

# The Treasury

## Ministry of Social Development Baseline Review Information Release

June 2019

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- [2] 9(2)(c) - to avoid prejudice to health and safety measures
- [3] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [4] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [5] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [6] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
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- [8] Out of scope for this release.

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## Treasury Report: MSD Baseline Review Final Report

<b>Date:</b>	7 February 2019	<b>Report No:</b>	T2018/3741
		<b>File Number:</b>	BM-2-7-2018 (The Treasury) A11175381 (MSD)

### Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	<b>Note</b> the contents of the report <b>Discuss</b> with Treasury officials on 18 February <b>Discuss</b> at Budget bilateral	18 February
Minister for Social Development, Minister for Disability Issues (Hon Carmel Sepuloni)	<b>Note</b> the contents of the report <b>Discuss</b> with MSD officials on 18 February <b>Discuss</b> at Budget bilateral	18 February

### Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Emily Fulford	Senior Advisor, Baseline Review	[7]	n/a
James Messent	Team Leader, Baseline Review	[7]	n/a (mob)

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

**Return** the signed report to Treasury.

**Minister of Finance's Office to refer** Part A of the report (once both Ministers have signed the report) to the Minister of Housing and Urban Development, the Minister of Revenue, the Minister for Veterans, the Minister for Seniors, the Minister for Youth/Associate Minister for Social Development, and the Minister of Employment.

Note any  
feedback on  
the quality of  
the report

**Enclosure:** Yes (Annexes 1-4 attached)

# Treasury Report: MSD Baseline Review Final Report

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## Executive Summary

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In July 2018, the Minister of Finance and Minister for Social Development commissioned a review of the Ministry of Social Development's (MSD) baseline, conducted jointly by MSD and the Treasury. This is the final of three reports that comprise the MSD baseline review. This report is in two parts:

- a. Part A (including annexes 1 and 2) provides you with the review findings.
- b. Part B (including annexes (3 and 4) provides advice on options for Budget 2019 that draw on the analysis in the review.

The primary objectives of the review were to provide advice on:

- a. value for money and the effectiveness of expenditure
- b. alignment of baseline expenditure to MSD's strategy and the Government's wellbeing priorities
- c. cost pressures over the next four years and alignment of those to the above strategy and priorities, and
- d. options to manage within different funding paths.

The funding in scope of the review is approximately \$1.4 billion of Vote Social Development. The review excludes assessment of Benefits or Related Expenditure (BORE), New Zealand Superannuation, Student Loans and Recoverable Assistance.

### **MSD's baseline expenditure is generally good value for money, but there is room to improve**

MSD has good information about the value-for-money of many of its programmes (particularly employment assistance), and has been working to extend the range of outcomes that are measured in order to deliver on Government priorities for wellbeing measurement and broaden their understanding of effectiveness.

However, even where there is good information, changing service offerings in response can be challenging. Efforts to prioritise funding (particularly for contracted expenditure) can be met with significant resistance from sector partners due to real or perceived risks of service gaps, which results in poor-value programmes enduring.

MSD is broadly efficient at administering the welfare system within its current processes and systems. There is potential to improve operational efficiency for administration of the benefit system, as there are a number of policy, system and process settings that consume both staff and client time, but are not effective in improving outcomes. However, improving efficiency in this area is likely to increase costs rather than lead to savings due to increases in benefit uptake, driving higher BORE expenditure.

### **MSD's strategic direction *Te Pae Tawhiti* has good alignment with Government priorities but implementation is likely to be costly**

MSD has recently introduced a new strategy, *Te Pae Tawhiti*. Implementation is at an early stage, but there is good organisational support and alignment with key Government priorities. We would expect to see full implementation result in:

- a. a more client-centred approach to service delivery
- b. a new operating model, including different channels of delivery
- c. greater and more effective use of technology for both clients and staff
- d. improved ability to respond to changes in policy, and
- e. more coordination across Government and with non-government partners.

Implementation is likely to require major investment in IT systems and change management. MSD has signalled that a transformation package will likely be submitted in Budget 2020 to help deliver *Te Pae Tawhiti*, which will require a programme business case to be considered by Cabinet. This is expected to present a medium and long-term target operating model and a detailed understanding of impacts on people, property, systems, and processes.

### **Direction is needed to support broader social sector efficiency and effectiveness**

This review has been focused on MSD. However, delivery of MSD's partnership shift and the Government's broader wellbeing priorities will depend on a social sector that is efficient and effective.

Efficiency and effectiveness in this context are dependent on good delivery of specialist services by individual agencies, as well as multiple parts of government working well in collaboration. The current system is specialist, on the basis that this maximises efficient delivery for simple outputs and delivers good public accountability for expenditure. However, this does not incentivise effective collaboration. Several shifts are required, including:

- a. clarifying the role of social sector agencies in relation to policy and commissioning
- b. enabling the development of new strategy, operating and funding models that support and incentivise effective collective impact initiatives, and
- c. accelerating the roll out of data exchange mechanisms with NGO providers in order to provide a basis to drive improved practice.

Several pieces of work are underway which will contribute to this. For example:

[3]

In order to deliver the required system shifts, Ministers will need to provide continued direction, particularly where there are areas of overlap between agencies or a lack of clarity about leadership across Government.

### **Options for future short and medium-term funding pathways**

The baseline review has presented sets of options for investment and prioritisation through Budget 2019 under five key categories:

1. Core operating model
2. Underlying infrastructure
3. Employment assistance
4. Disabled people and those with health conditions, and
5. Communities and youth.

The measures that MSD has used previously to manage cost pressures are mostly not repeatable and there is limited scope to manage further pressures within baselines. If cost pressures relating to the core operating model are not funded, MSD will need to reduce expenditure in other areas, potentially resulting in a net loss of overall public value. For example:

- a. Meeting administrative demand pressure could result in a continuing decline in work-focussed case management, likely leading to an increase in BORE costs.
- b. If policy resources are not sufficient, MSD will continue to be constrained in its ability to provide input to other agencies' work, and wider social and economic development work in support of the wellbeing agenda.

Underlying infrastructure is also likely to require investment through Budget 2019 in order to manage critical system risks, in advance of the more transformational investment that is expected to be proposed through Budget 2020.

For categories 3-5, there are a number of options to invest at different scales in order to implement new programmes. In combining these options into a package for Budget 2019, investment will need to be balanced between case management and programmes, as successful implementation of programmes is contingent on adequate case management.

[8]

## Recommended Action

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We recommend that you:

### Baseline Review commissioning and objectives

- a **note** that the Minister of Finance and Minister for Social Development commissioned a baseline review of the Ministry of Social Development.
- b **note** that the Minister of Finance and Minister for Social Development are meeting to discuss the findings of the baseline review, and its implications for Budget 2019 in early March

### Review themes

- c **note** that MSD contributes to the wellbeing of New Zealanders through the income, jobs, knowledge and skills, housing, safety, health and social connections domains of the Living Standards Framework, as well as contributing to social and human capitals
- d **note** that the measures MSD has used previously to manage cost pressures are mostly not repeatable and there is limited scope to further manage pressures within baselines
- e **note** that delivery of MSD's core role is generally efficient, but that repeated scope changes and policy settings have added complexity that inhibits efficient delivery in some areas
- f **note** that information about effectiveness and processes to support continuous improvement are good for employment assistance, but that there is little information available about community programmes

[8]

### Further action beyond Budget 2019

- m **note** that additional funding requirements for the implementation of MSD's strategic direction, *Te Pae Tawhiti*, will be sought through future Budgets, and that funding will require a business case to be considered by Cabinet
- n **note** that *Welfare Expert Advisory Group* recommendations may have implications for implementation of *Te Pae Tawhiti* and that any overlaps should be taken into account when those recommendations are considered

- o **note** that there is a need to clarify roles in the social sector and this is not expected to occur without clear Ministerial and/or Cabinet direction

[3]

q **refer** (via the Minister of Finance's office) Part A (baseline review findings) of this paper to:

- |      |   |                           |
|------|---|---------------------------|
| i.   | the Minister of Housing and Urban Development (Hon Phil Twyford)                    |                           |
|      | <i>Refer/not referred</i>   | <i>Refer/not referred</i> |
|      | Hon Grant Robertson   | Hon Carmel Sepuloni       |
| ii.  | the Minister of Revenue (Hon Stuart Nash)   |                           |
|      | <i>Refer/not referred</i>   | <i>Refer/not referred</i> |
|      | Hon Grant Robertson   | Hon Carmel Sepuloni       |
| iii. | The Minister for Veterans (Hon Ron Mark)  |                           |
|      | <i>Refer/not referred</i>   | <i>Refer/not referred</i> |
|      | Hon Grant Robertson   | Hon Carmel Sepuloni       |
| iv.  | The Minister for Seniors (Hon Tracey Martin)  |                           |
|      | <i>Refer/not referred</i>   | <i>Refer/not referred</i> |
|      | Hon Grant Robertson   | Hon Carmel Sepuloni       |
| v.   | The Minister for Youth/Associate Minister for Social Development (Hon Peeni Henare) |                           |
|      | <i>Refer/not referred</i>   | <i>Refer/not referred</i> |
|      | Hon Grant Robertson   | Hon Carmel Sepuloni       |
| vi.  | The Minister of Employment (Hon Willie Jackson)                                     |                           |
|      | <i>Refer/not referred</i>   | <i>Refer/not referred</i> |
|      | Hon Grant Robertson   | Hon Carmel Sepuloni       |

James Messent  
**Team Leader, Baseline Review**

Hon Grant Robertson  
**Minister of Finance**

Hon Carmel Sepuloni  
**Minister for Social Development**

### Purpose

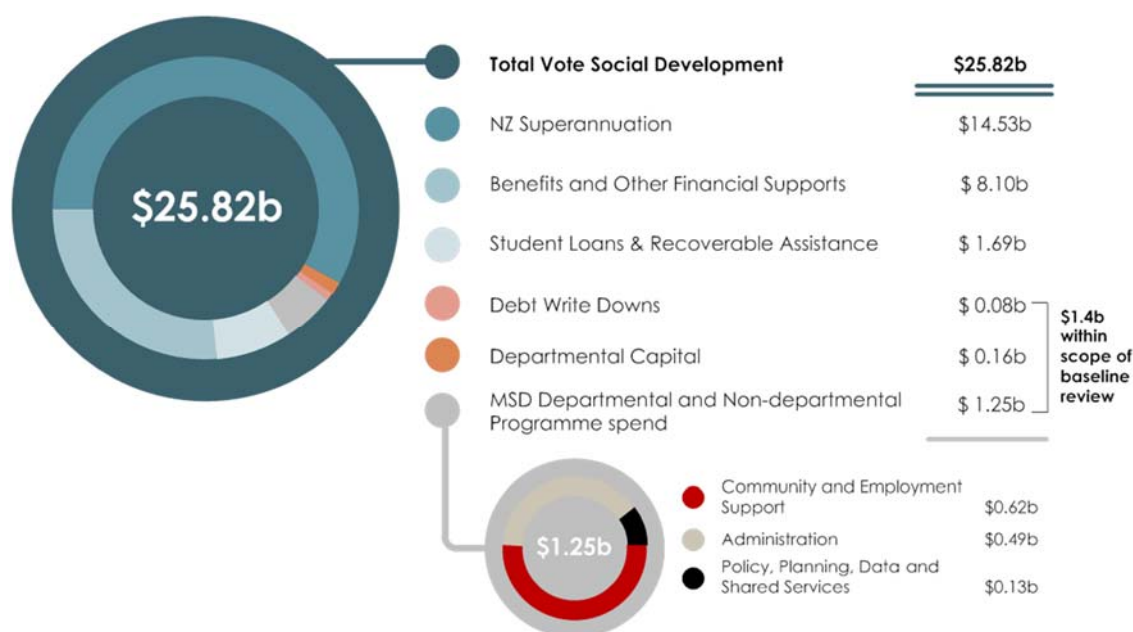
1. This is the final of three reports that comprise the MSD baseline review. After a brief summary of the baseline review process, this report is in two parts:
  - a. **Part A (including annexes 1 and 2) provides you with the review findings.** Part A provides an overview of MSD's baseline showing key areas of expenditure and how they contribute to outcomes. This is followed by key findings about the efficiency, effectiveness and value for money of the baseline.
  - b. **Part B (including annexes 3 and 4) provides advice on options for Budget 2019** that draw on the analysis from the review. Part B provides options for investment, prioritisation and other changes that can be made to respond to these findings. While most of these options relate to matters within the scope of the baseline review, some out-of-scope and broader social sector issues overlap.
2. In order to support decision-making, we have grouped the review findings and options into five categories (core operating model, underlying infrastructure, employment assistance, disabled people and those with health conditions, and communities and youth). Proposed packages for investment and prioritisation through Budget 2019 combine different options across these five categories.

### Terms of reference of the baseline review

3. In July 2018, the Minister of Finance and Minister for Social Development commissioned a review of MSD's baseline to be conducted jointly by MSD and the Treasury.
4. The primary objectives of the review were to understand current spending, develop a picture of the future baseline requirements for MSD and to enable it to have adequate resources, in the right places, to deliver on its strategy and the Government's wellbeing priorities.
5. The review's terms of reference stated that the review would advise on:
  - a. value for money and the effectiveness of expenditure
  - b. alignment of baseline expenditure to MSD's strategy and the Government's wellbeing priorities
  - c. cost pressures over the next four years and alignment of those to the above strategy and priorities, and
  - d. options to manage within different funding paths.
6. The funding in scope of the review is approximately \$1.4 billion per annum of Vote Social Development (detailed in Figure 1 on the following page). The review excludes assessment of Benefits or Related Expenditure (BORE), New Zealand Superannuation, Student Loans and Recoverable Assistance.



**Figure 1: Vote Social Development as at October Baseline Update 2018**



## Review outcomes in relation to terms of reference

7. Table 1 outlines what advice the review was required to produce, and where this information is in the final report.

**Table 1: Key parts of the report addressing elements of the terms of reference**

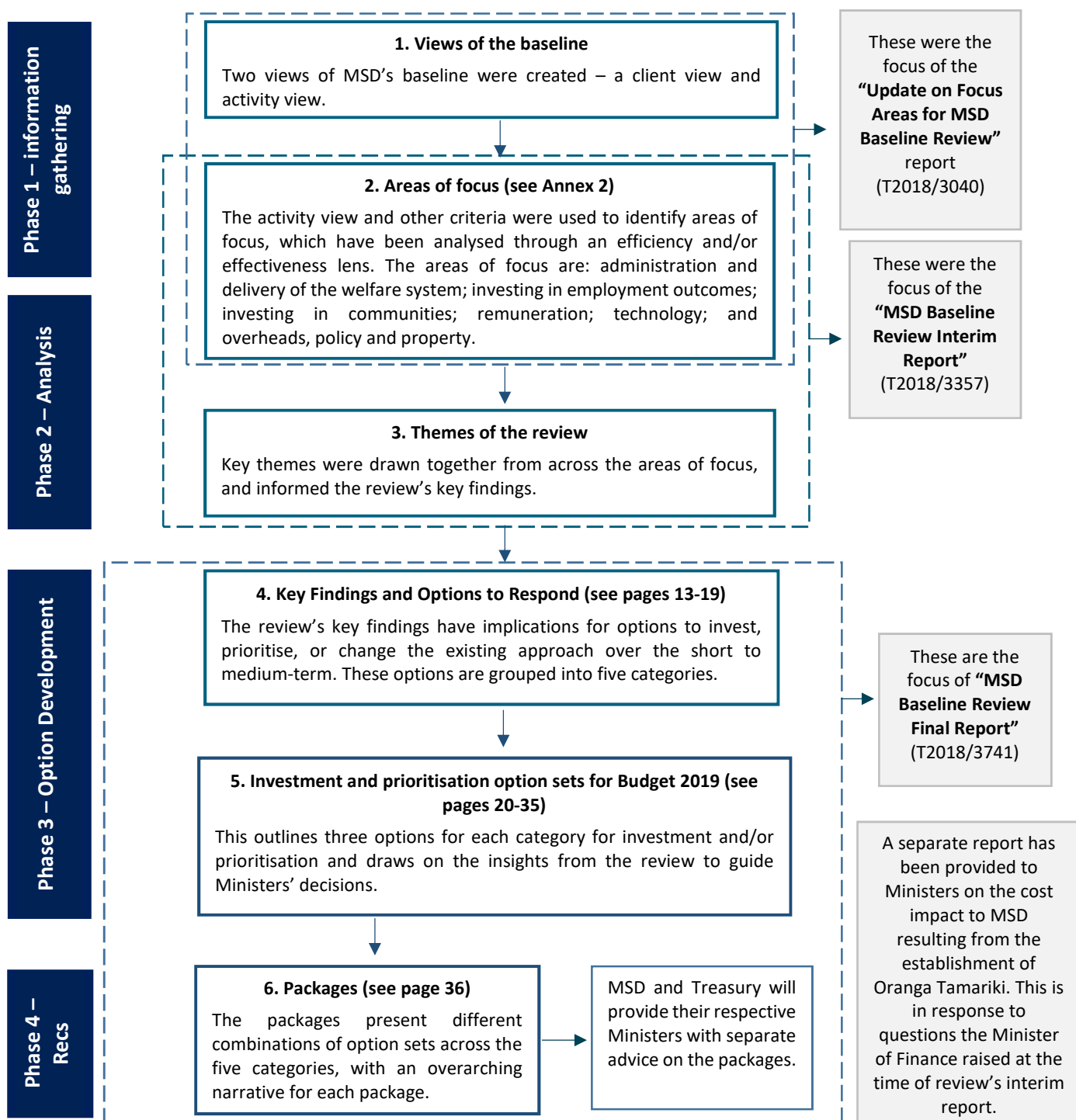
The review will advise on...	Reference in final report
Value for money and the effectiveness of expenditure.	Part A, and Annexes 1 and 2 provide an overview of MSD's current expenditure, including its efficiency and effectiveness.
Alignment of baseline expenditure and funding sought through Budget 2019 to MSD's strategy and the Government's wellbeing priorities.	Part A and Annex 2 outline how MSD's current baseline and Budget 2019 initiatives align to MSD's strategic direction, the Government's wellbeing priorities and the Living Standards Framework.
Cost pressures over the next four years and alignment of those to the above strategy and priorities.	Part A highlights some of the key cost pressures, with further detail provided in Annexes 1 and 2.
Options to manage within different funding paths.	Part B covers key decisions that will drive MSD's short and medium-term funding paths, and provides options for total packages in Budget 2019. [8]

## Review of the review

8. Following the conclusion of the MSD Baseline Review, the Treasury will undertake a 'review of the review' to understand and document what worked well, and what could be improved. This will be undertaken in consultation with MSD. Lessons from the MSD baseline review will be applied to future reviews. A summary of the lessons learned can be provided to Ministers, if required.

## Process and outputs of the baseline review

9. The diagram below briefly outlines how the baseline review was undertaken and where further information can be found in the final report.



## Part A: Baseline review findings

### Overview of the MSD baseline

10. This section provides an overview of MSD's baseline showing key areas of expenditure and how they contribute to outcomes. This includes a high-level assessment developed by the baseline review team using the Living Standards Framework.

#### Scope, Purpose and Outcomes

11. MSD is responsible for administering Vote Social Development, which includes areas relevant to the Ministers for Social Development, Disability Issues, Seniors, Youth, Housing and Urban Development, Revenue, Veterans and Employment. The primary legislation administered by MSD is the *Social Security Act 2018*.
12. MSD is the core Government organisation responsible for transfer payments and redistribution of revenue, dispersing \$22 billion in BORE to citizens each year. MSD is also funded \$1.4 billion in administering these transfers, and investing in various employment and social services.
13. MSD has recently revised its purpose statement and agreed to a new set of outcomes, as detailed in Table 2.

**Table 2: MSD's stated purpose and key outcomes**

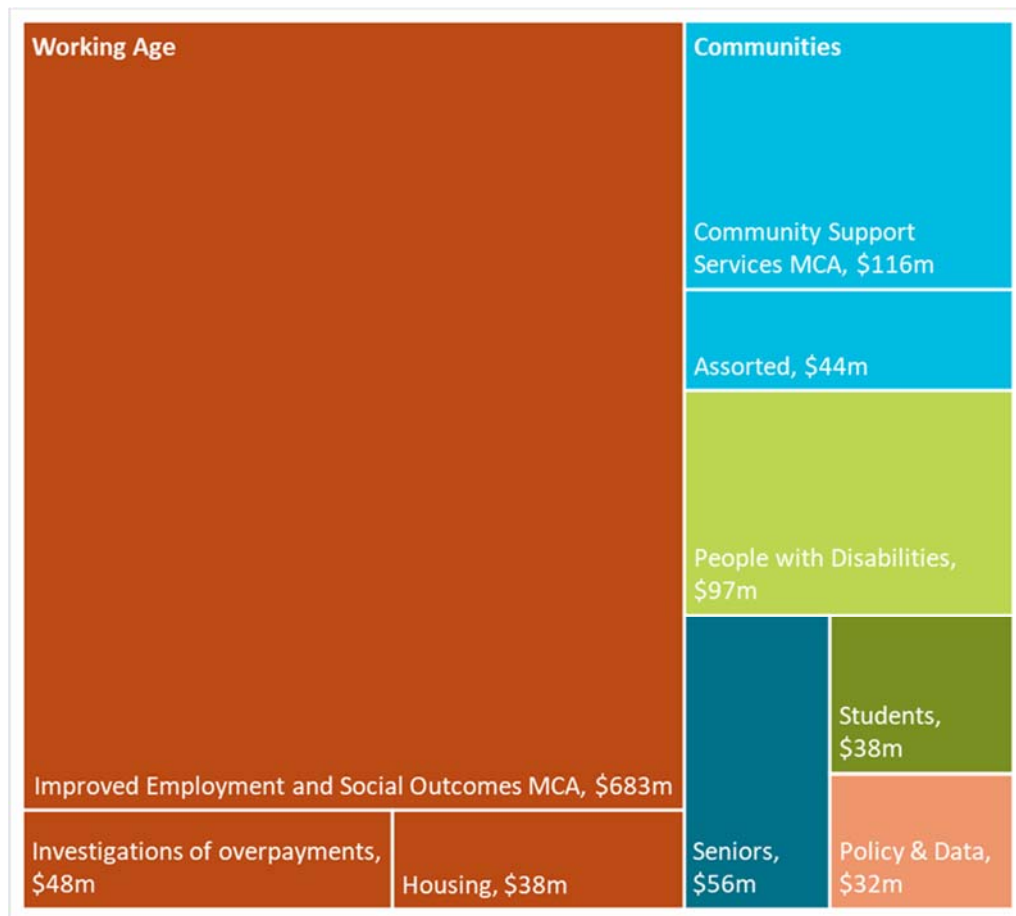
Purpose	Manaaki tangata, Manaaki whānau		We help New Zealanders to be safe, strong and independent
Outcomes	New Zealanders get the support they require	New Zealanders are resilient and live in inclusive and supportive communities	New Zealanders participate positively in society and reach their potential

#### Views of the baseline

14. The review has classified the Ministry's funding in terms of the client groups it supports. Approximately two-thirds of the Ministry's baseline is targeted at the working age population, in terms of both administering benefits and supporting work readiness and employment outcomes (FY 2018/19). Figure 2 on the following page shows this split by 'client view'.
15. In comparing trends over the past decade, funding to support community outcomes has increased in both real and nominal terms, while funding to support disabled people, seniors and students has not increased in line with inflation. Funding to support the working age population has remained relatively stable in real terms. Further detail is provided in Annex 1.
16. The review also examined the baseline in terms from an activity lens. This has allowed the review to apply either an efficiency or effectiveness lens in the analysis. The different activities are:
- administration and delivery of the welfare system
  - supporting community and employment outcomes (largely programme spend), and
  - policy and data analysis to support the work of the Ministry.
17. MSD's purpose and outcomes are broad, reflecting the wide range of social sector activities that it undertakes. However, as shown in Figure 2 on the following page, expenditure is weighted toward serving the working age population through

administration of the benefit system and employment assistance, compared to community support services. Despite this, MSD is still the third largest funder of NGO services after Health and Oranga Tamariki.

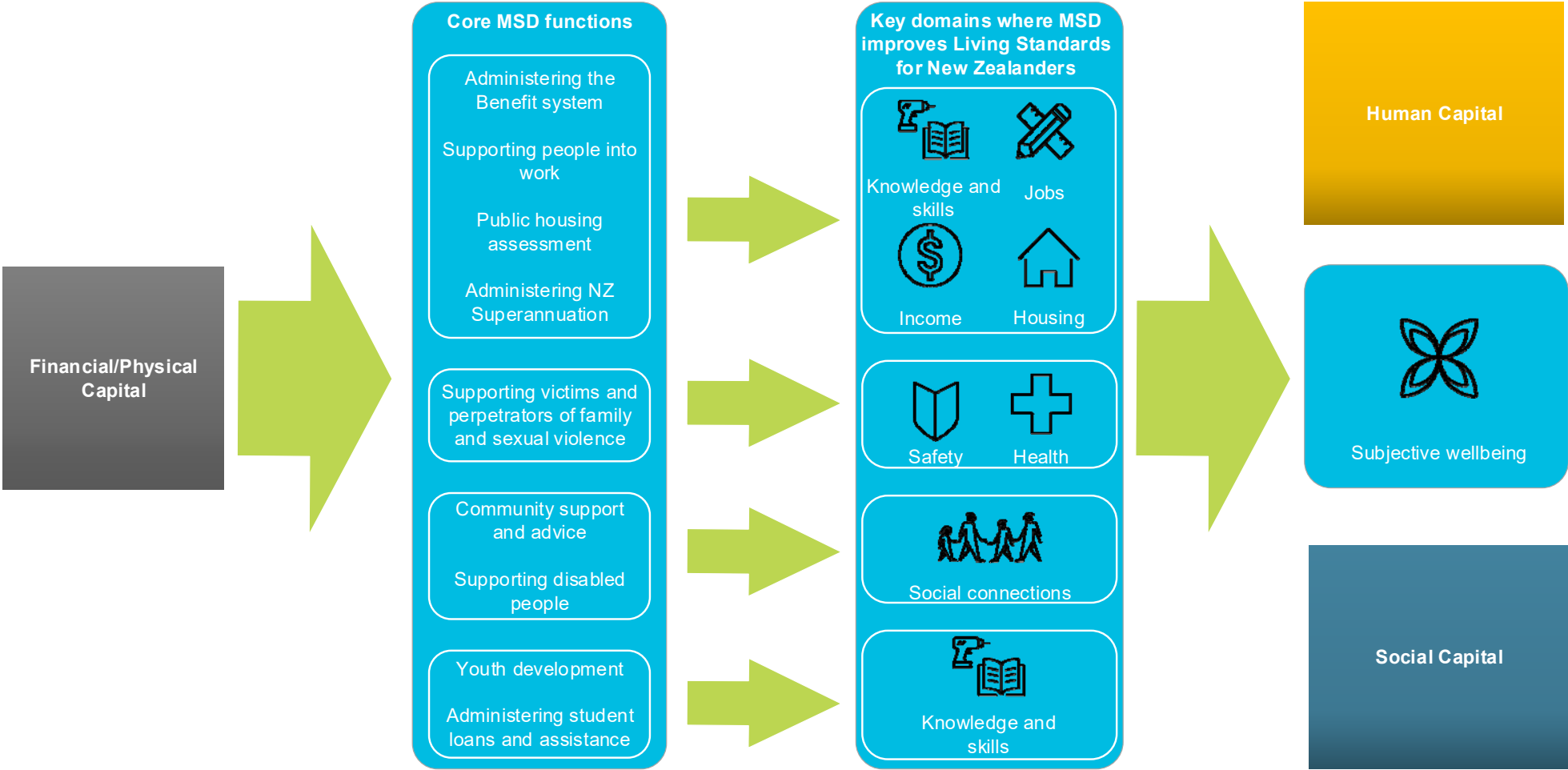
**Figure 2: Client View of the MSD baseline**



### Core functions and their impacts on living standards

18. MSD's core functions have impacts across the economic and social sectors. Baseline expenditure has a particular focus on income, jobs, knowledge and skills, housing, safety, health and social connections. Figure 3 on the following page illustrates the baseline review's interpretation of MSD's contribution to living standards using the Treasury Living Standards Framework. This is a high-level assessment and MSD has work underway that could refine this over time.
19. These high-level impacts combine to produce direct impacts on the wellbeing of clients and their households, as well as contributing to social capital and human capital. As social and human capital are key determinants of future economic success, this means the core functions build potential to generate future wellbeing, as well as having direct impacts in the present day.
20. For example, training might generate a short-term impact in getting people off income support and into work, but in the long-term also adds up to a more skilled workforce, contributing to human capital. Social insurance such as income support and employment assistance also contribute to broader social capital through the psychological value of a public safety net.

Figure 3: Baseline review interpretation of MSD contribution to living standards



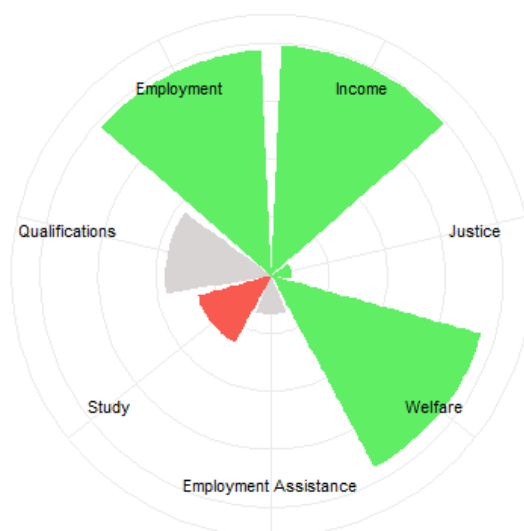
## Key Findings and Options to Respond

21. This section covers key findings about the efficiency, effectiveness and overall value for money of the baseline, and provides options for investment, prioritisation and other changes that can be made to respond to these findings.
22. This necessarily includes discussion of out-of-scope and broader social sector issues that overlap with the baseline review.

### **The baseline review assessed the value of new and existing initiatives side-by-side**

23. The baseline review used a combination of qualitative and quantitative analysis to build a picture of where and how MSD's activities create value.
24. MSD has good information about the value-for-money of many of its programmes, and has been working to extend the range of outcomes that are measured in order to deliver on Government priorities for wellbeing measurement and broaden their understanding of effectiveness. Figure 4 below shows an example from a demand-side employment assistance programme. Green denotes a positive impact, red a negative impact and grey observed impacts that are not likely to be significant.

**Figure 4: Intervention impact by outcome domain for Flexi-wage programme**



25. Information is particularly good for employment assistance, where gathering data and evaluation of value-for-money are strengths. In other areas such as community or youth development, quantitative data collection is difficult and MSD relies more on qualitative evaluation.
26. For Budget 2019, evidence of value-for-money is limited, but this is typical for new initiatives.

### **MSD's baseline expenditure is generally good value-for-money, but there is room to improve**

27. Even where there is good information, the challenge is in using this information to change the service offering. Efforts to prioritise funding (particularly for contracted expenditure) can be met with significant resistance from sector partners due to real or perceived risks of service gaps, which results in poor-value programmes enduring, reducing overall value-for-money.
28. This is compounded by MSD's size and degree of regional devolution. In order to be effective, regional commissioners are empowered to respond to local conditions. This

creates challenges to ensuring transparency of funding from the centre. Through the baseline review process MSD has uncovered a number of areas where it will be taking action to improve administrative practice, which will support better oversight of value-for-money in the future.

29. Operational efficiency for administration of the benefit system could be improved, as there are a number of policy, system and process settings that consume both staff and client time, but are not effective in improving outcomes. However, improving efficiency in this area is likely to increase costs rather than lead to savings due to increases in benefit uptake, driving higher BORE expenditure.

### **Changes in the nature of demand are driving cost pressures**

30. Demand for welfare is changing. Over the past decade, housing costs in many locations have increased substantially, while the real value of main benefits has decreased. This shift has resulted in additional demand for administratively resource intensive tier 2 & 3 benefits.
31. Clients' support needs have become increasingly complex, pressuring MSD's capacity to deliver services, due to acute economic pressures in lower-socioeconomic regions and an increased share of older cohorts entering retirement with inadequate housing.
32. The measures that MSD has used previously to manage cost pressures are mostly not repeatable and there is limited scope to manage further pressures within baselines. Because of this, if cost pressures relating to the core operating model are not funded, MSD will need to reduce expenditure in other areas, which will likely include contracted spend

### **MSD's strategic direction *Te Pae Tawhiti* has good alignment with Government priorities but implementation is likely to be costly**

33. MSD has recently introduced a new strategy, *Te Pae Tawhiti*. This signals the intention to make three key shifts across the organisation:



#### **Mana manaaki**

*A positive experience every time.*



#### **Kotahitanga**

*Partnering for greater impact.*



#### **Kia takatū tātou**

*Supporting long-term social and economic development.*

34. Implementation of the strategy is at an early stage, but there is good organisational support and alignment with MSD's core role, and key Government priorities. We would expect to see full implementation of the three key shifts result in:
  - a. a more client-centred approach to service delivery
  - b. a new operating model, including different channels of delivery
  - c. greater and more effective use of technology for both clients and staff
  - d. improved ability to respond to changes in policy, and
  - e. more coordination across Government and with non-government partners.



35. Overtime this is likely to deliver efficiency gains for MSD, enabling less focus on administration and more focus on client services and case management. This could improve both client and staff user experience.
36. Implementation is likely to require major investment in IT systems and change management. It is yet to be determined whether or how much of this investment would be offset by efficiency gains. This is complicated by the fact that increased efficiency in administration of benefits is likely to result in higher BORE costs.
37. MSD has signalled that a transformation package will likely be submitted in Budget 2020 to help deliver Te Pae Tawhiti, which will require a programme business case to be considered by Cabinet. This is expected to present a medium and long-term target operating model and a detailed understanding of impacts on the Ministry's people, property, systems, and processes.

### What future short and medium-term pathways could look like

38. Each finding from the baseline review has implications for options to:
  - a. **invest** in new initiatives;
  - b. **prioritise** existing expenditure; or,
  - c. **change** the approach taken while maintaining existing funding levels.
39. Options for investment, prioritisation and change are grouped into categories in Table 3 below. This outlines options in the short-term (mainly through Budget 2019) and medium-term. While the list is not exhaustive, it provides an overview of where MSD is likely seek additional funding in future Budgets.

**Table 3: Findings from the baseline review and options to respond**

Findings	Options to invest, prioritise or change
<b>1: Core operating model</b>	
There is limited scope to manage future cost pressures within baselines without making trade-offs, such as reducing staff or contracted spend. Over the last 10 years, MSD has self-funded cost pressures without a corresponding increase to baselines.	<b>Short term (Budget 2019)</b> <ul style="list-style-type: none"> <li>MSD's B19 cost pressure bids show a need to <b>invest</b> to maintain MSD's current operating model.</li> <li>There are opportunities to <b>prioritise</b> by changing operational policy settings in a way that also benefits clients, though some will have BORE impacts.</li> </ul>
Reforming processes and systems provide an opportunity for both efficiency gains and outcome improvements for clients. However, further work and investment will be required to realise these gains. In addition, there is potential for significantly higher BORE costs where increased efficiency results in higher uptake.	<b>Medium term</b> <ul style="list-style-type: none"> <li><b>Investment</b> package to deliver <i>Te Pae Tawhiti</i> and implement a new operating model.</li> <li>Consider how administration and case management will change in response to WEAG recommendations.</li> <li><b>Prioritisation</b> toward more client services enabled by efficiency gains gained through investment in a new operating model.</li> <li><b>Invest</b> in remaining security changes to MSD sites.</li> <li><b>Changes</b> to shared services arrangements between MSD and Oranga Tamariki.</li> </ul>



Findings	Options to invest, prioritise or change
<b>2: Underlying infrastructure</b>	
Within its current processes and systems, MSD is broadly efficient at administering the welfare system, but the current technology systems carry significant risk.	<b>Short term (Budget 2019)</b> <ul style="list-style-type: none"> <li>• <b>Invest</b> to mitigate risk of critical system failure.</li> <li>• <b>Invest</b> to prepare MSD to implement <i>Te Pae Tawhiti</i> and welfare overhaul changes.</li> </ul>
<p>A significant opportunity exists to build on the gains from Simplification (a programme that simplified and automated some processes) through <i>Te Pae Tawhiti</i> and the Better Every Day programme to further improve efficiency and client outcomes.</p> <p>Scope for improvement will require a coordinated change in people, process, delivery channels and systems. This will also require major upfront investment.</p>	<b>Medium term</b> <ul style="list-style-type: none"> <li>• <b>Investment</b> package to deliver <i>Te Pae Tawhiti</i> and implement a new operating model</li> </ul>
<b>3: Employment assistance</b>	
<p>Overall value-for-money of employment assistance can only be optimised when investment is balanced between reactive transactional processing, proactive case management and employment assistance programmes.</p> <p>Increasing processing complexity is crowding out proactive support. This is driven by increasing housing costs relative to main benefits and associated hardship assistance. There are choices to be made to increase employment funding, accept declining proactive assistance or alter main benefit levels.</p>	<b>Short term (Budget 2019)</b> <ul style="list-style-type: none"> <li>• MSD has presented a number of initiatives in B19 to <b>invest</b> in both case management and new programmes.</li> <li>• There are limited options to <b>prioritise</b> specific programmes in general employment assistance but opportunities to apply reductions to contracted services in order to encourage tighter management.</li> </ul> <b>Medium term</b> <ul style="list-style-type: none"> <li>• Consider how administration and case management will change with respect to new channels for delivery.</li> <li>• Continuous improvement of value-for-money in programme delivery.</li> </ul>
<b>4: Disabled people and those with health conditions</b>	
Disabled people and those with health conditions continue to experience high levels of unemployment. MSD's investment in employment assistance for people with health conditions and disabilities tends to achieve additional broader objectives, so needs to be considered separately to general employment assistance.	<b>Short term (Budget 2019)</b> <ul style="list-style-type: none"> <li>• Significant options to <b>invest</b> in employment and broader wellbeing for disabled people and those with health conditions.</li> </ul> <p>[3]</p>
For some cohorts, employment assistance may not be the highest-priority intervention. Other agencies may have programmes available (or should be offering programmes) that improve work-readiness prior to MSD assistance.	<b>Medium term</b> <ul style="list-style-type: none"> <li>• Pursue better integration with health sector.</li> </ul>

Findings	Options to invest, prioritise or change
<b>5: Communities and youth</b>	
<p>MSD's scope has changed a lot over the past four years. Constant change can have negative efficiency impacts. A broader cross sector review is needed to lift the efficiency and coordination of Government spending on community development.</p> <p>The current funding and contracting model for NGOs means there is little transparency about cost, demand, volume and quality.</p>	<p><b>Short term (Budget 2019)</b></p> <ul style="list-style-type: none"> <li>There are opportunities to <b>change</b> the way that MSD funds and contracts with the community sector [3] [3] [3] [3]</li> </ul>
<p>A clear investment strategy is needed to guide how MSD chooses to act in the community sector.</p> <p>Lack of evidence does not mean that investment has lower value. However, current information about effectiveness is poor and impedes improvement.</p> <p>Collecting data in this area is high-risk and secure data exchange systems need to be implemented (e.g. support roll-out of systems for NGOs)</p>	<p><b>Medium term</b></p> <ul style="list-style-type: none"> <li>MSD's role in cross-sector policy and commissioning could be clarified</li> <li>Initiatives should be in line with clear investment strategy.</li> <li>Implement better funding and contracting models, including multi-output and multi-agency funding.</li> <li>Roll out data exchange solutions and improved approaches to evaluation, to embed continuous improvement of practice.</li> </ul>

[8]

## Broader social sector efficiency and effectiveness

40. This review has been focused on MSD. However, delivery of MSD's key shift *Kotahitanga: Partnering for greater impact* and the Government's broader wellbeing priorities will depend on a social sector that is efficient and effective.
41. Efficiency and effectiveness in this context are dependent on good delivery of specialist services by individual agencies, as well as multiple parts of government working well in collaboration. The current system is specialist, on the basis that this maximises

efficient delivery for simple outputs and delivers good public accountability for expenditure. This creates two problems for cross-sector issues:

- a. Clients with complex needs require services from multiple agencies. Outcomes for clients with complex needs are often unmeasurable with current methods, and where measurable, not attributable to the action of an individual intervention. This prevents outcomes-based funding approaches. There have been significant advancements in the last few years with the use of large, linked datasets like the Integrated Data Infrastructure, but there are limits.
  - b. Without the ability to fund outcomes, the system relies on agencies working together to produce the right mix of outputs. The Public Finance legislation currently permits this but does not incentivise it. Agencies maximising their individual contributions to wellbeing does not mean maximising their collective contributions to wellbeing.
42. Fundamentally, there is a challenge in combining specialist services with collective impact approaches. Specialist services are measured against quality, quantity and cost metrics. Collective impact approaches are measured by the quality of the collective impact vehicle, and the outcomes for the target population. Table 4 below shows key differences.

**Table 4: Operating models for collective impact vs specialised services**

	Outcome-focussed collaboration	Output-focussed specialisation
<b>Expectations</b>	Achievement of shared goals	Delivery of services
<b>Operating Model</b>	Value-add through collaboration	Value-add through specialist skill
<b>Information needs</b>	Fast feedback loops from citizens	Fast feedback loops from system
<b>Accountability for</b>	Commitment to shared goals and mana to achieve them	The quality, quantity and cost of the provision of services
<b>Accountable to</b>	Citizens before hierarchy	Hierarchy before citizens
<b>Accountability direction</b>	Horizontal to collaboration participants	Up through the hierarchy
<b>Trade-offs generally favour</b>	Effectiveness	Efficiency
<b>Funding</b>	Collective / Relationships	Services

43. Because the expectations, accountabilities and information needs of collective impact models are so different, the operating and funding model also needs to be different. However, to avoid confusion between the models there needs to be clarity about the different roles, responsibilities and expectations that arise. Without such clarity, it is likely that public sector efforts at collaboration will continue to underperform.
44. Several immediate actions that could contribute to this broader agenda have been highlighted through the baseline review and are shown in Table 5 on the following page.

**Table 5: Key social sector issues and implications for MSD**

Sector issue	Implication for MSD
<b>Clarifying roles in the social sector</b>	
MSD's role frequently intersects with those of the health, education and justice sectors, and Oranga Tamariki. A lack of clarity can lead to genuine service gaps, MSD subsidising other sectors, or MSD filling gaps with second-best programmes (e.g. where access to primary mental health services is limited, requiring greater crisis intervention).	<p>Clarification is needed for MSD's role in:</p> <ul style="list-style-type: none"> <li>community development investment and leadership in particular, and</li> <li>providing advice on wider social sector policy more generally.</li> </ul> <p>MSD needs to develop a clear community investment strategy that links to the expectations of the agency and the outcomes sought.</p>
<b>Commissioning of specialised social services</b>	
Specification of outputs and cost-sharing arrangements in the NGO sector is weak, leading to poor transparency about demand, outputs and funding sources.	MSD needs to validate the value proposition of what is being contracted for in this area and review contracts to improve controls over quality, quantity and cost in relation to demand.
<b>Collective commissioning of social services</b>	
Where agencies have clear overlaps in a complex service area, collective commissioning with new operating and funding models could significantly improve effectiveness.	MSD is currently responsible for several Place Based Initiatives, [8] but has not clearly been designated a functional lead in this area.
<b>Better learning, scaling and strategy for collective impact</b>	
Collective impact initiatives have been progressing for some time but implementation continues to be ad-hoc. There is limited understanding of what works and a lack of strategy about where this type of investment is needed.	<p>Trialling new initiatives has previously been undertaken with a cross-agency approach. This is increasingly falling to MSD with the remaining Place Based Initiatives.</p> <p>Without clear ownership and strategy, collective impact approaches will continue to struggle to gain momentum despite clear merit.</p>
<b>Data collection and exchange with providers</b>	
Data about the effectiveness of practice in the community support sector is poor. Due to the sensitivity of data collection in this area, secure exchange solutions are needed.	MSD needs to work with sector partners to determine data exchange needs and what could be implemented to support improvement of practice.

45. The Social Wellbeing Board is a potential vehicle to push clarification of social sector roles. However, expectations about what is to be delivered and by when will need to be set by interested Ministers collectively, in order to avoid the objectives of individual agencies detracting from what needs to be delivered.
46. The Social Wellbeing Board has already initiated some work in collective commissioning. Improved contracting approaches and collective commissioning are to be implemented through the Family and Sexual Violence Joint Venture.
47. In order to make progress in cross-sector issues, setting clear roles and expectations will need to be an ongoing focus for Ministers and Cabinet.









































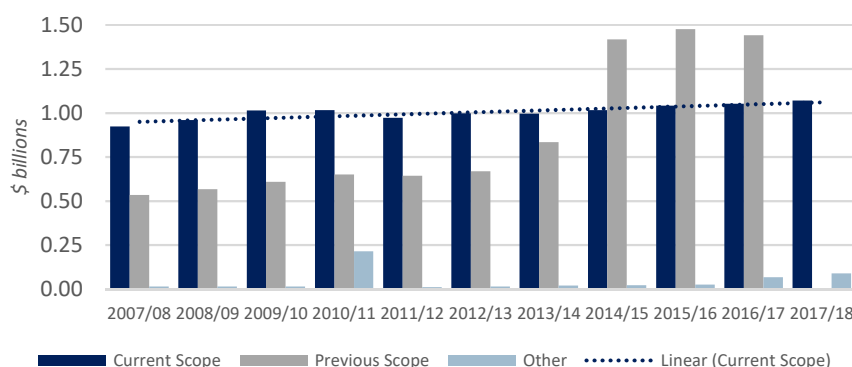
## Annex 1: Where has MSD come from?

### Scope changes mean MSD is a different organisation from a decade ago

Significant scope changes that have impacted on the organisation's operations and functions include:

- the creation of Oranga Tamariki
- broadening MSD's scope to include housing
- creation of the Ministry of Housing and Urban Development, and
- the Welfare Reform programme, including the introduction of Multi-Category Appropriations, providing flexibility to manage employment and community spend.

**Figure 6: Impact of change in MSD's scope on the baseline**



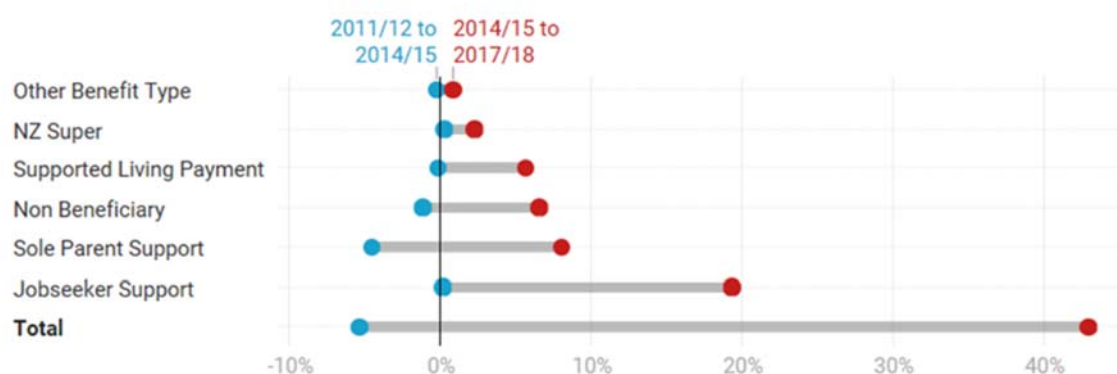
### MSD's resources to support its clients are under increased strain

**Growth in more administratively intensive transactions is driving greater effort in administrating the welfare system.** In particular, there has been increasing demand for tier 2 and 3 benefits, and the facilitation of emergency housing support. Applications for tier 3 benefits have grown over 40 percent since 2014/15. These transactions represent a more complex client need, and more demand on MSD to provide bespoke support. For example, emergency housing grants require an immediate housing solution.

MSD has managed the increased demand for support through straightforward process improvements and increasing use of digital channels. This is despite the number of clients on tier 1 benefits (excl. NZ Super) increasing over the last 2 years, returning to 2013 levels, and the number of clients receiving NZ Super steadily increasing over the last decade (see Figure 7 below).

**Figure 7: Growth in hardship grants for each main benefit type**

Contribution to growth over 3 year periods (%)



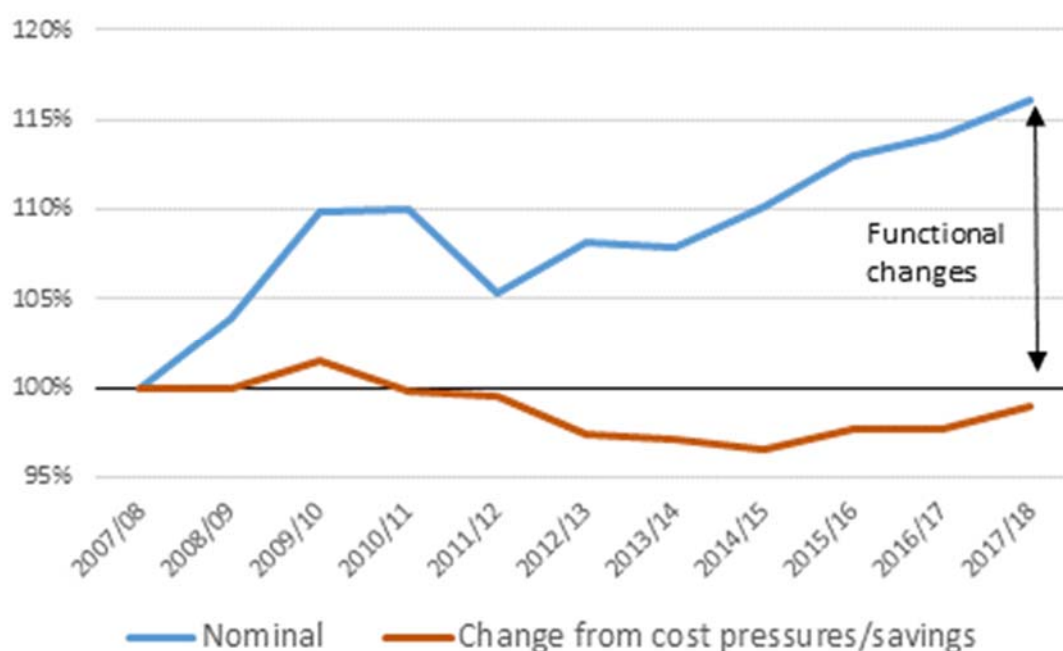
**MSD has addressed increased administrative demand and client complexity reactively, at the expense of proactive work focused engagement.** Although this approach is notionally cheaper in the short-term, it is likely to be more expensive over the longer-term, as clients are not provided with assistance to secure gainful employment, leading to higher BORE costs.

MSD is increasingly automating processing of applications through online/phone channels. MSD's Simplification program has delivered significant productivity gains in reducing the frequency of simple tasks and the duration of complex tasks. For example, the share of hardship grants processed online/phone has increased from almost zero in 2009/10 to 8.9 percent in 2014/15 and 23.9 percent in 2017/18. This process has decreased the need for approximately 500 FTEs. However, these gains have only partially offset total demand on frontline staff.

**MSD's funding has increased slightly to fund increased scope, and MSD has adopted a number of strategies to manage its cost pressures**

The funding for core Ministry activity has increased by around 16 percent since 2007/08. However, major funding increases have been associated with an increase in scope (such as housing) and decreases have occurred where functions have been transferred (such as the establishment of Oranga Tamariki or MHUD). Additional funding for cost-pressures has been balanced by savings initiatives that returned funding to the centre (as illustrated in Figure 8). **After adjusting for scope changes, in real terms funding has declined slightly.**

**Figure 8: Changes to nominal baselines from functional changes and cost pressures/savings**



MSD has adopted a number of strategies to manage its cost and demand pressures, including shifting more transactional processes online through MyMSD) and through the deferral of spending. Some cost pressures have been compounded by a loss of economies of scale in the splitting out of Oranga Tamariki and some housing functions.

Table 9 on the following page shows the strategies that have been used to manage cost pressures. **There is limited scope for MSD to continue these cost management strategies into the future, without additional investment.**



**Table 9: Strategies used by MSD to manage cost pressures**

	<b>Cost Management Strategy</b>	<b>Savings (\$)</b>	<b>Comment</b>
<b>Repeatable</b>	Automation	>\$20m pa	Only repeatable with significant investment. Further savings related to process/rule changes and new technology are possible. Likely that this would occur through implementation of <i>Te Pae Tawhiti</i>
<b>Non-repeatable</b>	Reducing capital charge	\$80m (capital)	MSD returned capital to lower capital charge. This is one of the drivers related to the recapitalisation budget bid.
	Delaying capital expenditure	<\$10m	MSD capping capital expenditure. "Sweating assets" to reduce depreciation is no longer feasible without increasing asset risks. This is one of the drivers for the capital budget bid.
	Carrying forward underspends	<\$20m	Cabinet has an expectation that these underspends are returned to the centre.
	Minimising wage growth and tech investment	<\$20m	These strategies are related to the remuneration and capital bids.
	General Surplus	1-2% of annual baseline	These surpluses have not been possible in the last 5 years.
	Value-for-money project	<\$5m	Current prioritisation exercises have a similar objective, though funding is returned to centre.
	Other efficiency drivers "totem-poles"	<\$10m	The savings were mainly in discretionary expenditure – publications, travel and catering and an internal redistribution to meet cost pressures in other areas. Limited scope for further savings.

### **Administration and Delivery of the Welfare System: Efficiency focus**

In response to the declining capacity of case managers to maintain proactive work-focussed engagement rates with clients, MSD is seeking [8] through Budget 2019 for up to 563 FTEs to increase engagement rates back to levels previously achieved in 2014/15.

[8]

As is true for welfare systems across developed countries, demand for welfare is impacted by environmental factors, including:

- cyclical macroeconomic conditions, such as housing and labour market trends;
- structural changes in demography, such as population growth and ageing; and,
- changes to Government policy and funding.

In recent years, all of these factors have placed pressure on MSD, despite the relevant appropriations remaining relatively flat since 2014/15.

#### ***Housing costs are driving changes in the welfare environment***

Over the past decade, housing costs in many locations have increased substantially, while the real value of main benefits has decreased. This has shifted resulted in additional demand for administratively resource intensive tier 2 & 3 benefits.

For instance, since 2014/15 approximately 41 percent of the additional frontline demand for hardship grants was in six Auckland service centres, closely correlating to rental price growth in those areas. This is likely to be the driving force behind the region's surge in hardship demand<sup>2</sup>. This is despite favourable labour market conditions, with relatively low and declining unemployment rates and solid earnings growth.

Clients' support needs have become increasingly complex, pressuring MSD's capacity to deliver services, due to acute economic pressures in lower-socioeconomic regions and an increased share of older cohorts entering retirement with inadequate housing. Similarly, the introduction of the Special Needs Grant for Emergency Housing in 2016 has driven a large increase in hardship assistance demand.

#### ***MSD has had to shift resource away from proactive case management to manage demand***

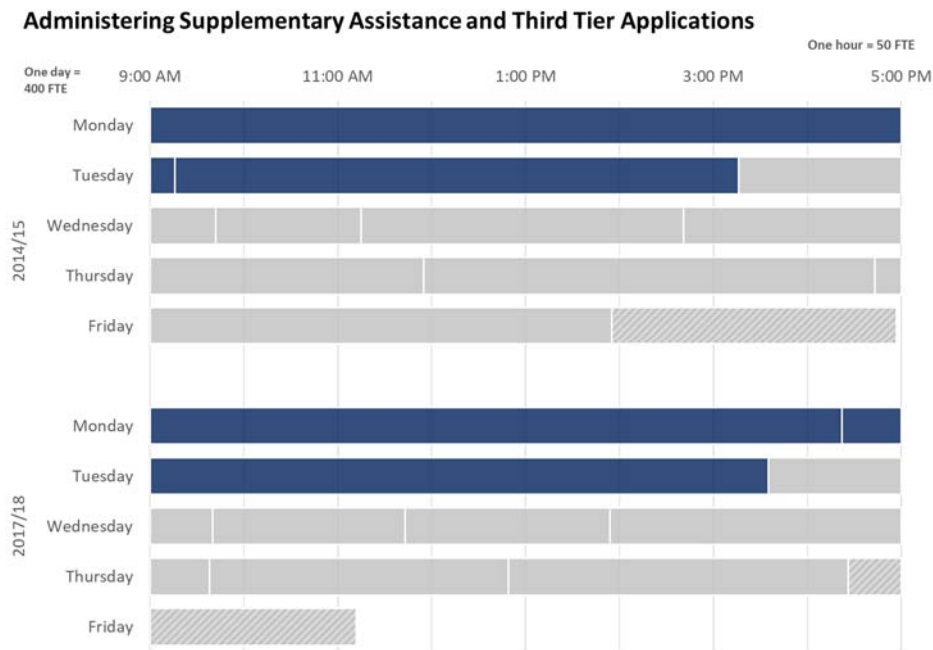
In response to these and other pressures, MSD has delivered substantial system efficiencies, through Simplification, which has saved the need for approximately 500 FTEs. As Simplification has only partly offset these pressures, MSD's has also shifted effort towards meeting the reactive needs of clients at the expense of proactive work-focussed engagement. This trend is continuing.

Figures 9-12 on the following pages show the changes in time allocated by a typical case manager towards specific activities. These charts compare a stylised case manager's work week in 2014/15 and 2017/18. In aggregate, one day = 400 FTE and one hour = 50 FTE.

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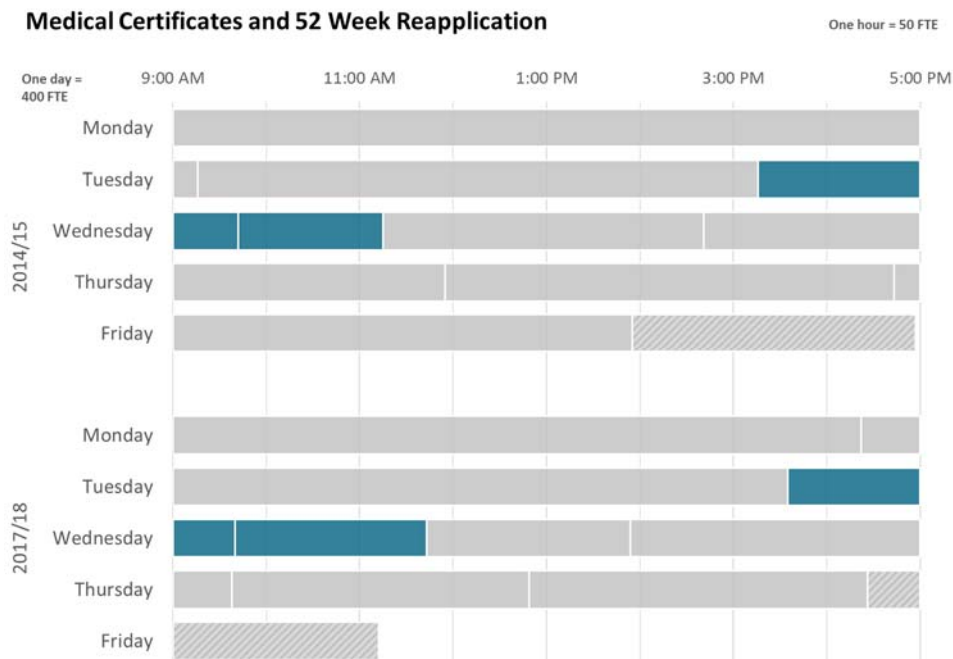
<sup>2</sup> | In 2018, rental growth was particularly focussed on the lowest quartile of available rentals in Manurewa and Mangere – the country's two largest sites for hardship grant demand – which increased by 11.2 and 12.6 percent respectively. This far exceeds the Auckland average of 3.2 percent.

**Figure 9: Changes to time spent on administration of tier 2 and 3 assistance**



Administration of supplementary assistance experienced efficiency gains through Simplification (-10%). Meanwhile, growth in demand for third tier assistance has required a significant increase in case manager time (+20%). In aggregate, the level of resource for these tasks has remained stable, however given rising demand in third tier assistance, the impact on resourcing is likely to increase. This has occurred at the same time as the growth in other channels. Approximately a quarter of third tier assistance applications are now online or over the phone.

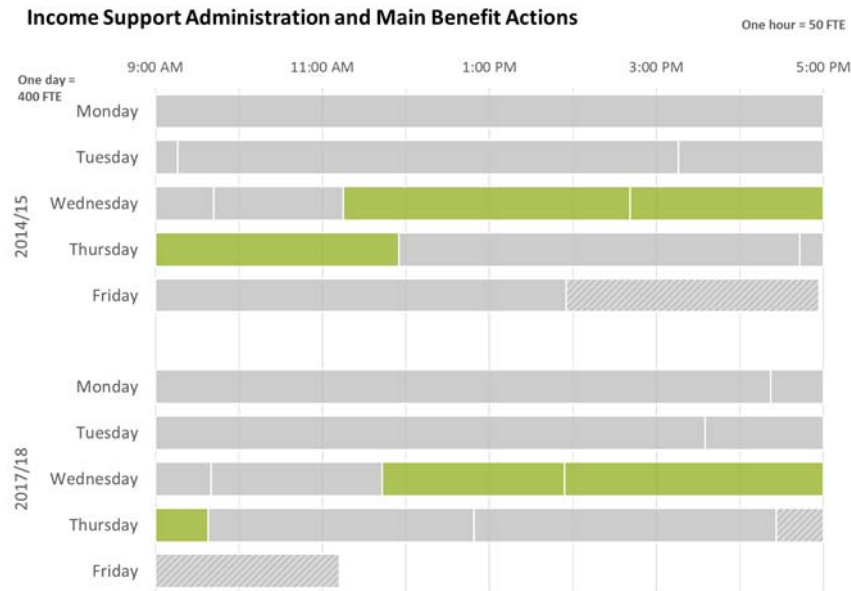
**Figure 10: Changes to time spent on medical certificates and 52-week reapplications**



Medical Certificates and 52 Week Reapplications are compliance activities required under current policy settings. The tasks are less frequent, but time intensive. In aggregate, the level of resourcing has remained stable.

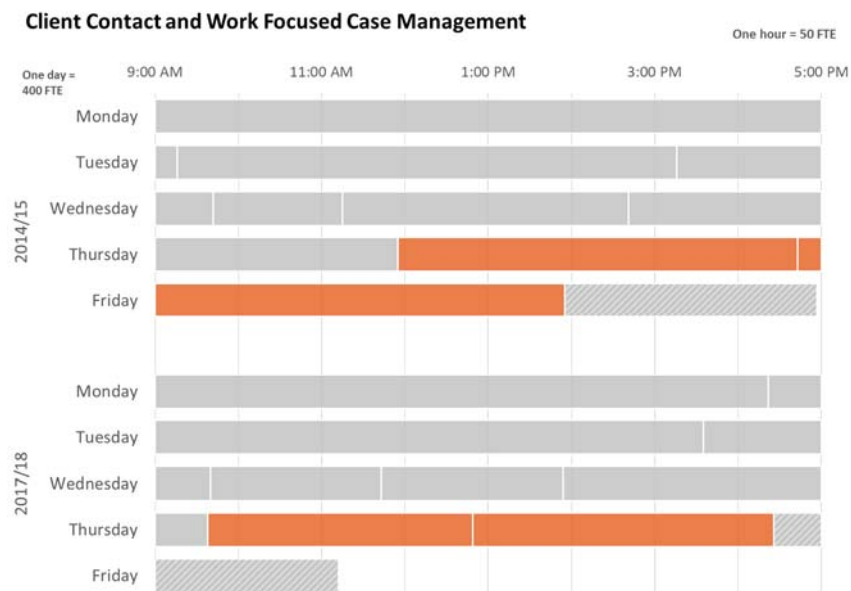
Efficiency gains from less time spent on Medical Certificates were offset by more time intensive 52-week reapplication conversations.

**Figure 11: Changes to time spent administering main benefits**



Simplification reduced case manager time needed for Income Support Administration and Main Benefit Actions (-30%). This has largely been through a reduction in volume as more tasks move online.

**Figure 12: Changes to time available for work focused case management**



Time available for Client Contact and Work Focused Case Management has been crowded out (-32%) as the reduction in staff was less than the time saved on other tasks.

There is a good fiscal argument for investment in proactive work-focussed case management. The cost of case management is typically less than the BORE savings that

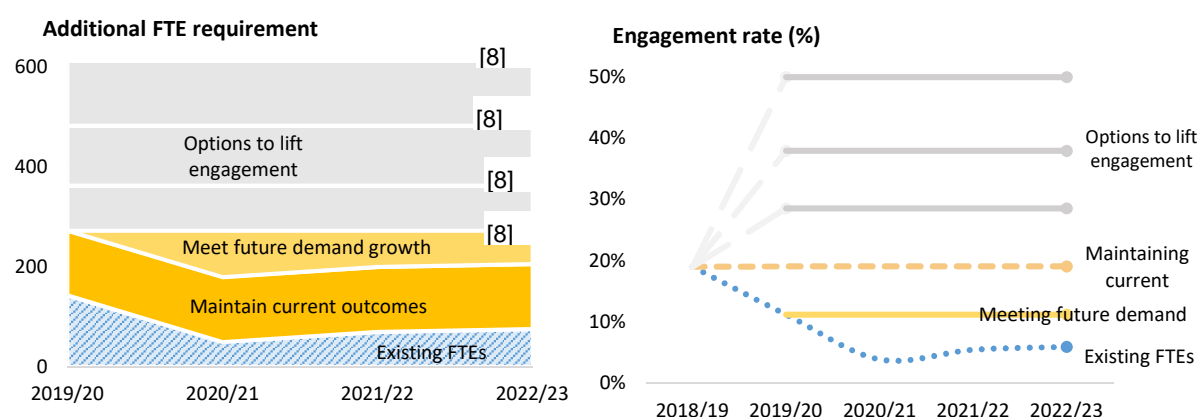
are achieved (up to a point). Given current levels of effort, it is unlikely that marginal returns on investment will decrease under any of the scenarios presented by MSD<sup>3</sup>.

Figure 13 below describes options discussed earlier in this report, ranging from maintaining the current level of engagement to increasing engagement to the 50 percent last achieved in late 2014/15<sup>4</sup>.

The option for maintaining the core operating model combines 130 FTEs to prevent further declines in engagement (orange), with up to 93 additional FTEs from 2020/21 to service forecast growth in client numbers (amber).

Thereafter, options to increase engagement rates are illustrated in blocks of 90-130 additional FTEs. Investment is scalable, with each percentage point increase in engagement rate requiring approximately 10-13 additional FTEs.

**Figure 13: Options to increase engagement rates through additional FTEs**



### Future considerations and further research

It is likely that the upcoming Welfare Expert Advisory Group (WEAG) recommendations will have implications for implementation of *Te Pae Tawhiti* and the required resourcing for case managers. Any overlaps should be taken into account when those recommendations are considered.

There is potentially opportunity to improve the administration of student loans and support, which has lagged behind MSD's broader performance. For instance, since 2012/13 applications for loans and support have decreased 13 percent and 22 percent respectively, despite funding increasing 5 percent. Performance metrics are also falling, with both quality and accuracy measures trending downwards. However, further assessment is required once the impacts of fees-free reforms becomes clear.

Home ownership for retirees has remained stable for many decades, at roughly 80 percent, with benefits systems designed on the implicit assumption that this ratio remains relatively stable.

Evidence suggests that increasing indebtedness and falling home ownership rates will limit the ability for pre-retirees to transition into retirement compared with previous cohorts. Although the trend of higher debt and lower home ownership began in the 1980's, and is

<sup>3</sup> MSD estimates that the natural ceiling in engagement rates is approximately 80 percent, as it becomes more difficult and less fruitful in proactively engaging clients. However, this diminishing return to investment is not expected to occur on funding sought to increase engagement to 50 percent.

<sup>4</sup> Note that each investment option assumes no changes to policy (such as through prioritisation of 52-week reapplications or medical certificates) or productivity improvements, which may be expected through future investment in IT capacity and capability. It is likely that each level of investment will see an effective increase in engagement over time. Similarly, MSD's existing systems will struggle to sustain the productivity gains and client experience from Simplification, with clients likely continue to demanding a more integrated end-to-end service. Current rules and process changes, as part of *Te Pae Tawhiti*, are a significant opportunity for both efficiency gains and improved client outcomes.

broadly consistent across developed countries, impacts on retirement-aged cohorts are only now beginning to emerge.

Home ownership rates will continue declining over coming decades, with a greater share of retirees relying on private rentals or seeing a greater share of their incomes servicing outstanding debts, decreasing their resilience to financial shocks.

MSD and Treasury should work together in developing detailed research that combines the impact of falling home ownership rates and increased indebtedness and its longer-term impact on the welfare system.

## Investing in Employment Outcomes: Effectiveness focus

### *The infrastructure is in place to drive continuous improvement*

Employment assistance is one of MSD's core functions and has consistently been one over time. The primary means of funding is through a large MCA for which the Chief Executive has some delegation for. The intent of this arrangement is to empower MSD to balance the allocation of funding to internal and contracted services in response to demand, and to focus on continuous improvement in the value of employment assistance. Rather than focusing on accountability for the specific performance of programme expenditure, the focus of Treasury shifts to accountability for the quality of governance over the expenditure and the processes to ensure a response to information about value-for-money.

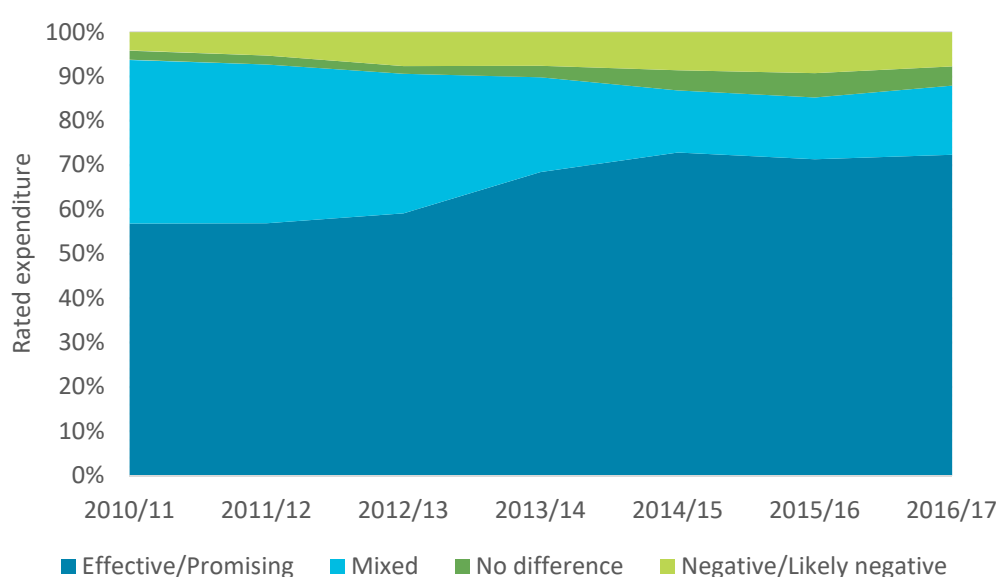
Priority areas are set for employment and social outcomes through publically available investment strategies. This provides a good framework for linking Government priorities to operations, and ensuring priorities are evidence-based.

### *Effectiveness has improved over time*

In general, MSD has good processes for evaluating the value-for-money of employment and social outcomes expenditure and is a leader in this area. There are significant gaps in what expenditure is evaluated, but this is usually due to the feasibility or appropriateness of evaluating a particular programme rather than omission on the part of MSD. In some cases, the feasibility of evaluation is hampered by the design of a programme itself. Putting in place high-quality evaluation procedures requires time, design and investment. This is difficult to achieve where programmes are rushed to full scale (removing potential comparison groups), or where pilots are undertaken at insufficient scale (resulting in a lack of statistical power).

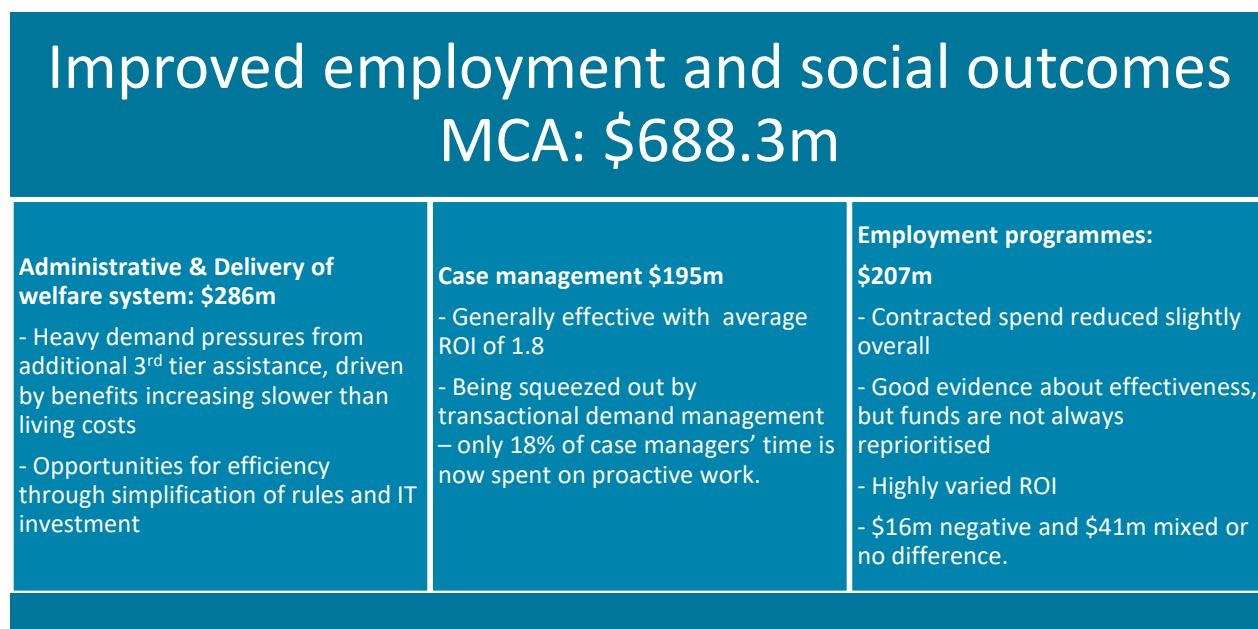
There is evidence of an improvement in the effectiveness of programme expenditure over time (Figure 14 below), though there is still a large range in effectiveness. MSD faces difficulties in de-funding some employment programme expenditure, often due to concerns about 'service gaps', regardless of whether MSD has alternatives that are more effective. As a consequence, new programmes are usually funded through the Budget process with new money rather than funded from within baselines. This creates an overlay that undermines MSD's focus on continuous improvement, since decisions are made at the programme rather than appropriation level.

**Figure 14: Effectiveness of rated employment assistance over time**



The mix of administrative, case management and contracted investment (Figure 15 below) has not been rebalanced in response to changing demand pressures. Non-discretionary pressures in administration and delivery of the welfare system have been met by decreasing effort in discretionary case management, but not through refocusing effort from employment programmes.

**Figure 15: Distribution of funding for employment assistance**



### **Effectiveness varies for different cohorts**

Within MSD's Investment Strategy, the first three of seven priorities relate to specific cohorts:

- Increase effectiveness of support to enhance the employment potential of young people.
- Embedding approaches that are more effective for Māori into all services.
- Increasing effectiveness of employment support for people with health conditions or disabilities.

For young people, early entry to the benefit system is associated with poor future outcomes. Under current programmes, young people are less likely than average to attain or sustain employment. Early interventions for high-risk young people such as the Youth Service for the NEET cohort have not been very effective, and there are few alternative programmes for young people to which MSD can refer clients.

Māori continue to experience systematic disadvantage in the labour market and the discrepancies in outcomes are becoming more apparent in a strong labour market. Numbers of non-Māori receiving a benefit have decreased by 21 percent since 2009, while numbers of Māori receiving a benefit have decreased by only six percent.

Disabled people and those with health conditions continue to experience high levels of unemployment. The number of people receiving a benefit with mental health conditions in particular has grown substantially. Though MSD's investment in this area is specifically targeted toward improving employment outcomes, in practice a number of other ancillary objectives are achieved. For example, health interventions for disabled people may support them to participate more fully in the community more broadly, as well as to gain meaningful employment.



### ***How effectiveness is defined is becoming broader***

Effectiveness has been heavily-focused on the Better Public Services targets over the last decade. This enabled MSD to set clear goals across the organisation, and to put in place good evaluative processes.

The focus on expected future Government expenditure (liability) in relation to welfare expenditure in the BPS targets was criticised for being excessively narrow. In practice, MSD used a range of indicators and qualitative information to understand effectiveness, but this was not included within the high-level targets. Subsequent work commissioned by the then Social Sector Board identified that there was little wrong with the use of information about liability, but that the use of liability information for accountability mechanisms was inappropriate and likely to lead to perverse outcomes.

MSD is introducing a broader focus on effectiveness that has been enabled by incremental advances in the availability, quality and tractability of analysing linked datasets through the Integrated Data Infrastructure. There is also a greater focus on the sustainability of employment outcomes, rather than simple off-benefit transitions. This is progressively building a more nuanced picture of the impacts of MSD's employment assistance programmes.

### ***A significant increase in employment assistance is sought through Budget 2019***

A total of [8] over four years is being sought in Budget 2019 for employment and social outcomes; an approximate increase of 19 percent. This would be a major increase in active labour market policy effort.

There are two broad types of new employment outcomes expenditure being sought by MSD through Budget 2019:

- c. Increased case management expenditure to restore proactive work focused engagement to previous levels.
- d. New employment programmes.

The first type of bid is non-discretionary. A decision to not fund this would result in MSD further reducing case management effort, and potentially employment programmes, amounting to a decrease in effort relative to expected demand. Because evaluation of case management services has shown a positive return on investment, this should be expected to result in increased BORE costs.

The second type of bid involves an increase in effort compared to current practice. This could be funded through new money or reprioritising effort from contracted programmes.

The third involves adding new programmes. In general, if the baseline were optimised for effectiveness before new money was sought, any new programmes should be less effective than MSD's existing expenditure. [8]

If funding is sought through budget for highly-effective programmes, consideration should be given to stopping existing less effective programmes before increasing overall expenditure. If funding is being sought for less effective programmes, consideration should be given to scaling up existing activities that MSD is doing well, before adding additional programmes.

***There is a particular focus on employment assistance for disabled people in Budget 2019***

[3]

**Conclusions**

- For employment assistance, there is good evidence of effectiveness and processes to respond to new information about effectiveness. MSD is one of the better-performing parts of Government in this area.
- Effectiveness has improved over time, but expenditure could be further optimised. Where possible, baseline expenditure should be shifted toward higher-value activities (whether internal or external) before seeking additional funding, including for case management.
- There is a pattern of lower effectiveness for some cohorts, even where there is a large per-person spend. MSD explicitly addresses this in the Employment and Social Outcomes Investment Strategy 2018–2021. Other agencies may have more effective interventions for some cohorts, while others have no available alternative.
- Measuring more outcomes with the new focus on wellbeing has a risk of greater measurement error, resulting in difficulty determining whether programmes are effective. It is likely that programmes will have a positive impact on at least one domain. MSD will need to have an increasing focus on maximising the overall value delivered from expenditure and considering whether some domains are higher priorities.
- [8]
-

## Investing in Community Outcomes: Effectiveness focus

### ***MSD's role in community support services is not well-defined***

The scope of MSD's role in the social sector has changed significantly and repeatedly over time (see Figure 17 below). This has increased administrative complexity and created challenges to efficient contracting or gathering evidence of effectiveness.

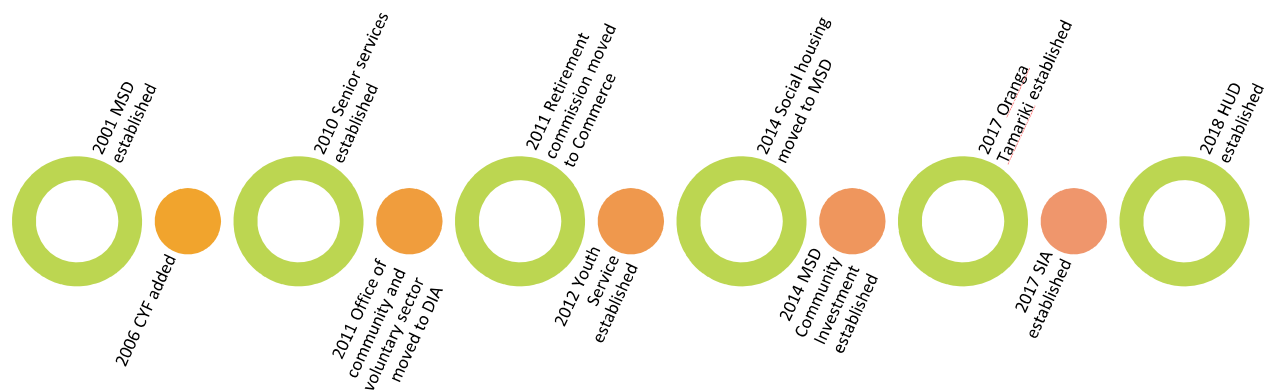
Parts of MSD's role in community outcomes have changed but are not completely resolved, including the boundary with Oranga Tamariki, MSD's role in cross-social sector policy and commissioning (especially relative to the Social Investment Agency), and the role of different agencies in cross-sector delivery (e.g. Family and Sexual Violence services). This hampers efforts for cross-sector collaboration and the development of multi-agency or multi-output contracts, and increases compliance costs for community providers.

A number of areas in which MSD is a provider involve strong interactions with other parts of the social sector. For example:

- MSD provides services for non-mandated perpetrators of family violence, while the Ministry of Justice is a key provider where this is mandated.
- MSD works with youth who are not in education, employment or training. Often higher-risk youths are victims of trauma for which they are unable to access therapeutic treatment through the Health sector.
- As part of employment assistance, MSD funds various training programmes which can overlap with vocational education.

A clear investment strategy for MSD's role in community support services is needed to better define the outcomes that are being in this area.

**Figure 17: Changes to MSD's scope with impacts on contracting arrangements**



### ***There are concerns about efficiency, effectiveness and value-for-money under the current contracting model***

Across Government, community outcomes expenditure is inefficient and inconsistent. Frontline service providers consistently report overlaps, low service quality and a proliferation of contracts for community services, for some of which MSD is the owner. There is a need for a specific project to streamline contracts, reduce compliance costs and improve the clarity of what is being purchased and why.

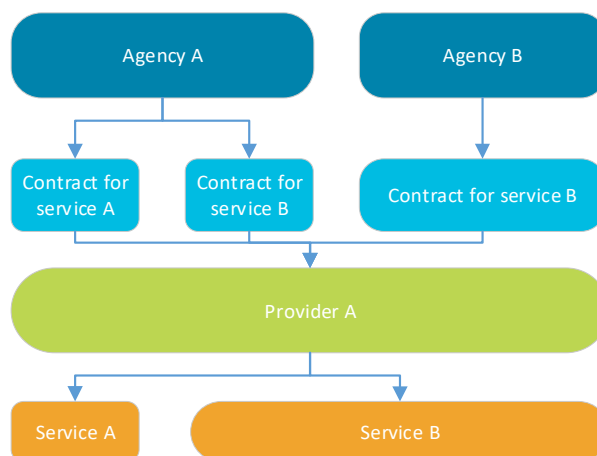
Many of MSD's contracts for community outcomes operate on a contributory funding model, where MSD partially funds services, with the balance supplemented by charitable or philanthropic sources. The logic of contributory funding is that philanthropic and volunteer efforts find the areas of greatest need, enabling Government funding to be well-directed.

This is true for innovative and newer services. For more mature services, this has led to a lack of transparency about what outputs are being purchased by Government, cost pressures for

providers requiring increasing fundraising effort and diversion of philanthropic funds from potentially innovative projects to support ongoing Government contracts. There is difficulty in clearly determining outputs, demand, volumes and quality.

At present, providers may have multiple contracts with a single agency for different services, or multiple contracts with different agencies for the same (or similar) service (see Figure 18). This places much of the burden of linking services on providers, and inhibits transparency about how things are funded. There is potential to simplify these arrangements significantly through the use of multi-output contracts, or cross-sector commissioning where single contracts have multiple funders.

**Figure 18: Complexity of cross-sector Government contracting**



### **Information about effectiveness is poor**

While analytics and evidence in MSD's employment spend is leading Government, more and better data needs to be collected in the community outcomes area to enable assessment of the effectiveness of programmes.

Community organisations often deal with highly vulnerable clients with sensitive data, and typically lack good data management systems. This means collection of data from community organisations is currently high-risk. A solution to this needs to begin with defining what data is needed, and putting appropriate IT solutions in place for interoperability between MSD/OT and providers. This would help to minimise risk and compliance costs for providers, while addressing privacy concerns.

Putting in place better systems could improve MSD's capability to manage cross-sector initiatives and lead in this area (for example, there may be opportunities for OT to procure MSD analytical services).

[3]

[3]

[8]

## **Conclusions**

- MSD's role in community support services is not well defined. The legacy of multiple changes to scope is not fully resolved and there are some issues of mandate. Clear Ministerial or Cabinet direction is required on the role of MSD in the broader social sector.
- Investment in community outcomes is not strategic. MSD needs to develop a clear investment strategy that, having clarified desired outcomes, sets priorities at the organisational level.
- There are concerns about efficiency, effectiveness and value-for-money under the current contracting model. A major review of social sector contracting is needed. The Social Wellbeing Board has initiated some work in this area but this will require ongoing focus to ensure its implementation.
- Information about effectiveness is poor. Collecting data in this area is high-risk and secure data exchange systems need to be implemented.
- [8]





## **Technology: Effectiveness focus**

MSD is a large user of technology, and similar in complexity to Inland Revenue or ACC. MSD has extensive physical infrastructure (with one of the largest branch networks in New Zealand) and uses a large number of applications. This includes 19 Tier 1 and 2 applications such as Cúram, and SWIFTT, 350 applications, over 90 Cloud applications, and over 300 unique suppliers.

MSD handles 14 million client interactions per year with over 1 million clients, supports 170 million MyMSD transactions, processes 500 million inbound business transactions and is responsible for disbursement of \$23 billion.

### ***The age and complexity of systems have created a number of risks and issues***

There are significant pain points<sup>6</sup> in the current IT environment that are being felt across the system. These directly affect the quality and efficiency of services delivered to clients. Complexity also makes implementation of policy changes time consuming and expensive.

Limited availability of funding for larger projects has meant there has been a pattern of short-term remediation, which has at times led to investment in stranded assets, additional complexity and technical debt. The implementation of Government policies and operational requirements have progressively created a complex arrangement of services, business processes, applications and IT platforms. This makes change difficult, time-consuming, expensive and error-prone.

Delivery of key services through digital channels has increased over time. This means increasing risk as systems age. The current state poses elevated risk of failure for systems that directly support clients:

- Security vulnerabilities have been increased through the use of older versions of software and hardware, which increases the probability of a security incident.
- Approximately 60 percent of current applications are not fully-supported due to funding allocation decisions.
- 59 percent of hardware assets are over five years old, increasing the risk of failure.

Some risks extend to selected shared services supplied to the Oranga Tamariki (OT), the Ministry of Housing and Urban Development (HUD), the Social Investment Agency (SIA), and the Office of the Children's Commissioner (OCC).

The Ministry received funding in Budgets 2017 and 2018 for end user computing, availability and resilience. The implementation of these programmes is ongoing, and was delayed as the Ministry responded to Government priorities (e.g. winter energy payment).

### ***Issues of organisational culture have contributed to the current state***

Internal MSD reviews have found that alignment between IT and the rest of MSD has been at times a barrier to realising the full potential of MSD's technology. This has also had impacts regarding the quality of relationships with external stakeholders including the GCDO and suppliers.

There is a clear recognition of the need for more of a partnership model and changes are underway to ensure IT does not continue to be seen as a 'black box'. There have been a number of changes and opportunities to apply lessons learned, including:

- MSD introducing Scaled Agile and DevOps, and
- introduction of a cross-agency governance group to provide visibility of the issues

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<sup>6</sup> Including no single client view, disparate business processes and lack of automation, slow to deliver government policy change, product based systems rather than client outcome based, staff and clients not having access to consistent and accurate advice, ageing and complex technology.



Staffing in IT group is in line with global benchmarks (approx. 4 percent of total staff), however the proportion of staff in the area of application development and support is significantly higher than average (65 percent vs. 45 percent). This is potentially due to the issues of age and complexity associated with current systems.

***Value-for-money is difficult to assess***

MSD has had difficulty in determining spending efficiency relative to outcomes achieved and the current risk profile.

Evidence suggests significant under-spending on keeping applications current, masking underlying efficiency issues. The majority of current IT costs are on fixed rather than variable contracts, with cost savings from any loss of economies of scale (for example, resulting from the creation of Oranga Tamariki and HUD) not immediately realisable.

There has been a relatively low maturity in contract management and the approach taken to supplier partnerships. MSD spends \$120 million externally on 340 suppliers (including for Oranga Tamariki), one of the country's highest expenditures on IT suppliers. Of this, 86 percent of total vendor spend is on the "top twenty" vendors. In complex environments, the selection and management of suppliers is a critical process, fundamental to agency performance, particularly given the domination of large suppliers such as IBM (\$13 million) and DXC (\$18 million).

***Significant investment will be needed to mitigate risks and to enable key strategic shifts***

The potential of technology to transform MSD's operating model cannot be realised without significant modernisation. The age and complex nature of current systems will present significant challenges to this [3]

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A number of proposals have been made seeking funding through Budget 2019 to address current systems risks. Any changes made to system settings will also have significant costs associated with implementation [8]

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Looking ahead to future budgets, additional investment over the next few years will be needed to reduce the overall level of operational risk from high/very high to an acceptable level (moderate). As the risk profile shifts, we would expect the processes and cost structure of the IT group to adjust as well.

Delivering on the strategic shifts outlined in *Te Pae Tawhiti* will also require significant investment to transform the way the business engages with clients and partners, with implications for the operating model as a whole. For example, a shift to greater use of online channels will have IT impacts, but also may change the nature of the services required at the frontline, or the scale of the footprint needed. The business case being prepared ahead of Budget 2020 will help ensure there is a common direction of travel across all parts of the business. The level of Ministerial ambition for transformation will be an important consideration for *Te Pae Tawhiti* and the level of technological development in the Ministry.

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[ [8]

### ***Budget 2019 proposal***

In the medium term, MSD will need to address the high level of operational risk in the current system through the full programme of remediation outlined. MSD have identified projects for Budget 2019 that the Ministry believes will remediate elements of the technology environment that are most at risk of failure, cannot be funded from existing budgets, have long-term strategic value, and which are foundational pre-requisites to delivery of the Technology Strategy as a whole.

Reducing operational risk is the primary driver of this proposal. However, there are a number of risks associated with investing that need to be considered alongside the benefits (i.e. the solutions may not have enduring value). Where the strategic risks of a particular solution are high, it may be prudent in the short term to decide to either accept or mitigate the operational risk.

Therefore, the main choices for Ministers in Budget 2019 are around appetite for:

- **Operational risk:** The choice to invest to address risk or allow current levels of risk to continue in the short term. These risks relate to system outages, security and data privacy requirements, inability to meet future welfare demand, or to implement future policy changes or the new strategic direction in a timely and cost effective manner. The current risk rating is 'Very High' and increasing.
- **Strategic risk:** The choice to invest in solutions that address the operational risk, or wait where there may be questions around the risk of stranded investments from changes in business models, vendor lock-in or where there may be sector-wide solutions that need to be considered.

Each project will necessitate different judgements around appetite for operational and strategic risk. [8]

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## Policy: Efficiency focus

Since 2015/16, policy advice resources have shifted out of MSD to the SIA (social sector strategy), Oranga Tamariki (children's policy), and MHUD (housing support). These shifts reduced MSD's policy function by 64 FTEs (47 percent). However, because of unavoidable overlaps, MSD is still required to provide ongoing policy advice in these areas.

MSD has managed workload pressures by trading off work, including some high-priority work, and deprioritising strategic analysis, pro-active work and future capability building. It has also been constrained in its ability to provide input to other agencies' work, and wider social and economic development work in support of the wellbeing agenda. MSD has a broad and reactive work programme that responds to a wide range of Ministers' priorities. Their immediate work programme covers:

- welfare system overhaul advice and support
- employment assistance policy, e.g. Ready for Work and Mana in Mahi
- support for the development of the cross-agency Child Wellbeing Strategy
- work with the wider social sector to support the Government in advancing its wellbeing agenda
- review of the Independent Oversight & Monitoring of the Children's System
- youth policy, including for the Minister for Youth on a transformative youth portfolio
- MSD-led disability policy, including policy on employment for disabled people
- Positive Ageing Strategy development, and
- superannuation Reform.

Ministerial demand is a key demand driver for MSD's policy function. **MSD could work with Ministers to gain a shared understanding of its role, both in terms of core welfare system policy versus wider social/community development policy, and also its role in providing cross social sector policy advice.**

The anticipated Policy Advice appropriation for 2019/20 is \$12.6 million. Of this funding, \$8.5 million is for 73 FTEs in the MSD Policy branch, excluding overheads.

MSD's budget bids suggest they are 14 FTEs [8] ) short of the minimum resources needed to deliver the current work programme. A further 11 FTEs [8] ) is needed to enable MSD to respond to its expected future work programme around overhaul of the welfare system (post-WEAG), the outcome of inquiries into mental health (and abuse in state care), and the family and sexual violence joint venture.

## Property: Efficiency focus

The Ministry property footprint is the second largest across government, with over 220,000 square metres. However, the cost per square metre is one of the lowest in the public sector.<sup>8</sup>

There are three main property types across the MSD portfolio, shown in Table 12 below.

**Table 12: Distribution of MSD property footprint**

Property type	% of total rent	Comment
<b>126 frontline sites</b>	approx. 55%	MSD currently has a significant regional presence, with 126 sites. In recent years, operational decisions have been made to close some small service centres when they are no longer deemed viable. There has, however, been little appetite to alter the scope or scale of this regional footprint (20-30 satellite sites were shut following the 2014 incident in Ashburton).
<b>National Office</b>	approx. 25%	MSD is located across five buildings with services nested together to minimise travel between offices. Space requirements are driven by headcount, which has varied significantly with the creation of Oranga Tamariki and HUD. MSD currently manages Oranga Tamariki's property portfolio as part of the shared services arrangement.
<b>Contact centres/ regional offices (non-frontline)</b>	approx. 20%	These sites house a number of back-office functions including call centres and processing units. There are also regional offices throughout the country. Back-office functions do not have any particular location requirements, therefore growth in rent can be offset by relocating functions to regions with lower rents, and better labour market conditions. For example, it does not make sense to have call centres located in Auckland on an ongoing basis.

Total rent expenditure is approximately \$72.5 million per annum. Costs have been managed in part through staying in the same sites and through scrutiny of costs as leases renew. However, the cost of maintaining the status quo is increasing, with greater focus around site suitability. Due to a lack of viable options, a number of locations have required a new building. This means costs become decoupled from the typically low rent levels in the area.<sup>9</sup>

One component of the operating pressures bid is for occupancy pressures. The Ministry is forecasting average rent increases of 1.2 percent per annum for its office portfolio. Similarly, other accommodation costs (cleaning, security monitoring, gas, rates, repairs and maintenance, electricity) are forecast to increase 2-3 percent per annum, while insurance is forecast to increase by 5 percent per annum.

### **Security ecosystem for the frontline**

Since the 2014 incident at the Ashburton Work and Income office, MSD has considered options to enhance the security of its frontline offices and introduced a number of changes.<sup>[3]</sup>

<sup>[3]</sup> Further improvements and investment in infrastructure is required, as outlined in Table 13 on the following page.

<sup>8</sup> <https://www.procurement.govt.nz/assets/procurement-property/documents/2017-crown-office-estate-report-property.pdf>

<sup>9</sup> For example, rent for the New Plymouth site increased by 50 percent following relocation.

**Table 13: Main requirements for the security ecosystem**

Element	Comment	Roll-out
<b>Physical environment</b>	<p>In 2017, Ministers agreed to the Ministry's preferred solution for the future state physical environment. The preferred option will create secure zones in each site separating employees from clients, similar to a bank.</p> <p>The zoning model is considered to be a 'reasonably practicable step' to ensure MSD meets its obligations under the Health &amp; Safety at Work Act, and complies with DPMC's Protective Security Requirements.</p>	<p>Will follow a tranche-based approach. Priority will be determined using security and operational factors such as the lease term, site condition and financial impacts.</p> <p>The first tranche of 21 sites are currently being rolled-out.</p>
<b>Access management</b>	<p>MSD will always require some form of controlled access to sites. The immediate response following the incident in Ashburton has been to enhance security guard presence at all sites (at least 3).</p> <p>MSD are seeking ongoing funding in Budget 2019 for a reconfigured and enhanced security guard workforce (following a pilot) which will reduce numbers at some sites, but increase the skill levels of guards.</p>	<p>The modified configuration will roll out with the physical environment enhancements.</p>
<b>Front of house/ service culture</b>	<p>Work is underway to improve the client experience both in terms of how staff engage with clients, and the physical surrounding. This work aligns with Mana Maanaki, one of the shifts within Te Pae Tawhiti. The work was co-designed with users.</p>	<p>The new front of house changes are now being rolled out to all services and will be completed in early/mid 2020.</p>

### **Funding for Future State Physical Environment**

There is \$45 million in capital, and associated operating set aside for this project. This includes \$24 million secured in Budget 2016 and \$21 million from MSD's baseline. Based on a Quantitative Risk Analysis, the shortfall could be between \$14.2 million and \$33.1 million in capital (see Figure 20 below). The dominant reasons for the range in estimated costs related to risks in finding asbestos, site area constraints and design related risks. [3]

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**Figure 20: Forecast funding shortfall for Future State Physical Environment Programme**



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### ***Future role of the regional network***

A comprehensive top-down assessment of the role of the frontline sites was conducted in 2015 as part of Simplification. The rationale was that moving more transactions online would allow for some rationalisation in the regional network. This review looked at a number of criteria to identify potential sites for closure including client to staff ratios, proximity to other sites and outcomes data. Ministers ultimately chose not to close the sites identified.

There are advantages of the distributed network particularly in rural towns. However, the Ministry now has an opportunity to revisit the medium-long term role of the regional network in light of Te Pae Tawhiti. The MSD Channel strategy anticipates that by 2022, service centres will play a very different role, primarily in community engagement and high service need conversations. This strategy anticipates that the majority of high volume transactional needs will be addressed online or over the phone, and partners will play a much more significant role (noting this shift is contingent on significant transformation in technology).

## **Overheads: Efficiency focus**

MSD's departmental expenses are allocated as direct, indirect and overhead costs. On average, overheads make up around 16 percent of the appropriation expense. Overheads include the cost of corporate functions such as finance, HR and IT as well as occupancy and strategic capability.

MSD implemented a new cost allocation model in 2016/17. This has enabled MSD to better align direct, indirect or overhead cost allocation to relevant appropriations. MSD's overhead costs look reasonable given the size and scale of the organisation, and when compared to similar agencies (using BASS data).

### ***The establishment of Oranga Tamariki and the Ministry of Housing and Urban Development has had impact on MSD's overheads***

The transfer of child and housing-related functions out of MSD resulted in a transfer of both overhead and direct cost budget from MSD to the new entities. However, MSD's overhead costs have not reduced at the same proportion as the reduction in direct costs, because a component of MSD's corporate costs are fixed. This has led to a funding shortfall for MSD.

MSD is seeking \$35.1 million over four years to fund the loss of economies of scale. A separate aide memoire will be provided to answer questions raised by the Minister of Finance on why there has not been a proportionate decrease in the cost of MSD's overheads following the creation of Oranga Tamariki and the Ministry of Housing and Urban Development.

MSD and Oranga Tamariki Chief Executives agreed in September 2018 to separate the provision of some shared services between the two agencies. While the net effect of the split in dollar terms is currently being worked through, the separation will involve some changes that are not fiscally neutral. There is a choice about whether some shared service functions that MSD provided, such as, social services accreditation, should be delivered at an all-of-government level in the medium-long term.

### ***Impact of Te Pae Tawhiti***

As MSD implements *Te Pae Tawhiti* and changes its service, business and operating models, there are likely to be some efficiency gains. However, some overhead costs will be fixed, and therefore, savings may take some time to be realised or may not be realisable.























