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Dear Judy

Submission to the Productivity Commission Inquiry into State Sector Productivity

The Ministry of Social Development welcomes the opportunity to provide input into the Inquiry into State Sector Productivity. Thank you for the opportunities to meet to date to discuss the Commission's work on the inquiry, something we look forward to continuing throughout its progress.

This is an important inquiry, since whether agencies are managing public funds to best effect is an important issue of public sector performance and accountability.

The Ministry has always been concerned with questions of efficiency of its systems and processes and productivity of its staff, but inevitably this involves a process of continuous improvement over time to keep pursuing improvements in the value of what we do.

Presently, we are engaged in a number of efforts in this direction, by:

- developing new measures of the cost of outputs using an individualised Client Allocation Model based on estimated time spent by case managers on different activities;
- operating an aggregate financial Cost Allocation Model which draws on these data, adds in overheads and allocates costs across appropriations;
- seeking efficiencies through simplification of transactional activities, through increased use of electronic channels and automation of work-steps;
- operating a Service Effectiveness Model aimed at achieving a better match between client need and case management services; and
- building our data analytics expertise to enable us to better understand our clients and target services to meet their needs.

Individualised Client Allocation Model

The individualised Client Allocation Model 9 (iCAM) allocates costs to outputs at the individual level, based on estimates of the actual time spent by case management staff on these activities, which is captured through time spent on different screens in the client case management systems.

The model is under on-going development and additional modules are being added as they are developed. It is not yet in production on our Information Analysis Platform, but is currently being updated manually. Once in production, it will be able to be used for regular reporting and monitoring and analysis of costs of outputs.

Financial Cost Allocation Model

The Ministry's Finance Section team uses a financial Cost Allocation Model which allocates costs at an aggregate level on a three stage cost-allocation basis: direct, indirect and overheads. It uses cost drivers which are deemed most appropriate for the type and nature of activities/services delivered, aligning them to the relevant appropriations. The model draws on data from the iCAM, as well as other sources and systems to determine the cost of services. The financial Cost Allocation Model is designed to provide valuable information on the cost of our current services as well as help inform decision-making about future budget allocation decisions.

Simplification

While the above activities have been focused on measuring and understanding cost structures, the Simplification initiative is aimed at achieving efficiencies in our business processes, by simplifying the provision of financial assistance and support to New Zealanders and increasing our clients' use of digital channels for transactions with us. It is useful to lay out in a little more detail the goals, methods and achievement of Simplification.

Simplification is redesigning transactional services to:

- change how clients access services – with new digital (online and phone) self-service channels that give clients more control and minimise the effort to transact with MSD;
- improve the efficiency of MSD systems and processes – streamlining and automating processes to reduce transactional work for staff, and compliance for clients; and
- reduce transactional work done by MSD staff by 743 full-time equivalent positions (FTEs).

Simplification is client-centred, and the work programme is based on insights from clients and staff. It involved consultation and co-design with clients and staff before implementation, and testing and feedback during and after implementation. Simplification has also learnt how to use a scaled agile approach to introduce incremental technology improvements in many small steps rather than in a few 'big bang' releases, especially for client-facing improvements.

The programme started implementing integrated technical and business changes from March 2015. Since then, MSD has developed, delivered, and monitored more than 20 initiatives with attributable work-effort reductions.

Simplification has taken an active benefits-management approach throughout implementation. Transactional work-effort reductions are the combined effect of initiatives to increase online uptake and to streamline and automate processes. Changes in transactional work are evidence-based and are tracked against monthly and end-state targets and are reported on in detail monthly. Changes to digital uptake, processing times, and volumes are measured directly from the Ministry's technology systems in combination with direct observations and time and motion studies.

Simplification has involved a range of initiatives. Among other things, we have:

- implemented MyMSD, an easy-to-use, mobile service that clients can access from phones, tablets or computers; to date 369,00 clients have registered to use it as at June 2017;
- rolled out the MyStudyLink smartphone app for students;
- enhanced voice-enable technology used in our contact centre so clients can do more for themselves over the phone;
- eliminated dozens of unnecessary letters and made others available on-line;

- enabled medical practices to lodge clients' work capacity certificates electronically, which has significantly reduced clients' need to visit service centres
- enable the on-line application form to be pre-populated with data we already hold on clients; and
- improved ease of use of the Work and Income website.

The above changes, aimed at making our services to be "simple at the front", have been complemented by implementing enhancements to business processes making our system "smarter at the back". This work has involved streamlining and automation of business processes, elimination and reduction of manual processing activities, and greater and smarter use of analytics.

The programme has, as at 31 May 2017, delivered reductions in transactional work equivalent to 407 full-time equivalent positions.

MSD's annual net savings from simplification are estimated at \$33.2 million in 2017/18, increasing to \$49.1 million from 2020/21. These savings will be used to cover the up-front investment in the programme, to respond to cost pressures, and to invest in Service Delivery capability. The approach to realising the efficiency gains is largely attrition-based (rather than a large organisational change). Annual budgets have been set in line with the expected reductions in work effort with fluctuations in transactional work managed using temporary staff.

Service Effectiveness Model

The Service Effectiveness Model (SEM) was created to help with the streaming of clients to case manager services. For each client, the model estimates the impact of a selection of different types of case management services (Work-focused Case Management General, Work Search Support, Work-focused Case Management Health and Disability Conditions and General Case Management).

This information feeds into the selection process for each service, where the clients with the highest expected impacts are given selection priority. The aim is to send clients, where possible, to the type of service that is most likely to minimize the sum of their benefit expenditure and staff and other direct costs. The SEM has resulted in a significant reduction in missed appointments each day.

Building our data analytics expertise

In support of our pursuit of both efficiency in business processes and effectiveness in service delivery, we are building our data analytics expertise to help us improve our understanding of our clients and to target services that meet the needs of individuals, families and communities.

In future, we will be making increasing use of data and analytics across key areas of our work, including:

- identifying target populations, and understanding the needs, circumstances and life trajectories of our clients across a wide range of social outcomes;
- choosing the best possible investments, and implementing them as well as possible; and
- evaluating implementation, impacts and progress towards outcomes.

Data and analytics provide a wide variety of tools to help our decision-making in these areas, and we will continue to develop these over time. Both the iCAM and the SEM are products of this drive to build stronger analytics capability. We will also invest in building foundational infrastructure for others to use, making data and analytics more widely accessible and useable.

Through these various activities, the Ministry is seeking both to understand where its costs fall, through better measurement and modelling, and to increase the efficiency of its transactional processes and the productivity of its front-line work force. Head-line results from the cost modelling and simplification work are also included in our broader performance measurement systems.

Social investment approach

These activities, however, are only part of the picture. While it is important to ensure that business processes are efficient, it is equally, if not more, important to ensure that those activities are effective in generating desired outcomes and to understand what returns they may be yielding – not only in a narrow fiscal sense, but also in the wider sense of achieving outcomes that improve the lives of our clients and their families.

Thus the Ministry also places a strong emphasis on understanding value across its array of investments in programmes and services, through work on the social investment model. The recent cross-sector focus on social investment has brought additional impetus to this work, ensuring that we are focused on achieving the best possible social outcomes from our work. Our efforts to ensure best value from our social investments is an important complement to the gains in efficiency and productivity that we are seeking through our simplification work programme.

Concluding comment

Taken all together, our efforts to understand the cost of our services, achieve efficiencies in business processes, improve ease-of-use by our clients, better match client need to service, and build our analytic capability are expected to deliver better value in the services we deliver to New Zealanders.

Yours faithfully



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Director
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