Report

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Date:	8 December 2023	**Security Level:**	IN CONFIDENCE
To:	Hon Louise Upston, Minister for Social Development and Employment		

Te Pae Tawhiti Programme

Purpose of the report

1   This is an introductory briefing about the programme to transform our service model and business processes, enabled by modern digital technology. Te Pae Tawhiti Transformation Programme (the Programme) commenced in July 2023 and is currently planned to conclude in June 2032.

2   At the 30 November 2023 meeting with Ministry of Social Development (MSD) officials, you asked us about how the Programme:

- s9(2)(j)

- supports the achievement of welfare that works

- enables people to own their own journey.

3   You will also visit two Waikato Work and Income sites on Friday 8 December. We propose to discuss the above matters as well as your reflections from the site visit at the officials meeting on 18 December.

4   Following this Te Pae Tawhiti Programme briefing you may also want to discuss with us:

- Plans between now and July 2026 (Horizon One), including an update on the Ministry's upcoming procurement decisions for the Digital Employment Service

- how the Programme could be leveraged to support and accelerate your priorities over the medium term

- plans for Horizon Two and Three, including the nature and potential scale of future investment in the Ministry of Social Development's (MSD) systems and service model that may be required

- your expectations for our reporting on implementation of the Programme.

Executive summary

5   Delivering on your priorities requires MSD to have a flexible and responsive operating model and systems that support it.

6   Historically, we have implemented policy changes and new products asked of us, often under tight timeframes. However, our systems are ageing, highly complex and not set up for helping us deliver change. Some of our systems predate the internet, EFTPOS and mobile phones. They are unable to seamlessly connect in real time – without manual intervention – to modern systems like those used by Inland Revenue.

7   Implementing policy changes in our systems can be costly and we occasionally build manual processes as a pragmatic solution.

8   With out-of-date infrastructure, our workforce has a heavy focus on processing transactions. This leaves less time for the case management activities that support clients to find or prepare for work, obtain suitable housing, and address other needs.

9   The Programme is a multi-year transformation to ensure MSD has the capability to service New Zealanders now and for the coming decades and enable us to focus our resources and investment on the cohorts who need it. The estimated cost of the Programme as currently planned is between $2.1 and $2.6 billion. Current funding only allows for an initial portion of the change that is required, and there are options about how to take this work forward.

10 Technology projects of this scale are costly and inherently high risk. As a result, we have spent time building capability and implementing critical technology changes, developing our ability to successfully take on a large transformation. The Ministry has recently completed the implementation of a new payroll system in the Oracle platform with no issues.

11 The first phase of transformation, called Horizon One, commenced on 1 July 2023 and will end on 30 June 2026. Current investment in the Programme is $183 million over two years (2023/24 and 2024/25) which supports the first two years of Horizon One. The first changes will come online from 2025 with investment delivering changes to:

- service experience – including changes for student support alongside replacement of the end-of-life Student Allowance and Loan system, with a Service Experience Platform

- employment services – including introduction of a Digital Employment Service to transform our ability to match clients to jobs and training, and provide staff with better tools (such as being able to digitally monitor and report on clients' job search activities)

- commissioning and contracting with partners – including replacement of high-risk systems with a fit-for-purpose solution that is integrated and supports an effective system for sourcing, contracting, reporting and payments

- client engagement practice – an evidence based, best practice model that will guide staff interactions with clients, starting with students.

12 The investment in these four key changes will establish the foundations of our future service model.

13 The Service Experience Platform and Digital Employment Service are the critical building blocks to delivering integrated services and support. Together they will secure the capabilities (technology, processes, tools and workforce) we need to work more efficiently and effectively across income support and employment.

14 In building our future service model we can better allocate resources and investment to target the right services to the right people in an effective and efficient way. Through this we will be able to get better employment outcomes – and reduce benefit dependence – by getting people off benefit and into work and enabling us to work with the clients most at risk.

15 By delivering modern technology and sophisticated tools that give us improved insights and intelligence, the Programme can support social investment in the delivery of social services.

16 We propose to discuss the matters you raised at the officials meeting on 30 November, your reflections from your recent site visits, and the contents of this briefing on 18 December.

Recommended actions

It is recommended that you:

1 **agree** to discuss the contents of this briefing with officials.

AGREE / DISAGREE

08/12/2023

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Tāmati Shepherd-Wipiiti   Date

Deputy Chief Executive, Transformation
Ministry of Social Development

_____   2023|2|11

Hon Louise Upston   Date

Minister for Social Development and
Employment

MSD's service and operating model needs to be responsive

17 Delivering on your priorities requires MSD to have a flexible and responsive operating model and systems that support it – so we can get people into work and stop benefit dependence, especially for young people. This is about having technology that is responsive to change and shifting our human resource from manual processes to conversations with clients.

18 The Programme is a multi-year transformation programme to ensure MSD has the capability to serve New Zealanders now and for the coming decades. The current Programme scope is to transform our service model and business processes for clients (students, working age clients, and seniors), contracted providers, and employers, enabled by modern digital technology. Transformation will deliver enduring value, with implementation to occur in three Horizons – or stages – of three years each.

The fast pace of demographic, social, economic and technological change is influencing social issues in New Zealand but there are constraints on our ability to respond as we want to
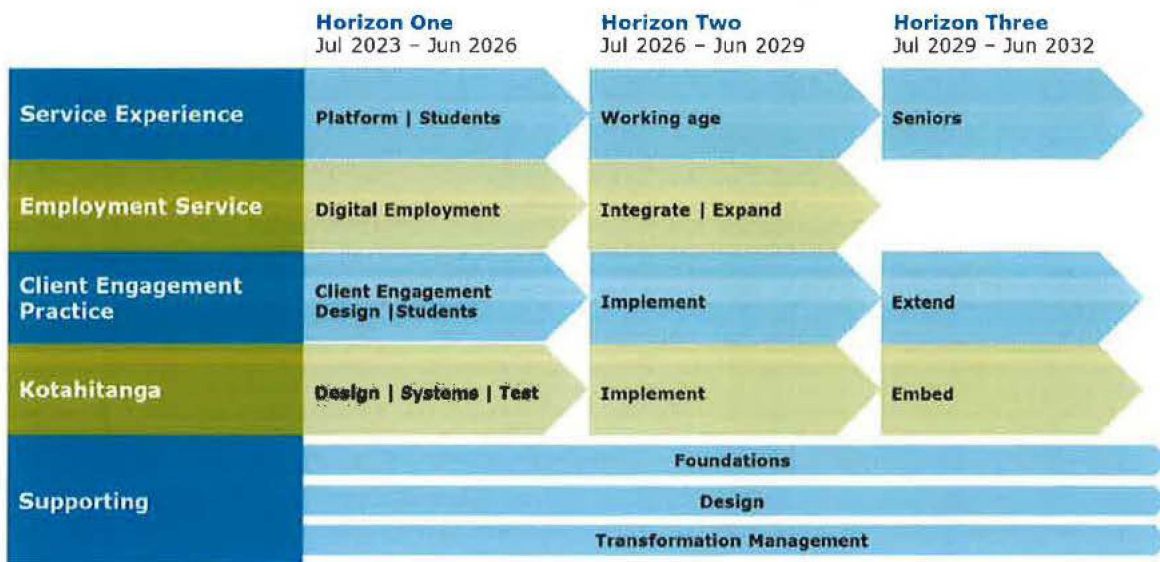
19 New Zealand's landscape is changing. Technological advances have fundamentally changed the way people and businesses operate, as well as their expectations of interactions with government agencies. The population is ageing and becoming more ethnically diverse. An increase in disabled people is also expected.

20 Our current infrastructure and business processes have developed over time to meet changing services, products, legislation and needs. The technology landscape is complex and ageing, comprising over 500 applications of different ages (some are over 30 years old, pre-EFTPOS and mobile phones). These systems and associated business processes are outdated, not intuitive to use, and at risk of failure.

21 We operate through millions of lines of interconnected code developed over two decades of incremental change and it is hard to implement change rapidly and accurately. The consequence of being stuck in the legacy system trap is that technology has become an inhibitor of organisational agility.

22 Our current technological environment is tightly integrated, which creates the risk of a whole system failure. The impact of a one-day computer system outage is severe. A disproportionate amount of effort is currently required to keep systems operational and safe.

23 The old technology limits our ability to move fast in response to Government priorities. Policy changes can be difficult and expensive to implement, and we may not be able to respond to direct changes as effectively as you expect.

24 Over the years we have implemented numerous policy changes and new products agreed to by Ministers, often under tight timeframes. However, our systems are not set up for helping us deliver change. For example, the Winter Energy Payment initiative was required to be adopted into our system within a short amount of time. Due to the complex nature of our ICT systems, the calculation was manually built using spreadsheets to meet the timeframe. This non-integrated solution can lead to further fragmentation of our systems and potentially increases the risk of unauthorised access to information and privacy breaches.

25 As a result of incremental change, we operate with a complex and extensive set of processes, business rules, and operational policies. This has meant:

- clients can have difficulty understanding their entitlements, eligibility, and obligations

- difficult and time-consuming processes for clients to have their needs met

- clients face fragmented processes and digital services which are time-consuming and challenging to navigate. Clients often have to shift between methods of communicating with us, repeating information many times.

- our service model has fallen behind basic client service experience expectations and practices within the private sector. For example, the ability to book an appointment online

- staff spend significant amounts of time navigating our processes and accessing multiple systems. To assess eligibility and entitlement staff must go between as many as 10 systems. This requires re-keying of information, separate logins, and switching between multiple screens. This leads to substantial delays and rework, limiting their ability to understand clients' circumstances and achieve sustainable employment outcomes

- staff are not able to spend as much time supporting clients as their time is taken up processing income support transactions. This is time that could be better used for the case management activities that support clients to find or prepare for work, obtain suitable housing, and address other needs. This places a greater burden on staff, where modern technology and tools could help

- client debt to MSD can be created due to overpayments when this could be avoided with better systems

26 Overall, the current operating model reduces our ability to get people into work.

Horizon One of the Programme commenced on 1 July 2023 with two years of funding

27 In June 2023 Cabinet agreed to start the Programme, beginning with Horizon One, and approved Te Pae Tawhiti Horizon One Transformation Detailed Business Case. Funding of $100 million over two years was approved in 2023 through Budget 2023, and $83 million over two years from MSD's baseline.

28 This was the culmination of 18 months of work.

- In November 2021, a Strategic Assessment was provided to Cabinet setting out the case for transforming MSD.

- In May 2022, a Programme Business Case was provided to Cabinet, and they agreed that Option 3: Transform was the preferred way forward. This option encompassed redesigning MSD's operating model to support fully integrated services with a tiered approach, supported by redesigned business processes and renewed technology platforms.

29 Horizon One started in July 2023 and goes to 30 June 2026. In this first stage we will make changes to services and cohorts that are lower complexity to implement but offer high reward by shifting resources. This will reduce implementation risk and build delivery confidence.

30 Technology projects of the scale of Te Pae Tawhiti Programme (like Inland Revenue's Business Transformation) are costly and high risk. As a result, we have spent time building capability – attracting global talent – and successfully implementing critical technology changes.

31 In support of providing a good foundation for transformation work, the Ministry successfully implemented a modern cloud-based payroll system (on time and within budget) replacing the 25-year-old payroll system and a new Financial Management system with further financial modules to be implemented for the remainder of this fiscal year (also tracking on budget and within agreed timeframes).

32 Large scale change programmes such as Te Pae Tawhiti require strong specialist capability across integration, design, implementation, change management, and specialist technical skills. The Ministry does not have all the required capability internally so has needed to go to market to supplement its own expertise. External resources complement and support internal resources to deliver outputs that are pragmatic and owned by the Ministry.

33 s9(2)(f)(iv)

. The proposed high-level roadmap for the overall programme is illustrated in Figure 1.

Figure 1: Illustrative roadmap for the Programme

	Horizon One Jul 2023 – Jun 2026	Horizon Two Jul 2026 – Jun 2029	Horizon Three Jul 2029 – Jun 2032
Service Experience	Platform | Students	Working age	Seniors
Employment Service	Digital Employment	Integrate | Expand	
Client Engagement Practice	Client Engagement Design |Students	Implement	Extend
Kotahitanga	Design | Systems | Test	Implement	Embed
Supporting	Foundations Design Transformation Management		

34 The current estimated cost of the Programme over its intended lifespan and scope is $2.1 to $2.6 billion.[1] This cost will be refined in the next 18 months as MSD learns more, including from the procurement processes. Current funding only allows for an initial portion of the change that is required, and you will have options about how to take this work forward.

Our future service model will enable resources and investment to be focused on the cohorts who need it

35 We are working to embed a new Future Service Model for MSD. It is underpinned by significant changes to underlying systems, processes, and redesigned services to support greater integration between income support, employment and housing. It provides a service approach that offers multiple tiers of escalating support. It will transform the client experience for New Zealanders.

36 The model will enable the allocation of resources and investment to target the right services to the right people in an effective and efficient way. This will include improved insights and operational intelligence to help target what works, underpinned by sophisticated tools. Through this we will be able to get better employment outcomes – and reduce benefit dependence – by getting

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[1] Options to replace ageing systems without other changes were previously costed at around $1 billion over 10 years, most of which would need to be sought from future Budgets.

people off benefit and into work and enabling us to work with the clients most at risk.

Current investment in four key service changes in Horizon One will establish the foundations of the future service model

37   The four service changes are at the core of MSD's business and will deliver to the benefits of the Programme. We can provide you with further advice on the Programme focus over Horizon One.

38   The service changes are supported by:

- delivering critical technology enablers, which are prerequisites for achieving the planned significant uplifts in service

- design workstreams – such as workforce and information, data and analytics

- overall management of the transformation.

Service Experience

39   MSD will reduce technology risk through the introduction of a new Service Experience Platform in 2026. Over the transformation we will progressively implement modern systems and decommission old and at-risk systems.

40   Service Experience is a key implementation arm of the transformation. Through Service Experience we will implement the technology, processes and tools needed to deliver both the Future Service Model and Client Engagement Practice, while also transforming the way the Ministry delivers its core products and services for clients, staff and partners. Service Experience is responsible for removing complexity and implementing core technology capabilities.

41   The Programme is starting with services and cohorts that are lower complexity to implement to build delivery confidence. Horizon One will transition students from the end-of-life system, providing an improved digital experience for students, and an improved experience for the staff serving them. Students are largely separate from the support provided to working age and senior clients (as we administer this support on behalf of the Ministry of Education). They can be transferred to a new platform and service experience model with minimal impact on our other client groups and the systems that support them.

42   Procurement is currently underway for the Service Experience Platform. The Programme's procurement approach includes robust independent processes to support due diligence.

43 Delivery of transformation for working age and seniors (which includes all income support administered by MSD) is planned for future horizons of the Programme.

s9(2)(f)(iv)

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Employment Service

46 We will deliver changes to the employment service through the introduction of a Digital Employment Service from early 2025. Procurement is currently underway to select a vendor to deliver the platform solution for the Digital Employment Service. Officials would like to provide you with an update on the Ministry's upcoming decisions.

47 MSD provides New Zealand's Public Employment Service that helps people at risk of long-term benefit receipt to find suitable and sustainable employment and stay off benefit. This includes working with some people before they come onto benefit, recognising the complex factors behind risk of long-term benefit receipt and the importance of early intervention. We also have a role in supporting a well-functioning labour market by working with other government agencies and building and maintaining relationships with employers, and other stakeholders.

48 MSD currently lacks a meaningful digital employment service and this limits our effectiveness for clients and employers, and reduces capacity to provide intensive services to those who are most at-risk of long-term benefit receipt. RecruitMe, a core component of MSD's technology for employment, and the Find a Job website were decommissioned in May 2023 as they were end-of-life products based on outdated technology with limited functionality. An interim replacement (Kimi Mahi Mai) has been put in place but it has similar functionality limitations.

49 Digital public employment services are recognised globally as a key way to enhance the effectiveness and reach of services to help people into sustainable work. Although MSD offers a wide range of public employment services through a combination of outdated systems with substantial manual processes, MSD is well behind international counterparts in providing digital public employment services.

50 Investment in a Digital Employment Service will, together with the Service Experience Platform, deliver an integrated view across income and employment supports, services and obligations and:

- transform our ability to match clients to jobs and training

- provide staff with better tools for monitoring and supporting clients' job search activities, and

- through self-service options for clients and employers, improve the efficiency of MSD's employment services so that staff can focus more on those for whom face-to-face conversations are most effective.

Kotahitanga – effective commissioning and contracting

51 We will deliver changes to the commissioning of social services in 2025, through a service change called 'Kotahitanga – effective commissioning and contracting'. This will include replacing multiple high-risk systems with a fit-for-purpose solution that is integrated and supports an effective system for sourcing, contracting, reporting and payments. This approach will leverage existing MSD investment (especially in MSD's financial management system) where possible to improve staff and partner experience.

52 We are also progressing work to improve MSD's commissioning practice, including:

- designing and testing changes to commissioning with a small group of partners

- options to modify funding models and information approaches with partners to improve how we commission and achieve impact from our investment.

Client Engagement Practice

53 Through the 'Client Engagement Practice' service change, we will deliver an evidence based, best practice model that will guide staff interactions with clients. This includes designing consistent and coherent service standards and practices, training and development and guidance to ensure staff have technical practice and competence to work with clients.

54 In Horizon One we will start with those working with students, and this will set the scene for wider changes in the next Horizon.

The Programme will deliver major benefits, including up to $1.2 billion in monetizable benefits from improved employment outcomes

55 There are five key benefits we expect to achieve.[2]

- by responding early, understanding people's needs and obligations, and providing the right services at the right time, we will reduce the amount of time people are reliant on welfare and ensure less people end up in debt to MSD

- by improving our systems, processes and capabilities, we will create efficiencies and improve the effectiveness of services provided

- modern and improved technology systems will ensure we can effectively implement government policy, and will significantly reduce the overall risk of system failures

- as a result of the changes, outcomes for Māori and Pacific peoples will improve across all benefit areas

- by delivering on the above, we will improve people's trust and confidence in MSD.

56 We have identified monetizable benefits the Programme could provide from improved social and employment outcomes. These benefits would be from MSD being better positioned to help people into employment and stay employed. Our analysis shows that based on the Programme's agreed scope, timeframe and assumptions, the Programme could potentially provide savings of up to $1.2 billion in benefit payments over 12 years. This estimate uses MSD's Social Outcomes Model and is based on core assumptions about the changes MSD can influence, but it does have a high degree of uncertainty.

You have choices and opportunities for how the Programme can support your priorities

57 We can provide you with advice on the Programme's focus over Horizon One, including opportunities to support delivery of Government priorities and about future investment choices for the Programme.

Get more people into work and off benefit

58 Given your focus on getting more people off benefit, we can provide you with further advice on how the new Digital Employment Service, and other tools

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[2] Te Pae Tawhiti Horizon One Transformation Detailed Business Case sets out the 10 specific measures we are currently targeting.

and processes, could be used to deliver or support interventions for job seekers, including:

- assessment of barriers to find suitable work
- provision of active labour market programmes
- regular check-ins
- changes to obligations and sanctions and additional support.

59 More information on the labour market and our employment services are in the Introductory Briefing on Employment.

The Programme will reduce back-office processing costs and create capacity

60 Transforming MSD's service model and its supporting systems and processes will:

- make it easier for people to understand their entitlements, have their needs met, and meet their obligations – reducing repeat contacts, and potentially reducing overpayment debt
- significantly improve our digital and self-service channels to enable clients to access services directly, rather than contacting our staff
- redesign our services to reduce the time required by our staff to process transactions and enter data; reduce manual processing, workarounds, errors, and rework
- ensure MSD staff have the tools and capability to resolve need at the earliest point of engagement, supported by reducing the need for staff to gather and interpret information from multiple systems.

61 The Ministry is focusing on continuing to mature our strategic and tactical workforce planning capabilities to better understand and manage our workforce needs, ensuring we continue to have the right staff and skills to meet client demand effectively.

62 Through transformation, we will create more time for our staff – capacity – to spend with our clients while making sure to engage with people at the right time. This allows us to shift resource to focus on activities that better support the clients who need it to find or prepare for work, look for housing, and be referred to community support.

63 We are keen to work with you on the choices and the trade-offs you will have about the capacity we create. This includes taking the opportunity to reduce processing costs, technical debt and fraud, and support greater focus on integrity for the system.

Next steps and upcoming advice

We will regularly report to you about the Programme

64 The reporting cycle that has previously been agreed by Cabinet is that:

- You and the Minister of Finance will receive quarterly reports on progress, costs, and benefits

- Cabinet will receive six-monthly reports on progress covering the same areas.

65 We will prepare a Cabinet paper to support you to update Cabinet on the Programme. We will work with your office to determine the best timing for this update to balance having relevant information available for Ministers, with pressures on Cabinet Committee time at the end of the year.

66 The next Gateway review[3] to be completed on the Programme will take place on 11-15 December 2023. This will be a Gate 0 (Strategic Assessment) review. In line with recent changes to the Investment Management System,[4] we will support you to provide the Gateway recommendations to Cabinet. We expect to be able to discuss the outcome of the review with you on 18 December.

Further information or advice

67 We propose to discuss the matters you raised at the officials meeting on 30 November, your reflections from your recent site visits, and the contents of this briefing on 18 December.

68 You may also want to discuss with us:

- the Horizon One plan

- where the Programme could be leveraged to support and accelerate your priorities over the medium term

- what is envisaged for Horizon Two and Three, the nature and potential scale of future investment in MSD's systems and service model via the Programme

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[3] Gateway is an independent and confidential peer review process, facilitated by the Treasury, that examines projects and programmes at key points in their lifecycles to assess their progress and to rate the likelihood of successful delivery of their outcomes. A Gateway review takes place over one week. The Programme is subject to regular Gateway Reviews and received a positive Amber-Green rating in November 2022.

[4] Outlined in Cabinet Office circular CO (23) 9: Investment Management and Asset Performance in Departments and Other Entities.

- Ministerial reporting timing and approach.

File ref: REP/23/12/926

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