

Office of the Minister for Social Development and Employment

Cabinet Government Administration and Expenditure Review Committee

TE PAE TAWHITI: STRATEGIC ASSESSMENT FOR INVESTMENT IN THE MINISTRY OF SOCIAL DEVELOPMENT'S FUTURE

Proposal

This paper outlines the urgent need to invest in transforming the Ministry of Social Development's (MSD's) operating model. It is supported by a strategic assessment (Attachment 1) which seeks agreement to the case for change and to proceed with the development of a programme business case, to be considered by Cabinet in April 2022.

Link to government priorities

- 1 In the 2020 Labour Election Manifesto, we committed to “modernising our welfare system, so all New Zealanders can live with dignity and contribute meaningfully to their communities”. This means we will:
 - 1.1 Continue culture change at Work and Income to improve people's experiences and ensure they are treated with kindness,
 - 1.2 Focus on expanding employment support and services for New Zealanders who are out of work to upskill, train and re-enter the labour market,
 - 1.3 Continue the Welfare Overhaul work programme and work towards implementing the recommendations of the Welfare Expert Advisory Group.
- 2 The welfare system incorporates a range of Government agencies and community partners. However, MSD is the key delivery agency as the administrator of benefits, student and superannuation payments. It is also the lead policy agency for the welfare system and has an extensive regional presence.
- 3 I want to ensure that MSD has an operating model that supports an overhaul of the welfare system and minimises the current risks and problems outlined in the attached Strategic Assessment.
- 4 This investment also represents a key opportunity to support the reducing the impact of debt to government work programme, through mitigating the role MSD systems and processes can play in the occurrence and impact of government debt, especially for those in hardship.

Executive Summary

- 5 This Government has renewed its commitment to overhaul the welfare system to ensure it meets the current and future needs and expectations of New Zealanders by continuing significant investment to achieve this vision. For welfare overhaul to be successful, MSD needs to be able to respond to a changing social landscape and be equipped to deliver effective, timely, and mana-enhancing supports and services.
- 6 Though it has achieved some good results, MSD's ability to deliver the right outcomes is constrained by an operating model that is no longer fit-for-purpose.
- 7 MSD has identified three long-standing problem areas that need to be addressed:
 - 7.1 Client outcomes: The fragmented, transaction-focused service approach will not meet the future needs and expectations of New Zealanders.
 - 7.2 Risk of service failure: The high and increasing likelihood of service and payment failure risks serious harm to clients, partners, and New Zealand.
 - 7.3 Client experience: The current service model can make it difficult for clients to get help, which could result in harm and exacerbate hardship.
- 8 With an out of date operating model and technology infrastructure, MSD's workforce is focused on processing transactions with little time left for the case management needed to support clients to find or prepare for work, obtain suitable housing and address other needs.
- 9 The proposed *Te Pae Tawhiti* transformation programme is an opportunity to address these problems. Investing to transform MSD will enable them to deliver services that are better designed for all New Zealanders regardless of whether they require complex support or are simply accessing student support or superannuation entitlements.
- 10 I am recommending that the Committee supports the need to invest in MSD's transformation, and agrees to receive a programme business case (PBC) for consideration in March 2022. This PBC will outline options, costs and detail the benefits of the investment.

Background

- 11 The demand for MSD's services is increasing with the changing social landscape. The current system has its roots in the mid-twentieth century and is the product of years of incremental change. New Zealanders expect Government services that are responsive, mana-enhancing, and tailored to their needs; but MSD's current system cannot operate this way.

- 12 While MSD has achieved some good results for clients, there are significant problems across the welfare system, many of which are driven by issues with MSD's current operating model. These can affect the quality and efficiency of services delivered to clients. The complexity of the IT systems and supporting business processes has made implementation of policy changes difficult, time consuming and expensive¹.
- 13 In August 2018, MSD set a new strategic direction: *Te Pae Tawhiti – Our Future*. This sets out what MSD wants to achieve as an organisation and how they are going to get there. Te Pae Tawhiti focuses on making three key shifts:
- 13.1 *Mana manaaki* – A positive experience every time
- 13.2 *Kotahitanga* – Partnering for greater impact
- 13.3 *Kia takatū tātou* – Supporting long-term social and economic development.
- 14 As previously indicated to Ministers², delivering on these *Te Pae Tawhiti* strategic shifts will require significant investment to transform the way MSD engages with clients and partners. It was noted that additional funding will be sought through the Budget process and that funding will require a business case for Cabinet consideration. A programme business case is planned which will outline the changes to be made, the level of investment required and the benefits and outcomes that will be achieved.
- 15 In my November 2019 report to Cabinet seeking endorsement of a welfare overhaul work programme [SWC-19-MIN-0168 refers], I noted the importance of building MSD's readiness to change into the future; to ensure MSD is prepared and ready to deliver high quality services in a changing landscape.
- 16 We have made significant progress in delivering on our vision for the welfare overhaul, particularly in improving income adequacy and removing ineffective sanctions that negatively impact individuals and families. MSD continues to focus on its service culture to improve people's experiences and ensure that they are treated with respect and dignity.
- 17 However, MSD's inflexible and out-of-date systems and processes are constraining the organisations' ability to implement ongoing change. MSD staff can show as much manaaki as possible, but if clients must go through antiquated systems, this negatively impacts overall client experience.
- 18 MSD is a committed Crown partner to Te Tiriti o Waitangi. It wants to improve outcomes for Māori and work effectively in partnership with Māori, but MSD's operating model constrains its ability to do so.

¹ Treasury Report: MSD Baseline Review Final Report, 7 February 2019

² Ibid.

The need to invest in MSD's operating model (the case for change)

- 19 The social landscape for the welfare system is vastly different from when it was first established in the mid-twentieth century. The needs and expectations of New Zealanders are changing, and I expect MSD to transform the way it operates so it can respond to these changes.
- 20 The need for this investment is driven by the following demand drivers.
- 20.1 **Demand driver 1** – inequity of outcomes: Māori and Pacific peoples are accessing welfare services at a disproportionate rate to the population as a whole. In addition, MSD's service approach needs to be more tailored to the cultural context of Māori or Pacific peoples.
- 20.2 **Demand driver 2** – inconsistently meeting client needs: there is a persistent, increasing group of people with a combination of needs including chronic health conditions (particularly mental health problems and addiction), disabilities, generational welfare dependency and children growing up in poverty. These needs are in addition to the need for employment services, housing, financial support through main benefits, and student and senior supports.
- 20.3 **Demand driver 3** – critical risk of technology failure: there is a growing technology failure risk due to MSD's ageing and end-of-life systems. These systems are difficult and expensive to maintain, and to protect from emerging threats to system and data security.
- 20.4 **Demand driver 4** – not meeting client expectations: technology is changing the way people access services, and people's expectations around how they interact with and receive services from the Government have changed. MSD does not have fit-for-purpose online services to allow people to choose how they interact, and specifically for those people who only want to interact online.
- 20.5 **Demand driver 5** – lack of agility in implementing policy change: MSD will continue to be required to implement legislative and policy change to improve the welfare system and their current technology and processes makes this extremely complex and expensive.
- 20.6 **Demand driver 6** – changing demographics: there will be a significant increase in ethnic diversity as well as an increase in the proportion of older people and disabled people in the population. Family structures will continue to change and become more diverse, and MSD's services will need to be tailored to increasingly varied circumstances for clients and whānau.
- 20.7 **Demand driver 7** – changing labour market: technological change, climate change, recessions and other large-scale changes will continue to shape the amount and type of work available. The pace and scale of change is uncertain. The impacts are likely to be uneven, impacting low and semi-skilled workers and some industries and communities more

than others—which will likely result in a greater impact on Māori and Pacific peoples.

- 21 MSD has identified three long-standing problem areas that need to be addressed:
 - 21.1 Client outcomes: The fragmented, transaction-focused service approach will not meet the future needs and expectations of New Zealanders.
 - 21.2 Risk of service failure: The high and increasing likelihood of service and payment failure risks serious harm to clients, partners, and New Zealand.
 - 21.3 Client experience: The current service model can make it difficult for clients to get help, which could result in harm and exacerbate hardship.
- 22 These problems must be addressed in order to build a welfare system that ensures all New Zealanders can live with dignity and contribute meaningfully to their communities.
- 23 Addressing these problem areas will also better support MSD to deliver key areas in the renewed welfare overhaul work programme agreed by Cabinet in September 2021.
- 24 The investment will have the following objectives to ensure it addresses these problems:
 - 24.1 Develop and deliver effective targeted, tailored and integrated services in income support, employment, and housing, to support the diverse and multiple needs of clients, whānau and communities.
 - 24.2 Build and strengthen partnerships with whānau, hapū, iwi and communities by working differently and enabling them to achieve their wellbeing aspirations.
 - 24.3 Modernise MSD's core technology systems to:
 - a. Minimise the risk of sustained system outages and intermittent system failure.
 - b. Improve agility so policy and change can be implemented in an efficient and cost-effective manner.
 - c. Increase the secure use of information and intelligence to improve the delivery of services to better meet client need.
 - 24.4 Enable easier access to services and information for clients, whānau, partners, and staff.
- 25 This investment also represents a key opportunity to mitigate the role that MSD systems and processes can play in contributing to debt through

overpayment of benefits, supporting the debt to government work programme underway. Each year approximately \$200m of overpayment debt is established, predominantly due to the late declaration of people's changes in circumstances (such as their relationship, address, income etc) of which, income is a large proportion. A portion of this debt could potentially be avoided through better systems and processes. The Minister for Child Poverty Reduction is bringing a paper to the Cabinet Social Wellbeing Committee in late 2021. The paper notes that reducing debt to MSD, incurred through overpayment of benefits, is reliant on the transformation programme – and this debt reduction is a core component of the longer-term debt to government work programme.

- 26 Continued focus on Work and Income service culture will be key to achieving these investment objectives and will be a key driver of the workforce strategy in the transformation programme.

Next steps

- 27 Following the Committee's endorsement, I will report back in March 2022 with a proposal to invest in MSD's *Te Pae Tawhiti* transformation programme. My proposal will be supported by MSD's PBC.
- 28 This PBC will outline how *Te Pae Tawhiti* transformation programme will address the problems outlined in the attached Strategic Assessment. The PBC will include options, costs and detail the benefits of the investment.
- 29 MSD has engaged KPMG to provide Independent Quality Assurance to assess both the PBC and the programme, alongside Treasury-facilitated Gateway reviews.
- 30 Given the significant information technology component of the transformation, MSD is following a "three lines of defence" assurance model, in line with the guidelines of the Government Chief Digital Officer (GCDO). I expect officials to continue to work closely with the GCDO's System Assurance team.
- 31 MSD will continue to engage with key stakeholder groups as it develops the PBC, including clients and partners. MSD's Māori Reference Group and Pacific Reference Group will have a key role as external advisors in the validation and refinement of the PBC.
- 32 This engagement will build upon previous engagements, including hui for *Te Pae Tawhiti* from 2018 and the Welfare Expert Advisory Group consultation hui.
- 33 I expect MSD's engagement approach to be consistent with the Crown Engagement with Māori Framework developed by Te Arawhiti – the Office for Māori Crown Relations.
- 34 MSD have engaged with Te Arawhiti for advice on engagement with Māori as partners in Te Tiriti o Waitangi, Māori representation in programme governance, and broader considerations around engaging with Māori. The

agencies will continue an open dialogue through programme business case development.

Financial Implications

- 35 The proposal to proceed to PBC development has no direct financial implications. MSD will fund the development of the PBC from internal baseline.
- 36 Options for funding the transformation programme, and the potential costs, will be covered in the PBC. It is expected that the costs associated with this programme will be similar to other major government transformation programmes.

Legislative Implications

- 37 There are no legislative implications arising directly from this proposal to proceed to a programme business case.
- 38 Other agencies who have implemented transformation programmes have needed primary legislative reform, usually to enable changes to service delivery models. s 9(2)(f)(iv) [REDACTED]. In my report back later in March 2022, I will update the Committee on any need for legislative change.

Impact Analysis

- 39 A Regulatory Impact Analysis (RIA) is not required at this time, as this proposal does not seek legislative change.

Population Implications

- 40 There will be no direct impacts on population groups from the proposal to proceed to a programme business case.
- 41 However, this proposal is a key step towards improving outcomes and experience for key population groups.
- 42 I expect the PBC to outline specific impacts on population groups, with particular emphasis on how outcomes will improve for Māori and Pacific peoples.

Human Rights

- 43 The proposal is consistent with the Human Rights Act 1993 and the New Zealand Bill of Rights Act 1990.

Consultation

- 44 The following departments were consulted on this Cabinet paper: Department of the Prime Minister and Cabinet; the Treasury; Te Kawa Mataaho—Public Service Commission; Inland Revenue; Te Puni Kōkiri; Ministry for Pacific

Peoples; Department of Internal Affairs; Ministry of Business, Innovation and Employment; Accident Compensation Corporation; Oranga Tamariki—Ministry for Children; Ministry of Health; Ministry of Education; Ara Poutama Aotearoa—Department of Corrections; Ministry of Justice; Social Wellbeing Agency; Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development; Kāinga Ora; Te Arawhiti—the Office for Māori Crown Relations; Ministry for Women; and the Ministry for Foreign Affairs and Trade.

Proactive Release

- 45 I intend to release this paper proactively, subject to redactions consistent with the Official Information Act 1981.

Recommendations

The Minister for Social Development and Employment recommends the Committee:

- 1 **note** that the Government committed to an overhaul of the welfare system in November 2019 [SWC-19-MIN-0168 refers] and agreed an updated work programme [SWC-21-MIN-0128 refers]
- 2 **note** that MSD's systems and processes are constraining the organisation's ability to deliver on the Government's vision for welfare overhaul
- 3 **agree** that there are three serious problems constraining MSD's ability to achieve the Government's vision, specifically:
 - 3.1 its fragmented, transaction-focused service approach will not meet the future needs and expectations of New Zealanders;
 - 3.2 the high and increasing likelihood of service and payment failure risks serious harm to clients, partners, and New Zealand; and
 - 3.3 its current service model can make it difficult for clients to get help, which could result in harm and exacerbate hardship;
- 4 **agree** that MSD should proceed to prepare a programme business case based on the case for change outlined in the attached Strategic Assessment; and
- 5 **invite** the Minister for Social Development and Employment to report back in March 2022 with a programme business case, and a summary of engagement and testing done with key stakeholder groups.

Authorised for lodgement

IN CONFIDENCE

Hon Carmel Sepuloni

Minister for Social Development and Employment

Appendices

Attachment 1: Te Pae Tawhiti Strategic Assessment