

Budget Sensitive

Office of the Minister for Social Development and Employment

Cabinet Expenditure and Regulatory Review Committee

MSD BUSINESS TRANSFORMATION PROGRAMME: DETAILED BUSINESS CASE FOR THE REMAINDER OF THE PROGRAMME

Proposal

- 1 This paper seeks approval of a detailed business case to continue the Ministry of Social Development (MSD) transformation programme (the programme). MSD will change the way it operates, modernise its technology and business processes to support new and more efficient ways of working, and reduce costs and risk. This will deliver benefits to government via greater efficiencies in one of the largest Votes and improve the effectiveness of services delivered to New Zealanders.

Relation to government priorities

- 2 By investing to improve the capability of MSD, alongside key policy enablers, this programme will deliver better public services. It will allow MSD staff to devote more time to helping clients find and retain paid employment, strengthening our economy and easing the cost-of-living burden faced by those who have lost their jobs.

Executive Summary

- 3 MSD provides critical infrastructure enabling the government to administer payments, get people into work, and partner effectively with a range of providers (e.g. employment, housing and community providers, and employers). In the 24/25 financial year MSD will distribute over \$45 billion on behalf of government, almost a third of core Crown expenditure, and that amount is forecast to grow due to anticipated increases in demand for New Zealand Superannuation.
- 4 Decades of incremental and ad-hoc responses by MSD and its predecessors to different Government priorities, legislation, and societal and client changes have resulted in a siloed and disjointed operating environment. The current infrastructure and business processes are complex, slow to change, with a large number of core applications, some of which are over 30 years old. Core systems are at their end of life and have no future roadmap. We make a complex system more challenging for clients who need New Zealand's safety net, which can lead to overpayments, with resultant debt, and getting stuck in the system. It also means a disproportionate number of FTEs are occupied by administrative tasks rather than ensuring that people are supported to exit into employment or receive income support.
- 5 In 2023, Cabinet agreed to fundamentally transform MSD's operating model and technology systems. Current investment in the programme is \$183 million for two years of a nine-year programme. Delivery of the programme is on-time and on-budget and will deliver a new digital employment service and an improved system to support partnering for outcomes with community providers by the end of 2025.

- 6 Given our Government's priorities and focus on fiscal sustainability, I directed MSD to reassess the future of the programme. It prepared a detailed business case that considered three options: stopping the programme; focusing solely on technology change; or proceeding with a more efficient transformation of MSD's operating model and technology systems.
- 7 Of the three options, only transformation of both MSD's operating model and technology systems delivers more savings than costs. Its total cost is estimated to be \$1.8-\$2.1 billion § 9(2)(f)(iv)
- 8 Transformation will create sizeable efficiencies and improve the effectiveness of services provided by MSD. This will be achieved by transforming MSD's underlying service model, business processes and technology, which are critical to delivering a sustainable welfare system that is responsive to Government priorities and direction. Harnessing the opportunities provided by new technology systems, which delivers the ability to manage high volumes without manual intervention, as well as the enabling policy and legislative settings, will free up significant frontline capacity to focus on supporting clients' job seeking. Increased exits into employment are expected to result in a total reduction of § 9(2)(f)(iv) by 2035.
- 9 I recommend we proceed with transforming MSD's operating model and technology systems and approve the attached detailed business case for the remainder of the transformation programme. § 9(2)(f)(iv)
- 10 § 9(2)(f)(iv)

Background

- 11 MSD is responsible for administering most of the government's financial assistance payments to New Zealanders, including New Zealand Superannuation, income support for people with low or no income, housing-related financial assistance, and student support. As at the end of October 2024, MSD provided income support and supplementary assistance to over 1.4 million clients. In the 24/25 financial year, MSD will distribute over \$45 billion in payments (including \$23.2 billion for New Zealand Superannuation) on behalf of government, forming almost a third of core Crown expenditure. This amount is forecast to continue to rise, driven by anticipated increases in demand for New Zealand Superannuation.
- 12 MSD is also a key purchaser and provider of employment services, provides Disability Support Services, administers the Public Housing Register, and plays an important emergency management role. It partners with community providers across New Zealand to match clients with employment opportunities and ensure our most vulnerable citizens can access housing.

- 13 The Ministry's current infrastructure and business processes are complex, slow to change, with a large number of core applications, some of which are over 30 years old. They have been built through changing governments and are no longer fit for purpose, or sustainable for the future. Core payments and client information systems are at their end of life and have no future roadmap. This leads to security vulnerabilities and performance issues.
- 14 Decades of incremental change has meant that MSD's operating model is a disjointed and siloed patchwork of different systems that is increasingly costly to maintain and manage. An additional \$1.15 billion above baseline funding would be required to simply keep it running over the next decade.
- 15 Given the complexity of the system and pathways for engagement across the system people can get stuck, be over or underpaid, be confused about their general and work-related obligations, or not get the support they need to be independent of the system. MSD staff spend a disproportionate amount of time processing transactions and so the system is inefficient and expensive to operate, which means they have less time to dedicate to supporting clients into work.
- 16 Between November 2021 and June 2023, Cabinet took a series of decisions to approve the development of a transformation programme of MSD's technology systems and operating model that was estimated to cost \$2.1-2.6 billion over nine years. Funding of \$100 million over two years was approved through Budget 2023, and \$83 million over two years from MSD's baseline. That funding is set to expire in June 2025. [CAB-21-MIN-0472, CAB-22-MIN-0168, and GOV-23-MIN-0016 refer]
- 17 The programme is on schedule and on budget, and significant milestones are set to be achieved, subject to future funding decisions. These include a new digital employment service and new eligibility and payments engine and tiered case management system, along with an improved system to support partnering for outcomes with providers which allows for social investment commissioning.

Analysis

- 18 In light of our Government's priorities and focus on fiscal sustainability, I directed MSD to reassess the future of the transformation programme. MSD prepared a detailed business case (DBC) (set out in Appendix 2).
- 19 Together with the Minister of Finance and Minister for Children, I commissioned Oranga Tamariki and MSD to provide advice on how they were ensuring all leveraging opportunities were explored and mitigating the duplication of resources. I am satisfied that opportunities to maximise value for money have been identified and both investments will contribute to the Government's digital strategy, through re-usable patterns, knowledge, and standards that can be drawn on by any agency.
- 20 I recommend proceeding with Option C set out in the DBC, which is in line with MSD's recommendation. It is the only option where the savings outweigh the costs.

Option A – stop the programme and maintain status quo

- 21 Option A, which would mean ad-hoc and piecemeal changes to technology and operating procedures in response to policy, legislative, societal or client changes, offers none of the benefits of the transformation programme but still comes with significant costs. The cost of maintaining, remediating or replacing IT systems over the next nine years is forecast to cost \$1 billion above baseline funding, while MSD estimates a further \$146 million will be required to maintain existing services.

Option B – proceed with technology change only

- 22 Option B, which would see MSD replace its ageing and disjointed IT systems with modern technology systems, realises some of benefits delivered by Option C. Focusing solely on technology change provides some cost savings and reduces the time spent by frontline staff on transactional matters, but unless it is accompanied by operating model changes many of the potential benefits of the new technology will not be fully realised. MSD forecasts that by 2034/35, § 9(2)(f)(iv)

Option C – re-sequenced transformation (preferred option)

- 23 MSD has been able to adapt the programme based on lessons learned in the first two years, as well as the experiences of other similar organisations that have undergone similar transformations, both in New Zealand and overseas. The result is Option C, proceeding with a re-sequenced and more efficient transformation programme than the one agreed by Cabinet in June 2023. § 9(2)(f)(iv)

Option C will also maximise return on investment across government by re-using existing government services and patterns to create reusable technology-agnostic patterns for all of government where they do not exist.

- 24 Leveraging the opportunities provided by modern technology systems, Option C would enable MSD to deliver integrated services and provide a tiered service delivery model that will free up frontline capacity. I expect this will result in a significant reduction in the number of benefit-dependent households and have positive flow-on effects in other areas such as the justice system and the health sector.

- 25 Operating model change alongside technology change will ensure that MSD is better placed to deliver Government policy and direction faster, and significantly more cost effectively, while maintaining or improving existing levels of service. § 9(2)(f)(iv)

- 26 By reducing regulatory burden with more consistent and transparent contracting and procurement processes, employers, providers and partners will find it easier to engage with MSD. As a result, I expect that they will dedicate more resource to developing innovative solutions to some of our most intractable social issues.

- 27 MSD estimates that once implemented, Option C will result in total departmental and non-departmental savings of § 9(2)(f)(iv) will be spent

on income support as more people are able to support themselves through employment.

Summary table

- 28 The following table summarises the forecast impact of the three options in financial year 2034/35, s 9(2)(f)(iv)

	Costs	s 9(2)(f)(iv)
Option A: stop the programme and maintain status quo	\$1.15 billion	
Option B: technology change only	\$1.667 billion	
Option C: re-sequenced transformation	\$1.8-\$2.1* billion *Upper of range includes contingency	

Financial implications

- 29 MSD's revised estimate for the total cost of the programme is \$1.8-\$2.1 billion, less than the lower end of the \$2.1-2.6 billion June 2023 estimate. The upper of range includes contingency. \$183 million has already been allocated to deliver the first two years of the programme.

- 30 s 9(2)(f)(iv)

- 31 s 9(2)(f)(iv)

- 32 s 9(2)(f)(iv)

s 9(2)(f)(iv)

Figures in millions*Implementation**

- 33 MSD has engaged with the market before and during the first stages of the programme in accordance with the first DBC and supporting procurement plans. It has engaged preferred suppliers for key deliverables such as the digital employment service and the service experience platform.
- 34 The approach to procurement to date has proven to be effective at meeting the commercial and risk minimisation requirements for the programme. I do not consider it needs any significant alteration for future procurement requirements, which are not expected to be significant. Risk allocation and fees at risk will be negotiated and confirmed as part of longer-term contracts.
- 35 Key milestones of the programme remain on track to be achieved as set out in Appendix 3.
- 36 s 9(2)(f)(iv)
- 37 MSD reports that management and oversight of the programme has been fit-for-purpose through the initial stages of its delivery. I expect the programme will continue to be responsive and adapt to risks and issues that arise during implementation and the proposed tightened reporting requirements set out below will ensure that any risks continue to be properly managed.
- 38 Appendix 4 provides a summary of the key risks to the programme, and the mitigations in place to reduce the likelihood of occurrence or minimise their impact.

- 39 I am satisfied that the proposed enhanced reporting framework as set out in the following table will mean that our Government will keep a close eye on the progress of the programme.

Stakeholder	Frequency	Details
Cabinet	Quarterly Investment Reporting to this Committee	Programme budget expenditure and forward investment intentions Summary of progress towards milestones and benefits realisation Key risks and assurance reporting
	Programme updates once per year to this Committee	Programme budget expenditure and forward investment intentions Summary of progress towards milestones and benefits realisation Key risks and assurance reporting Summary of internal quality assurance reports and Gateway Reviews undertaken
Joint Ministers (Finance, and Social Development and Employment)	Two times per year	Programme status report, including delivery impacts and transitions, risks and issues, confidence against milestones Policy and legislative dependencies update Summary of internal quality assurance reports, and Gateway Reviews undertaken
	Direct reports from independent advisor(s) as required	As required on an issue-by-issue basis

Investment assurance

- 41 MSD has in place strong governance and assurance controls to ensure the programme is successfully delivered without causing service disruption. Independent assurance measures include Gateway Reviews, Independent Quality Assurance and external expert advisors in governance roles.
- 42 Gateway confirmed in November 2024 that the programme has considerable momentum and subject to the approval of this DBC and the provision of funding certainty, the Programme is well placed to progress. The Review Team's delivery confidence assessment was Amber/Green¹ and they made five recommendations. The review found that much good work has been done not only in engagement, discovery and design but also in the initial delivery.

Cost-of-living Implications

- 43 While continuing to implement the MSD business transformation is unlikely to have an impact on the cost-of-living faced by New Zealanders in the short-term, in the medium-term enabling MSD to improve its capability to help clients find and sustain jobs will mean that more New Zealanders are able to financially support themselves and their families.

¹ This means that successful delivery appears probable, however constant attention will be needed to ensure risks do not materialise into major issues threatening delivery.

Legislative Implications

- 44 No legislative change is required in response to this paper although future legislative change will enable transformation and the realisation of the programme's benefits.

Impact Analysis

Regulatory Impact Statement

- 45 A regulatory impact statement was not necessary to accompany this paper.

Climate Implications of Policy Assessment

- 46 A Climate Implications of Policy Assessment was not required for this paper.

Population Implications

- 47 Women, Māori, and Pacific peoples are disproportionately more likely to receive income support than other population groups. The predicted increase in the number of people entering paid employment due to the transformation programme is likely to have a positive impact on these groups.

Human Rights

- 48 There are no human rights concerns associated with this paper.

Use of External Resources

- 49 A small number of external specialists were used to develop some of the material for the DBC, under the supervision of agency leads. As outlined in the DBC, the transformation programme will utilise external expertise where appropriate to support the implementation of new technology systems and operating models.

Consultation

- 50 The following agencies were consulted during the development of the DBC and during the development of this paper: Accident Compensation Corporation, Health New Zealand, Inland Revenue, Ministry of Business, Innovation and Employment, Ministry of Education, Ministry of Housing and Urban Development, Oranga Tamariki, Department of Internal Affairs (Government Chief Digital Officer), Department of Prime Minister and Cabinet (Policy Advisory Group), Public Service Commission and the Treasury.

Communications

- 51 I will consider making an announcement at an appropriate time following funding decisions.

Proactive Release

- 52 I intend to proactively release this Cabinet paper within standard timeframes, with redactions made consistent with the Official Information Act 1982.

Recommendations

The Minister for Social Development and Employment recommends that the Committee:

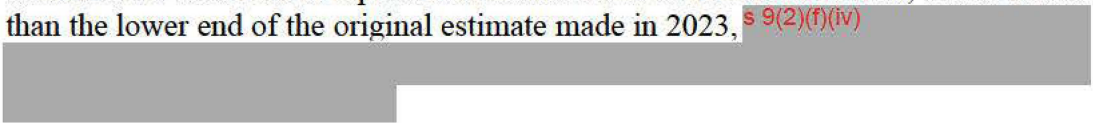

Background

- 1 **note** that due to decades of incremental and ad-hoc changes, the Ministry of Social Development's (MSD) current operating model and technology systems are disjointed, siloed and inefficient, which has negative impacts for New Zealanders, and government;
- 2 **note** that between November 2021 and July 2023, Cabinet approved a nine-year programme to transform MSD's operating model and technology systems and approved \$183 million for the first two years of the programme, ending in the 2025 financial year [CAB-21-MIN-0472, CAB-22-MIN-0168 and GOV-23-MIN-0016 refer];

Detailed business case for the future of MSD's business transformation programme

- 3 **note** that I directed MSD to reassess the future of its business transformation programme in light of our Government's priorities and focus on fiscal sustainability
- 4 **note** that MSD prepared the attached detailed business case (DBC), which considered three options for the future of the business transformation programme:
 - 4.1 Option A – stopping the programme and maintaining status quo;
 - 4.2 Option B – focusing on technology change only; and
 - 4.3 Option C – a re-sequenced transformation;
- 5 **note** that the DBC concludes that Option C will deliver the best outcome for New Zealand, as it best enables MSD to meet future challenges and is the only option that delivers savings that exceed its costs over the next decade;
- 6 **approve** the MSD Business Transformation Te Pae Tawhiti Programme Horizons Two and Three Detailed Business Case attached as Appendix 2;
- 7 **direct** MSD to implement Option C as set out in the DBC (Appendix 2), subject to future funding decisions;

Financial implications

- 8 **note** that the total cost of Option C is estimated to be \$1.8-\$2.1 billion, which is less than the lower end of the original estimate made in 2023, § 9(2)(f)(iv)

- 9 § 9(2)(f)(iv)


9.1 s 9(2)(f)(iv)

9.1.1 s 9(2)(f)(iv)

9.1.2 s 9(2)(f)(iv)

9.2 s 9(2)(f)(iv)

10 s 9(2)(f)(iv)

Implementation

11 **note** that the procurement plans developed at the outset of the transformation programme in 2023 have been reassessed and are considered fit-for-purpose;

12 **note** that the transformation programme's key deliverables remain on-budget and on-track, subject to future funding decisions;

13 s 9(2)(f)(iv)

Investment assurance

14 **note** that MSD has strong governance and assurance measures in place, including Gateway Reviews, Independent Quality Assurance and external expert advisors in governance roles;

15 **note** in November 2024 a Gateway review awarded the programme a Delivery Confidence Assessment of Amber/Green;

16 s 9(2)(f)(iv)

Legislative implications

17 **note** that no legislative changes are required as a result of approving the DBC but future policy and legislative changes will be necessary to enable the programme;

Authorised for lodgement

Hon Louise Upston

Minister for Social Development and Employment