. Benefit numbers continue to fall, particularly among sole parents. As the 2014 actuarial valuation illustrates, the considerable investment made in sole parents and youth is achieving strong results.
8. Strengthening MSD's own performance, from this strong base, will be critical to the achievement of BPS Result 1. There are four key challenges for MSD in meeting the refreshed target within baselines:
 - Creating greater capacity (internally and externally) to actively work with a greater range of clients.
 - Continuing to reprioritise within baseline the supports and service that are provided to a broader range of clients.
 - Continuing to trial innovative approaches to working with a broader range of clients, where sufficient evidence does not exist on what works best in achieving outcomes for these groups.
 - Working together with other agencies, especially in regard to prevention of entry onto benefit.
9. The Cabinet paper which agreed the expanded target for Result 1 noted that achieving the target will require the government to fundamentally change the way it operates. In particular, making progress with high needs, high cost groups will necessitate more effective delivery of support and services across government agencies and interaction and alignment between the social welfare and other sectors. It is therefore important to understand the boundary between the actions MSD is planning to achieve the target (within their own capacity) and where there is a role for other agencies.
10. **Appendix two** outlines MSD's proposed approach to meet these challenges. MSD estimates that if MSD optimises its existing baseline (subject to Budget 2015 decisions) using the options outlined above, the extra exits rates from Work Focused Case Management (WFCM) and the improved targeting of supports and services would see an increase of around 1,500 – 1,600 exits per month (beyond current performance) and nearly 20,000 exits annually. Cumulatively over the four years to June 2018 MSD estimate this would see benefit numbers reduce to around 250,000, with an accumulated actuarial release of approximately \$7.5 billion (which would meet approximately more than half of the target). Taking into account MSD's estimates of what can be achieved through its individual efforts, the further reductions that need to be achieved through other approaches is (illustratively) an additional 30,000 exits, or \$5.5 billion accumulated actuarial release.
11. Achieving the balance of the BPS target will require a refocused effort from agencies across government, as many of the levers and expertise for working with a broader client base lies outside of MSD. Continued and improving delivery of core services by other agencies will of itself contribute to the target. For example:

[Withheld under s9(2)(f)(iv)]



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- In education, a strong focus on achieving the BPS results 5 and 6 (NCEA level 2 attainment and a qualification at NZQF level 4 or above) will contribute to building a good skill base among young people, helping to reduce the flow onto benefit and ensuring that people have the basic skills they need to support further education and sustainable careers. For example, of the cohort of young people born in 1989-90, 21% of those with qualifications below level 1 were on benefit in 2010, compared with 6% of those with a qualification at level 2.¹ At higher education levels, being on benefit is the main destination of 2.7% of young graduates with a qualification at level 4 or above, seven years after completing their qualification.²
12. We expect that agencies' individual efforts will take us a good way to the target, but more needs to be done to ensure that agencies are working together to deliver the services that people need, when they need them. The focus on liability as part of the measure provides an incentive for MSD, but a stronger focus among other agencies on how they can support this work will be needed. As an example, the target should also focus attention on prevention and early intervention activities that build people's capability to work, and/or remain connected to the workforce before they become a Work and Income client.
 13. At the same time, we will need to balance decisions about reprioritisation of resources towards achieving the BPS Result 1 target with other priorities across the sector. For example, progress against other BPS targets (for example, efforts to achieve BPS Results 5 and 6) will help achieve reduced long-term welfare dependency, and better employment outcomes. We will support Ministers to make informed decisions about investing across the system, including in relation to trade-offs.
 14. To help with this, agencies are proposing to take an evidence informed, pragmatic approach to achieving BPS Result 1: based on what we know now, what can we do, while building our understanding from a cross-sector perspective to understand where to focus next.

Findings from workstream 1: what the data tells us

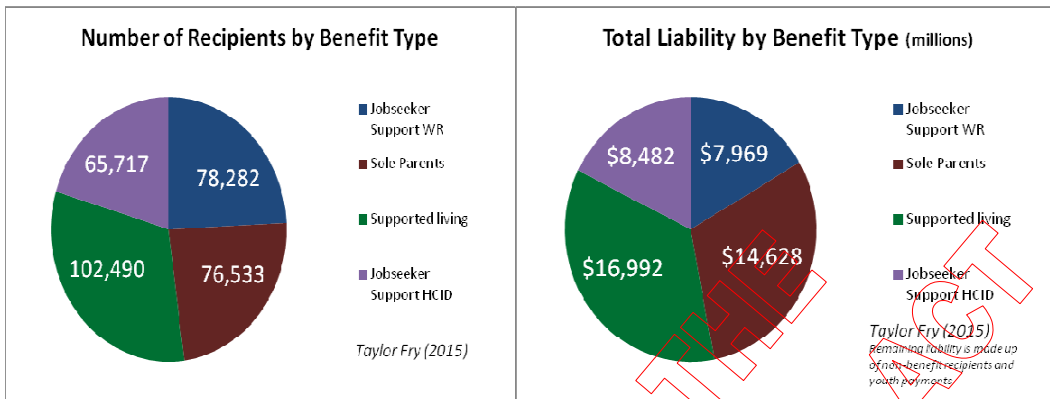
What do we know about the people who are currently in the welfare system?

15. There are three main benefit types: Sole Parent Support (SPS), Supported Living Payment (SLP) and Jobseeker Support (JS). The JS has a 'work-ready' stream and a stream for those with a health condition, injury, or disability (HCD). The graphs below show the number of people and total liability of each stream from Taylor Fry's Valuation of NZ Working Age Benefits and are as at June 2014.

¹ These results are based on data created by Treasury's Analytics and Insights team. They are not official statistics, and have been created for research purposes from the Integrated Data Infrastructure (IDI) managed by Statistics New Zealand. Access to the anonymised data used in this study was provided by Statistics NZ in accordance with security and confidentiality provisions of the Statistics Act 1975. Careful consideration has been given to the privacy, security and confidentiality issues associated with using administrative and survey data in the IDI. The results are based in part on tax data supplied by Inland Revenue to Statistics NZ under the Tax Administration Act 1994. This tax data must be used only for statistical purposes, and no individual information may be published or disclosed in any other form, or provided to Inland Revenue for administrative or regulatory purposes.

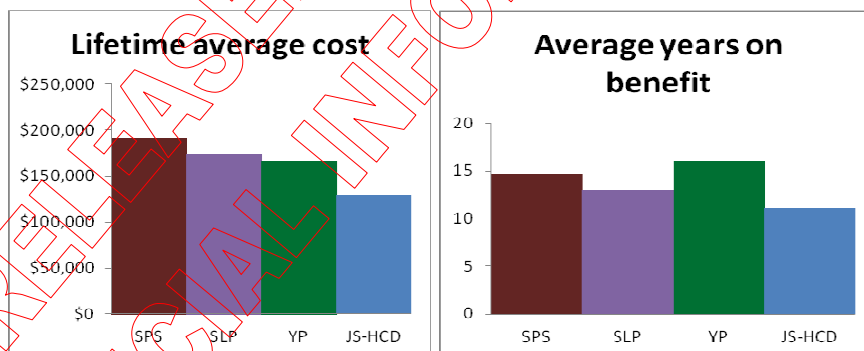
² Ministry of Education (2014) "What Young Graduates Do When They Leave Study", *Education Counts*.

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Source: Valuation of the Benefit System for Working-age Adults as at 30 June 2014, Taylor Fry (2015)

16. Analysis of information we currently hold, including the valuation and other cross-government sources of information, provides us with insights into the characteristics of these different groups and the services these groups are currently using, informing decisions about where to focus. Based on the valuation, the key client groups where there is potential for high gains are: SPS, SLP³, Youth Payment (YP) and JS-HCD. The graphs below show the average lifetime costs and average years on benefit for these client segments. It is worth noting, however, that although there are higher potential gains for these groups, they are also likely to need more intensive and costly interventions than other client groups.



Source: Valuation of the Benefit System for Working-age Adults as at 30 June 2014, Taylor Fry (2015)

17. The latest valuation has shown a significant decrease in the liability for the SPS segment, with a \$3.4 billion decrease from the 2013 valuation and an 8,364 drop in number of clients in this segment. SPS clients are showing amenability to Work Focused Case Management and are exiting into employment much faster than other cohorts.

What are the challenges to address?

18. Reviewing the valuation data provides insight into which client groups to begin to target through cross-agency initiatives. Adding information from other government sources to the analysis has also highlighted common challenges across client groups, which provides further insights. The key findings are:

³ Excludes carers and partners

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- *Beneficiaries' level of disability and health status can both pose significant barriers to employment:* A large proportion of MSD's liability is driven off clients with either health conditions or disabilities, and working with these groups has not traditionally been a focus for MSD largely due to the work obligations attached to the benefits targeted at these clients.⁴ This is despite 74% of people with a disability who are not employed saying they would like to work if a job was available.⁵ There is also consistent evidence that poor health is a barrier to gaining long-term employment.⁶ Actively addressing health issues and/or support levels for employers and disabled people when designing interventions for beneficiaries, particularly for clients with health conditions or disabilities, will be important for meeting the target. We also know that an investment approach can drive improved agency performance in dealing with health and disability issues.⁷
- *Educational attainment may provide both a barrier and an opportunity for intervention:* Beneficiaries tend to have lower skills and rates of qualification attainment than the general population.⁸ Expanding the understanding of the education levels of MSD clients is an area for future work. Focusing on supporting beneficiaries to gain new skills and improve their rates of educational attainment may help to improve their outcomes and deliver progress against the BPS target.
- *Employment levels are intrinsically linked to labour market, welfare and other settings:* Forecasts project employment growth in New Zealand of around a quarter of a million jobs between 2013 and 2018, with the strongest growth in high skilled occupations filled by migrants, less than a third of whom will be returning New Zealanders.⁹ However, only around 30% of the projected growth is in semi and elementary skilled jobs that more closely match the skills of long-term beneficiaries. Achieving the BPS 1 target requires a significant shift in

⁴ Work obligations and work preparation requirements are the fundamental levers MSD has to work with clients to get them into employment. JS-WR and SPS clients have work obligations (full-time or part-time) and work preparation requirements. JS-HCD clients have different levels of work obligation and work preparation requirements, depending on the extent to which their health condition or disability limits their ability to work. Primary SLP clients generally do not have any work obligation or work preparation requirements, as they may not have the capacity to undertake them.

⁵ Statistics New Zealand. (2014). *Disability and the labour market: Findings from the 2013 Disability Survey*. www.stats.govt.nz.

⁶ Baker, M., & Tippin, D. (2004). More than just another obstacle: Health, domestic purposes beneficiaries, and the transition to paid work. *Social Policy Journal of New Zealand*, 98-120; Singley, S. (2003). *Barriers to employment among long-term beneficiaries: A review of recent international evidence*. MSD; Danziger, S., Corcoran, M., Danziger, S., Heflin, C., Kalil, A., Levine, J., et al. (2000). *Barriers to the employment of welfare recipients*. NY: R. Cheery & W Rodgers, eds.

⁷ When ACC adopted an investment approach in the mid-1990s, it was incentivised to use the full range of instruments available to reduce life-time costs through more rigorous work capacity testing and better use of vocational interventions. The number on the scheme was reduced from a peak of almost 30,000 long-term claims in 1996 to less than 14,000 by 2004. Welfare Working Group (2010) *Reducing Long-Term Benefit Dependency*. 30.

⁸ The 2006 Census recorded that there were 29% percent of one-parent families where the mother had no education. 69% of SLP clients had either no qualification or were recorded as 'unknown' in MSD records. Only 8% have a NCEA level 3 or higher qualification. Pre-2008 data indicated qualifications of JS-HCD clients were as follows: 55% had no qualification, 16% had attempted some NCEA 1 courses, 12% had passed NCEA 1, 9% had NCEA 2-3 and only 9% had a qualification higher than NCEA 4.

⁹ MBIE. (2014). *Medium-Long-term Employment Outlook - Looking ahead to 2023*, and Statistics New Zealand (b). (2015). *Permanent and long-term migration*.

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labour market settings to support the employment of local, lower-skilled labour, at least in the medium term, through: more responsive immigration settings, leveraging off the improved labour market settings created by welfare reform and applying the Business Growth agenda. Over the longer term, work to improve the skill levels of beneficiaries could help to improve the match between the supply of skills from the beneficiary population and demand of skills in the workforce.

19. Further work to understand the challenges and the consequences for resolving these challenges across different systems will be undertaken as the work programme develops.

Workstream 2: what we need to do differently in the short and longer term

20. Building on the evidence base described above, **appendix one** provides an indicative cross-agency work programme building towards the achievement of BPS Result 1. In order to meet the new target, interventions across the whole pipeline of benefit receipt will need to be considered ie:

- *Stemming flows in:* Preventing people from going onto benefit (eg vocational rehabilitation for illness, or better interventions for young people leaving school without qualifications to support further study or work), or moving from a work focused benefit to one which is not work tested.
- *Mitigating liability while on benefit:* supporting people into even 10 hours of work per week will have an impact on the liability aspect of the revised target. Improved management of people receiving HCD payments would recognise the appropriate levels of work may vary by individual circumstances.
- *Increasing flows out:* increasing the number of sustainable exits from welfare system for clients with higher employment barriers; matching labour supply to demand (eg immigration settings, skill levels).

21. [Withheld under s9(2)(f)(iv)] These test approaches aimed at clients with health conditions or disabilities. These clients were identified as high contributors to the liability and currently receive less intensive support. Very broadly, this group may have more complex barriers to employment, requiring a different service mix from across the social sector, so a cross-agency approach is needed.

22. The work programme also sets out additional areas for developing longer term initiatives. These show where more fundamental changes to how, when and which services government provides to clients could significantly contribute to achieving BPS Result 1 target. These are likely to require changes to policy, legislation or funding arrangements. Therefore, subsequent work will be needed.

The contribution of other work, including progress against other BPS Results

23. The core work of other agencies, including progress against other BPS Result areas, will also help to contribute to reduced long-term welfare dependency. This is because a range of factors – including skill levels, immigration settings, the employment market, and availability of health care and early childhood education – can all

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- contribute to ensuring that beneficiaries and those at risk of moving onto benefit are instead able to find and maintain sustainable employment.
24. In particular, BPS Results Areas 5 and 6 set skills targets for achievement of NCEA level 2 (or an equivalent qualification) and NZQF level 4 or above. These targets focus attention on supporting people to develop the skills they need to reach their full potential and to contribute to society and the economy. More highly skilled individuals are more likely to be employed and earn more, and are less likely to be on benefit.
 25. The education sector is tracking well against these targets. Like for Result 1, Government has recently lifted the target for Result 6, reflecting better-than-expected performance (to a target of 60% of 25-34 year olds attaining level 4 or above in 2018, from 55% in 2017). Progress against the Result 5 target of 85% of 18 year olds achieving NCEA 2 in 2017 is also positive, although further progress is needed to ensure equity across the population.
 26. There are a range of initiatives underway to consolidate the gains made and improve performance further. For example, Youth Services are providing referrals and ongoing support to vulnerable young people to appropriate education and training opportunities. For those young people within education, regional Youth Guarantee networks are ensuring that programmes like Trades Academies, and Youth Guarantee fees-free, develop relevant skills and provide vocational pathways that match employment opportunities within communities. A new initiative, "Count Me In", will work with a range of partners to reach young people without a Level 2 qualification and support them to continue or re-enter education. This work will have a particular focus on Māori and Pasifika young people in order to ensure that the benefits of higher levels of qualification attainment reach across the population.
 27. There is also the potential for other developments across Government to contribute to achieving this result. For example, there are a number of potential Social Bonds pilot areas under consideration that may contribute to Result Area 1 in 2015/16 and beyond. These offer the Crown the ability to contract for outcomes on a payment by result basis. The Social Bonds Pilot is currently in a commercially sensitive procurement phase and the final outcome area is still to be decided. Like other BPS initiatives, Social Bonds involves officials from across the social sector and is led by the Ministry of Health.

Small and iterative initiatives: what we can do in the short-term

28. Officials have identified a number of areas where small scale trials would help build knowledge about what new interventions may work for key client groups. The table in **appendix one** provides a summary of the proposed trials. These largely focus on working with clients with health conditions and disabilities, and there is a strong focus on clients with mental health issues.
29. These trials will be designed within the scope of current policy settings and are unlikely to require policy or legislation changes, although they may illuminate system issues which would make cross-agency collaboration easier. These proposals are not about changing things that are already proving effective (eg MSD will still focus on working with SPS clients), but test approaches that could add to the suite of effective interventions. Evaluation of the trials will be built into the design.

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30. The short-term initiatives proposed are:

- an employer-led trial in Christchurch, focusing on getting 300 clients with a disability or health condition into work across three MSD sites

[Withheld under s9(2)(f)(iv)]

Funding for trials

31. Officials will develop detailed proposals for investment for the trials, including any fiscal implications, for decision by the Social Sector Board.¹⁰ MSD considers that the bulk of the costs associated with these trials can be met by MSD's multi category appropriation (MCA). There is currently insufficient detail about the resource implications of the proposed trials for other agencies. Where additional resource (beyond in kind resourcing) from other agencies is identified as necessary for the pilots, officials will consider the extent to which baseline funding can be reprioritised. Depending on the funding required, officials may need to scale, phase or prioritise between trials. The Social Sector Board will provide the governance body for these decisions.
32. MSD has submitted a funding request for BPS 1 for Budget 2015. The BPS 1 initiative is currently being considered in the Manifesto grouping of the Social Sector Budget process, which is likely to impact on the amount and form of funding. If the costs of trials cannot be incorporated into baselines, another potential source of funding is the BPS Seed Fund, which is available for the development of cross-agency initiatives that contribute to better public services and deliver improvements across the system.

Longer term strategic approach

33. These trials, along with continuing agency efforts in improving delivery of core services and aligning priorities with BPS targets, will go a certain way to achieving the target and building knowledge about future interventions. However, achieving the balance of the expanded target may in some cases require fundamental change in the scale and nature of services provided by government (eg an increase in numbers and types of clients worked with and a move from single agency to cross-agency delivery).

¹⁰ [Withheld under s9(2)(f)(iv)]

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Appendix one provides an outline of some of the areas where officials believe there is merit in considering more substantial change.

34. [Withheld under s9(2)(f)(iv)]



35. Most of the strategic focus areas are aimed at cross-segment issues, focusing on what is preventing people from working, rather than on what benefit they are on. These focus areas are not exhaustive. As we learn more about different client groups, what works for clients with complex needs and the interface between the BPS 1 target and other BPS Result areas, additional opportunity areas may present themselves.
36. These longer term initiatives are likely to require changes to policy, legislation and/or funding arrangements, and may require Ministers to trade off between priorities. Currently, the funding across agencies beyond MSD is not directly focused on achieving BPS 1 outcomes, although indirectly it does contribute. This creates a challenge in aligning the accountabilities and funding decision making for health, education and other sectors that interface with those receiving a main benefit and the outcomes of BPS 1. As an example, an increased emphasis on employing W&I clients rather than temporary migrants suggests immigration policy settings need to change.
37. Officials will develop this longer term work programme, aiming to provide proposals for Ministerial consideration in October 2015, with a view to developing a package ahead of Budget 16. To provide an indication of the potential magnitude of change required, officials have looked at the ACC, which has services aimed at comparable clients. Indicative costings based on this comparison (but assuming an expansion of existing government models) range from \$40m to \$90m per annum for additional case management and employment services, though some of this may be achieved by shifting current resources away from poor quality investment in work ready clients.
38. The Budget process is also changing, to emphasise agencies working together to identify priorities across the social sector and then recommending to Ministers where they should invest for greatest effect. This is the process which Ministers intend to run in future Budgets. As such, cross-agency initiatives rather than individual agency initiatives will be more and more prevalent. Any future funding requests for achieving BPS Result 1 will necessarily be cross-agency in nature.

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Workstream 3: system change to support the achievement of BPS Result 1

39. Through the Better Public Services programme, the Government has raised the expectations on agencies to collaborate where required to meet government priorities. There have been system changes to improve agency collaboration within current policy and institutional settings; for example, the new cross-agency funding framework and the changes to move the social sector “Forum” to a “Board”. However, there are still likely to be institutional barriers to the achievement of the target that are beyond the ability of the participating departments and agencies.
40. The welfare investment approach (comprising the Work and Income Board, actuarial valuation and external monitoring) has provided impetus, fresh thinking, strong accountability and good results. However, improving agency collaboration to achieve BPS 1 (and other cross-cutting results) will be about expanding out the application of the social investment principles to other areas.
41. Smart social sector investment is about lifting long-term outcomes through the application of the following principles of social spending:
- clarity on the key measurable **outcomes**
 - better use of evidence, **data** and population information to invest where benefits are greatest and target those who most need help
 - clear institutional **incentives and accountability** mechanisms to drive performance and innovation
 - financial and delivery **flexibility** coupled with **evaluation** and evidence based feedback loops to test, learn and adapt.
42. The following table assesses the current maturity of the investment principles across the social sector, highlighting current challenges and work underway to help address these:

<p>Measurable outcomes</p>	<p>The welfare investment approach is based on a clear long-term outcome – measured using the external valuation, which enables isolation of the factors over which MSD has influence. While other agencies can play a major role in avoiding entry to the benefit pipeline, the impact of their work may be difficult to measure.</p> <p>Upcoming work/challenges:</p> <ul style="list-style-type: none"> • MSD moving to expand the valuation to reflect other social sector inputs (eg improved educational information) • Lack of common outcome measures across the social sector is likely to hinder progress in achieving BPS 1 and make trade-offs between different outcomes difficult • Treasury is reporting back in April on the investment framework for Budget 2016 and future years. This includes options for defining “liability” which may help address this issue.
<p>Better use of evidence, data and population information</p>	<p>The welfare investment approach uses information from the actuarial valuation to segment the benefit population so that MSD can make decisions about where to allocate resources. Achieving BPS 1 will require understanding how other agency populations intersect with benefit populations.</p> <p>Upcoming work/challenges:</p>

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	<ul style="list-style-type: none"> • Budget 2015 began building a population focus into the Budget. Treasury will report in April 2015 on the investment framework for Budget 2016 and future years, including potential population groups for focus in future budgets. This includes outlining an approach for how we might compare health, education and welfare (as well as other social) investments for particular population groups, and the development of cost benefit tools to support common analysis and funding decisions • The BPS report to SEC in July 2015 will also include information on linkages between relevant BPS results to help highlight optimal points of intervention.
<p>Clear institutional incentives and accountability</p>	<p>The welfare reform programme has successfully deployed a powerful accountability approach with strong accountability mechanisms – including performance measurement against the external valuation, oversight by the Work and Income Board and external monitoring by Treasury. However, while this approach has provided clear incentives and accountability for MSD, it does not, in its current form, do so across the wider social sector.</p> <p>Upcoming work/challenges:</p> <ul style="list-style-type: none"> • The Work and Income Board, the Social Sector Board and Ministers will need to consider their respective roles in governing cross-agency approaches.
<p>Financial and delivery flexibility</p>	<p>Under the welfare investment approach, resources are allocated by MSD to where they are most effective at improving long-term employment outcomes. While BPS 1 is focused on MSD clients, many of these clients also have an interface with the health, education, tax and other government systems. A key question for the achievement of BPS 1 is who needs to take decisions about funding and delivery, and the incentives that are in place to take a person rather than agency focused approach.</p> <p>Upcoming work/challenges:</p> <ul style="list-style-type: none"> • Treasury will report in April on the investment framework for Budget 2016 and future years • Strengthening the interface/referral pathways between multiple systems, eg leveraging common points of contact (such as GPs for health and welfare, or welfare and tertiary systems). Proposed long-term work areas will help to improve this.
<p>Evaluation and evidence based feedback loops</p>	<p>A key part of the welfare investment approach is trialling and evaluating interventions. This approach is being incorporated into the cross-agency response to the expanded target. The pilot projects proposed in this report will allow us to test which approaches are most helpful in relation to BPS 1.</p> <p>Upcoming work/challenges:</p> <ul style="list-style-type: none"> • The Social Sector Integration Project, due to SOC in March, is also drawing on lessons from various integrated or community delivery models to develop advice on how the social sector can work collaboratively. Lessons include that monitoring and evaluation which assists adaptation, and good information that supports service improvements are keys to success.

43. Current system work is focussed on achieving BPS Result 1 within current institutional settings. To the extent that we are unable to make progress at improving agency

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collaboration through expanding out the application of the social investment principles, then reform may be necessary. Reform options that could be explored include:

- institutional changes to support an outcome focus, such as single or competing purchaser models, pooling social intervention spending, and independent evaluation
 - social sector commissioning and procurement models to support results based purchasing or reprioritisation
 - changes to accountability and agency incentives such as shared accountability targets.
44. These reform options could be considered in response to the Productivity Commission, which is due to provide a draft report on more effective social services in April 2015.

Next Steps

45. Social Sector Priorities Ministers will have a further opportunity to discuss the proposed approach on 14 April 2015. Building on SSP Ministers' direction, and pending agreement by the Social Sector Board, a cross-agency working group will progress the agreed work programme.
46. The working group will develop investment cases for the short-term initiatives for decision by the Social Sector Board, and will also report to the Board on progress on the strategic work programme.
47. Officials will report back to Social Sector Priority Ministers in October 2015 on progress of the trials, longer term work, and options for any further work. This will include any proposals for consideration in Budget 2016, including funding options. Progress against the new Result will be reported as part of the regular BPS Results reporting, which will next be reported in June 2015.

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Appendix One: Future cross-agency work plan

Potential short-term trials

Initiative description	<p>Christchurch Employment Trial – Employer led A targeted employment campaign, working with 8-10 employers in Christchurch at three MSD sites to get 300 disabled clients or other clients with health condition into work, taking a matching approach.</p>
Target Group	<p>Jobseeker HCD and opt-in SLP clients</p> <p>JS-HCD No of Clients: 65,717 Total Liability: \$8,482M¹¹</p> <p>SLP No of Clients: 85,840 Total Liability: \$14,842M¹²</p>
Rationale	<p>The bulk of these clients do not currently receive an active service from MSD, and their health/disability condition may create barriers to work. Other barriers (eg education) could be identified and addressed alongside</p>
Outcomes sought	<p>Remove/mitigate perceived and real barriers for employers to take on clients with health or disability conditions Improved employment outcomes for clients with health conditions or disabilities</p>
Cross-agency involvement required	<p>Seeking to provide a tailored package of support to employers/clients which could include existing Work and Income assistance (eg support funds, subsidies), discretionary flexible funding for trials, support for employers, training (including adult literacy/numeracy), and health interventions. This will require support from MoH, MBIE, ACC and MoE.</p>

[This section, and pages 20 and 21, withheld under s9(2)(f)(v)]

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¹¹ Valuation of the Benefit System for Working-age Adults as at 30 June 2014, Taylor Fry (2015) 11

¹² Ibid. Excludes carers and partners.

IN-CONFIDENCE

Appendix two: Strengthening MSD's Performance

48. MSD faces four challenges in meeting the refreshed target within its existing baseline:

- creating greater capacity (either internally or externally) to actively work with a greater range of clients
- continuing to reprioritise within its baseline the supports and services that are provided to a broader range of clients
- continuing to trial innovative approaches to working with a broader range of clients where sufficient evidence does not exist on what works best in achieving outcomes for these groups, and
- working together with other agencies, especially in regard to prevention of entry onto benefit (the main report outlines how agencies will address this challenge collaboratively).

Creating Capacity

49. MSD has identified several actions that can be taken to create greater capacity and improve outcomes from existing spending based on what has been learnt through the progressive rollout of welfare reform and the investment approach.
50. These actions fall into three broad categories that seek to reduce the flow onto benefit and increase the rate of exits into employment: strengthening and improving the gateway onto benefit; enhancing the streaming rules that determine the level and type of case management support clients receive and reviewing opportunities for contracted out case management.

Strengthening and Improving Gateways

51. There are several practical operational changes that will strengthen and improve the gateway onto benefit that can be made without legislative change.
52. For example, by focusing the service response to sole parents on the reason for entering benefit (6,874 due to loss of employment and 8,196 due to relationship ending in 2014), we are able to reconnect those that have recently left the labour market quickly to employment (assisting them like other jobseekers), while supporting those that may require longer term support with the appropriate response.
53. There is also an opportunity to introduce Work Ability Assessments for clients seeking to transfer from Jobseeker (JS) benefit to Jobseeker HCD and from Jobseeker HCD to Supported Living Payment (SLP) to ensure clients are focused on what they can do in employment rather than what they cannot. This also creates an expectation that we will continue to focus on work as an outcome for this group.
54. This gateway could be further improved through a stronger alignment of incentives across the health and income support systems. For example, the primary interface between those clients on a main benefit and the health system occurs with General Practitioners (GPs) issuing medical certificates to establish eligibility for health and disability related benefits. GPs are also funded as a source of primary mental health

services. Over 40% of those that receive a health and disability related benefit do so for mild to moderate mental health reasons.

55. If the interface was improved, the same GP that agreed that a client was sufficiently unwell or disabled so as to be eligible for benefit, would also provide a rehabilitative plan, including support for employment.

Enhancing Streaming Rules

56. The streaming rules determine the level and type of case management support different client groups receive. Two strategies within the streaming rules would allow MSD to improve the rate of exits from this service – changing the mix of clients receiving the service and increasing the capacity of Work Focused Case Management.

Changing the Mix of Clients Receiving Active Service

57. Currently, the system provides capacity for 80,000 clients to be streamed into Work Focused Case Management (WFCM) the most intensive one to one case management service, with caseloads of 121 clients per case manager. Within this service, there is some specialisation. For example 8,000 WFCM places are allocated for HCD clients with caseloads of 100 clients per case manager.
58. The actuarial valuation, an evaluation of the service and an internal review of the streaming rules has highlighted that WFCM is most effective for sole parents (particularly those with school aged children) who exit on average at around 9-10 clients per month per case manager compared to Jobseeker clients that exit at around 7-8 clients per month per case manager.
59. Currently, around half the sole parent group are streamed into WFCM capacity (40,000), with the balance (around 32,000) remaining in general case management (GCM). Equally evaluation and review have highlighted that WFCM has not been successful for long-term complex entrenched Jobseekers. MSD have a trial specifically designed to test alternative approaches to working with this more complex group starting in February 2015.
60. MSD expects to achieve more work outcomes and exits by increasing the number of sole parents in WFCM by 10,000. This will require shifting around 10,000 complex long-term clients for which WFCM has not been successful (most will have been in service for up to 18 months with no success) into GCM. MSD will use the results of the trial to identify how best to work with these complex clients in the future.
61. There are currently 50,000 JS HCD clients not in an active case management service (as noted above 8,000 JS HCD clients are in WFCM). While MSD is proposing to trial some new approaches working with the health sector to increase capacity for this group (outlined below), it would also look to create options to create greater capacity for these clients within WFCM.

Creating More Capacity by Increasing the Number of clients in WFCM

62. The funding flexibility offered through the MCA provides MSD with the opportunity to consider alternative ways to direct its funding to improve overall client outcomes including increasing WFCM capacity by another 15,000 – 20,000 places by directing resource currently allocated to general case management toward WFCM. This opportunity also aligns with the aims of simplification to improve the nature of

transactional services offered to clients, freeing up resource to focus on client outcomes.

63. If 150 general case managers were reallocated to WFCM this would increase the capacity in WFCM by around 15,000 – 20,000 places. As all clients (including JS HCD clients) exit faster from WFCM compared to GCM this would increase the overall rate of exits across the system. Combined with the option to change the mix of clients within WFCM outlined above the overall capacity would be between 95,000 – 100,000 places and average exist rates would increase to 9-10 per case manager per month overall (from the current 7-8).

Reviewing Opportunities for Contracted out Case Management

64. MSD currently contracts out its case management service for youth through the Youth Services, has two trials (1000 places each) for contracted case management for Sole Parents and clients with mild to moderate mental health conditions, has a contract with the Red Cross to help refugee clients into employment and a range of smaller locally based contracts for case management services.
65. In response to the Government's manifesto commitments MSD is considering options to expand the Youth Service to at risk 18 and 19 year olds and to partner with Iwi in the delivery of case management services.

Reprioritising Supports and Services

66. MSD, as part of the introduction of the investment approach, has undertaken a significant reprioritisation process of its spending on supports and services over the past three years, focusing on higher liability clients. With the introduction of the refreshed BPS target, MSD is also considering options to target or expand existing services that have proven to be effective (such as wage subsidies) to a broader range of clients, particularly Jobseeker HCD clients. This includes expanding existing trials that show promise and reframing our wage subsidy and other support programmes to better align to the needs of employers when employing clients with health conditions and disabilities.