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| MSD - Employment Outcomes Investment Strategy 2017/18 | | |

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**MINISTRY OF SOCIAL DEVELOMENT - EMPLOYMENT OUTCOMES INVESTMENT STRATEGY 2017/18**

**Purpose**

The Investment Strategy (the Strategy) sets out the focus areas which underpin spending allocations for Ministry of Social Development’s (MSD) Multi-Category Appropriation (MCA) funding for employment outcomes.

Specifically, at a high-level the Strategy highlights which groups of clients employment and work readiness spending will be targeted towards, as an investment priority based on various data sources, such as the annual actuarial valuation, the Benefits System Performance Report (BSPR), the Quarterly Drivers of Performance Reports (the Report), the External Monitor Reports and consultation with various stakeholders.

Underpinning the Strategy is a Work Programme that outlines in more detail the specific programmes and interventions, funded through the MCA, that will help achieve the outcomes identified in the Investment Plan.

This Strategy is set out in three parts:

* Part 1: Background and current operating environment
* Part 2: Performance and investment decisions
* Part 3: Investment plan 2017/18

(a) Key focus for 2017/18

(b) Performance of the System

(c) Investment mix for 2017/18

As agreed with the previous Minister of Finance and the Treasury, a version of this Strategy will be published on the MSD website once Ministers have been consulted on the content. In addition to transparency (e.g. showing how the MCA funding is intended to be used in each year), the purpose of making the Strategy public is to attract interest from external organisations to work collaboratively with MSD. This will help us better understand the complexities faced by some of our clients and contribute towards developing new services aimed at improving client outcomes.

**Part 1 Background and current operating environment**

**Background**

On 1 December 2014, the Government set a revised and expanded BPS Result Area 1 target to

*“reduce the total number of people receiving benefit by 25 per cent, from 295,000 in June 2014 to 220,000 by June 2018, and reduce the long-term cost of benefit dependency by $13 billion as measured by an accumulated Actuarial Release[[1]](#footnote-1), by June 2018.”*

Achieving this revised target means MSD needs to continue to increase its focus on developing effective service interventions for clients with more complex personal situations and higher barriers to enter into the workforce, as these clients have a predicated high level of future liability for the benefit system.

After six years of developing and using an investment approach to inform prioritisation of resources, MSD is achieving positive results in terms of the reduction in numbers of people on benefit, with benefit numbers lower between the 2015 and 2016 annual actuarial valuations and a reduction in predicted future liability.

The tools MSD uses to measure the performance of our investment decisions are the annual actuarial valuation, which allows us to measure our year to year performance in managing the benefit system, and the Report, which provides a quarterly update on MSD’s performance in reducing benefit numbers and the liability.

Compared to the 2015 valuation, the average future number of years on main benefit has decreased for all segments except Jobseeker Work Ready (JS-WR) and Supported Living Payment (SLP). Sole parents are now expected to average one less future year on main benefits. Most segments have seen a significant decrease in the number of future years on main benefits. An exception is the JS-WR >1 year segment, which has seen a slight increase in average future years on benefit. This reflects the reduced level of exits observed recently. The SLP segments have also seen slight increases.

This result can be further understood by splitting the liability into its two components: beneficiary numbers and average individual future lifetime cost, this is shown Figure 1 below.

**Figure 1: Numbers and average liabilities by segment (30 June 2016)**



Although MSD has achieved reductions in the number of people receiving benefit and in the accumulated actuarial release, progress is behind that needed to achieve the target. Figures 2 and 3 over page show progress to date towards achieving the June 2018 BPS 1 target.

**Figures 2 & 3 – Progress to BPS 1 Target and Actuarial Release Target to December 2016**

The accumulated actuarial release for the period from 30 June 2014 to 31 December 2016 is $4.0 billion. This is a small decrease of $0.1 billion since 30 September 2016 and an increase of $1.4 billion since 31 December 2015. Our actuarial release forecast for June 2018 remains below target at $6.3 billion.

As at 31 December 2016, the number of working-age people receiving main benefits was 286,590. This was 2,371 lower than at 31 December 2015. Based on a continuation of current entry and exit rates, we forecast the working-age beneficiary count to be approximately 276,000 at 30 June 2018, with a range of between 258,000 and 293,000.

**Current Operating Environment**

As outlined in the 2016/17 Strategy, MSD’s vision of being a client-centred organisation is underpinning changes to our operating model to ensure clients are at the centre of the way we do things. Clients increasingly want to interact with us using digital channels, at a time that suits them. Concurrently, we also need to continue to provide effective face-to-face services for clients, focusing on quality interactions that really improve their outcomes, especially for those who need us the most.

In support of this, MSD is implementing changes designed to make our transactional services user-friendly for clients, including introducing digital channels for clients to complete transactions, and increasing the efficiency of our systems and processes.

MSD’s employment Service Delivery Model is made-up of internal and external (contracted) Case Management Services that range in intensity and client focus.  These services are Work Focused Integrated Services, Work Focused Health Condition Injury and Disability, Work Focused Case Management (WFCM) and Work Search Support (WSS).

We are also trialling a further level of intensive case management service in six sites across New Zealand called Intensive Client Support. Clients are streamed to a service based on their needs and are worked with proactively in an effort to achieve a sustainable off-benefit outcome.

While in service, clients and case managers have a variety of interventions to support the achievement of a sustainable outcome. MSD contracts external providers to provide more specific work-related services such as Training for Work and Work Confidence courses.  MSD partners directly with employers by utilising the Skills for Industry product to form programmes that provide on the job training with an employment outcome. MSD also has internal Work Brokers that partner with employers to link our clients with their vacancies. Work Brokers can utilise the Flexi-Wage product, which is a wage subsidy that invests in clients who are disadvantaged in the job market by making a temporary contribution to their wages so they can access and maintain employment.

The Liability Estimator Tool (LET), a predictive model that estimates the lifetime future benefit costs of beneficiaries, went live on 28 November 2016. LET has better aligned streaming to the annual valuation and the BPS 1 target. There will be further enhancements to LET during the year, introducing new variables that will build a more comprehensive data-informed view of a client, ensuring Case Management Services are targeted appropriately.

*Over the next year*

A review of Service Delivery Case Management Services will be undertaken by the Investment Approach Team in 2017/18. This will build on what we know has worked for our clients, investment approach trials, the 2016 valuation of the welfare system and advanced analytics.  In scope for the review will be changes to caseload ratios, streaming rules, the size of case management services and improved practice.

Work has also commenced on a new predictive model to complement LET within streaming, the Service Effectiveness Model (SEM).  The SEM will utilise the effectiveness research completed for Case Management Services to predict which clients, at the inception of benefit receipt, will react positively (from a reduction in liability perspective) to each individual case management service. The SEM will provide key insights in supporting the aforementioned review of the size of current Case Management Services and provide a key indicator of cohorts that are not reacting to current services.

A discovery phase to determine how advanced analytics can better support case manager decision-making has also commenced.  Though in its infancy, it is envisaged this work will take a ‘pathways to outcomes’ investment lens to clients once streamed, optimising the referral of clients to supports and services that will lead to a sustainable off-benefit outcome.

Delivering services to our most vulnerable clients is a challenging proposition at the best of times – and delivering them within the current operating environment will require increased levels of sophistication in investment decision-making through the use of data and analytics and the testing and trialling of new and innovative approaches to working with our most complex clients. Working with clients that have high barriers to employment requires patience and perseverance, and the understanding that trial and error is part of developing interventions to improve the lives of our clients.

Despite the programme of change MSD is going through, we continue to meet the needs of our clients and the expectations to provide meaningful services and interventions, while delivering financial assistance. While transitioning, the continuous demand on our frontline resources is still significant although it can be difficult to decouple transactional demand from the presenting needs of a vulnerable or complex client. Despite this, we are making great progress to divert clients towards online and self-service channels, where appropriate (such as through the e-lodgement of medical certificates and guiding clients to apply online or interact with us through the MyMSD platform) while refocusing our investment and responding to highly complex social issues, such as mental health and homelessness.

The delivery of a new practice framework, identifying new opportunities to develop our staff, and the provision of open communication channels for staff to suggest change, allows us to build the capability required to meet the needs of our clients. As we continue to improve key relationships with communities, providers and employers to connect people to work, we are increasing our focus on sustainable outcomes and preparing our clients to be ready and competitive for available employment. In addition, we are developing more sophisticated tools that will allow a better understanding of the effectiveness and efficacy of our investments. This will all place us in a stronger position as we work towards the BPS 1 target.

**Part 2 Performance of investment decisions – 2015/16**

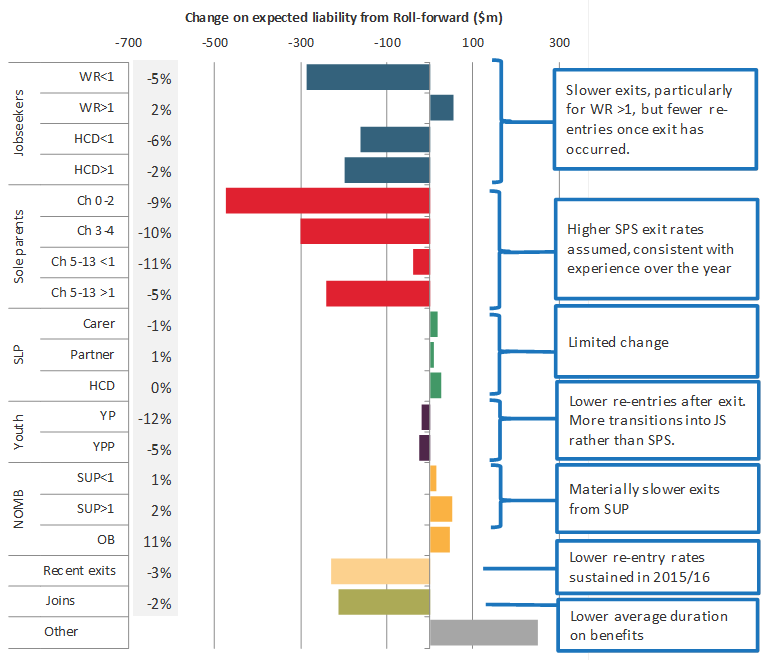
***Active case management service***

The additional investment in active case management over the last two years, in the form of WFCM and WSS, is having a positive impact on increasing most Jobseeker Support (JS) and Sole Parent Support (SPS) client cohorts into employment.

This investment and the resulting positive impact is reflected in the latest valuation to 30 June 2016, which shows a significant decrease in the liability of SPS clients from the 2015 valuation, with a $1.7 billion decrease in total liability across all benefit categories, attributable to management performance.

As can be seen from Figure 4 below, the liability associated with SPS clients decreased between the 2015 and 2016 valuations, and the lifetime costs on benefit for these clients has also decreased.

**Figure 4: Breakdown of $1.7 billion decrease due to experience, by segment**



Assessing the impacts of our case management is an important tool to determine the wider effectiveness of our services. The most up-to-date evaluation was carried out in early 2014 (for the 2012/13 year). Insights MSD is in the process of developing another evaluation to measure the effectiveness of our investment in active case management, which will be finalised by April 2017.

***Trialling new service interventions***

A core component of using an investment approach at MSD is designing and implementing trials to test new and innovative approaches and interventions, to work with clients to improve employment outcomes.

MSD has designed and implemented a number of trials and interventions (in association with non-government agencies) over the last four years, specifically focused on improving outcomes for some of our more complex clients. We are now far enough through these trials to evaluate the preliminary results, which will give us an indication of whether these are on track to achieve the expected outcomes, as is the case with the Intensive Client Support trial, where findings have highlighted positive sustainable employment outcomes for the older (30-39 year olds) cohort. These positive results have prompted a proposal to extend this trial to more clients (currently at 240 in 5 sites to 1,500 in approximately 20 sites).

This year, five trials will be evaluated so that MSD can determine if performance could be improved by scaling up the ones that are showing positive outcomes for clients; and likewise, divest investment in those that are not achieving the desired outcomes and shift this funding towards alternative interventions.

**Part 3 - Investment Plan 2017/18**

***Key focus for 2017/18***

Service Delivery’s business continues to be impacted by a series of changes over the coming year, including the next stages of the Simplification Programme, our developing role in Social Housing, the creation of the new children’s entity – The Ministry for Vulnerable Children Oranga Tamariki – and establishing what MSD will look like following the structural changes.

As MSD navigates through the many changes that may impact on our ability to deliver services, our biggest challenge continues to be maintaining current performance standards and achieving forecasted outcomes. Work to be undertaken in 2017/18 is expected to help optimise our performance, and set a strong platform for improved performance in future years.

As outlined earlier, a Work Programme underpins the Strategy and outlines in more detail the specific programmes and interventions, funded through the MCA, that will help achieve the outcomes identified in the Strategy.

The Work Programme will be developed based on the same sub-groups outlined above, but also accounting for the maintenance of current performance, the development of an Investment Approach to improve outcomes for Māori, continued implementation of trials funded through Budgets 2016 and 2017 and aiming to achieve sustainable employment outcomes in a buoyant economy.

*Operating landscape*

As MSD continues to deliver its supports and services aimed at improving outcomes for our clients, these will be delivered within the backdrop of a growing economy, as Treasury’s Half-Year Economic and Fiscal Update forecast expect population growth, construction growth, low interest rates and stronger export earnings over the next three years.

New Zealand’s population is growing at 2.1% per annum, the highest rate since 1974. This is driven by a combination of natural population growth and record levels of migration. Although population growth supports economic growth, it also creates more competition for beneficiaries who are looking to enter into employment, as there are now more people seeking employment.

Many beneficiaries leave benefit for low and medium skilled jobs, consequently competing with low-skilled migrants and people on working holiday visas for existing low and semi-skilled jobs. The Ministry of Business, Innovation and Employment forecast that the economy will add around 55,000 low and semi-skilled jobs over the next three years (18,000 per year), creating significant opportunities for MSD to help our clients into these and other jobs over the next few years.

In addition, there are housing pressures in most regions with booming labour markets, particularly in Auckland, which adds another element to an already complex situation.

With this operating landscape in mind, there are a number of areas MSD will start building for investment from 2018/19 onwards.

*Client segmentation*

An essential component of the investment approach is client segmentation. The segmentation process uses statistical modelling to group clients into “cohorts” with similar characteristics, patterns of service use and needs, to allow an assessment of the future levels of benefit receipt and long-term cost of different segments in the benefit population. Segmentation helps us to understand the drivers of benefit receipt and the impact of our interventions and implication of the wider economy, allowing is to respond accordingly.

Segmentation analysis has also improved MSD’s understanding of the drivers of long-term dependency – age of the client, other demographics and prior patterns of benefit receipt.

MSD is constantly analysing the data and information available and searching for the cohorts of clients that we need to focus on more closely. Below is a model of client segmentation into cohorts with different levels of risk and amenability to services.



A good example of how we have used client segmentation is the identification of early entrants into the benefit system, and the subsequent development of the Intensive Client Support trial that is having a positive impact on clients aged 30-39.

A second predictive model, the Service Effectiveness Model (SEM) is being designed, to work alongside the LET model. The SEM will predict which case management service will provide the largest reduction in a client’s future benefit costs or LET score over a two-year period in each case management service. The two models should provide MSD with a best prediction on the optimum level of support a client requires to achieve an outcome.

As we have improved our understanding of segmenting clients into segments and cohorts, the actuaries, in conjunction with the Client Segmentation Team, have proposed a new approach to segmenting clients, focusing more on the person and the drivers of their risk of long-term benefit receipt.

**Clients with Complex Barriers to Employment**

As the latest valuations have demonstrated, our current supports and services are achieving positive off-benefit outcomes for many of our clients, specifically jobseekers under 1 year and most sole parents. However, these same services are not having the same impact for those clients that have more complex barriers to employment, due to their underlying health or disability conditions, or limited educational levels or skills. Essentially, this translates to a number of our clients being far removed from the labour market, and our current portfolio of services will not completely prepare them for the existing labour market.

As such, the Strategy will focus on health and disability clients, intergenerational early entrant clients and Māori clients.

*Health and Disability clients*

MSD is continuing to focus on developing (through trials and prototypes) more effective service interventions in 2017/18 for Jobseeker Support - Health Condition, Injury or Disability (JS-HCD) and Supported Living Payment - Health Condition, Injury or Disability (SLP-HCD) clients, as analysis shows these are groups who could move into sustainable employment with the right supports and service interventions (and these clients are at risk of long-term benefit dependency with the associated costs of remaining on benefit for extended periods of time).

Mental health conditions are the most common type of health condition group for both JS-HCD and SLP-HCD clients, being 45 per cent and 35 per cent of clients respectively. Moreover, their number and relative share have been growing substantially over time. The share for both benefit types have increased by nearly 10 percentage points over the past decade for JS-HCD and by 5 points for SLP-HCD. Additionally, mental health is a common secondary incapacity; an additional 7.5 per cent of clients for both benefit types.

Figure 5: Proportion of clients with a mental health incapacity as their primary incapacity



Mental health conditions, including stress, anxiety and depression represent a significant portion (41 per cent) of JS-HCD mental health clients, whereas bipolar disorder and schizophrenia represent a larger portion of the SLP-HCD cohort (47 per cent). In both cases ‘other psychological condition’ is also a large category.

Figure 6: Type of mental health conditions by benefit type



Average future lifetime cost is significantly higher for mental health clients. The cost is $33,000 higher for JS-HCD clients and $52,000 higher for SLP-HCD clients; see the figure below. Interestingly, almost none of this difference is attributable to the conditional type itself—the partial effect in the chart is very small. This means that the difference is largely distributional, and the biggest factor is that mental health tends to affect younger clients. The average age of mental health JS-HCD clients is 7.6 years younger than other JS-HCD clients, and the difference is 4.4 years younger for SLP-HCD clients.

Figure 7: Average future lifetime cost by benefit and HCD type. Split by mental health partial effect.



The incidence of mental health incapacity at younger ages has significant implications for longer-term benefit receipt and employment. The increased lifetime benefit system costs aligns with a reduced potential time in employment during young and middle-age, as well as increased healthcare costs over an extended period.

Figure 8 below shows how the incidence of mental health issues varies by age and ethnicity. It shows that half of HCD clients under 35 have a mental health condition, and less than a third of older clients. The relative incidence is particularly low for older people with Māori, Pacific peoples or Asian ethnicity. Age and ethnicity are not the only factors with distributional differences for mental health clients. There are other important differences by duration (longer term JS-HCD clients are more likely to have mental health conditions), gender (higher incidence for females) and education (relatively more people with higher levels of education attainment).

Figure 8: Proportion of HCD clients (JS and SLP combined) with a mental health condition, by age and ethnicity



Many clients within this segment are likely to receive a benefit for the rest of their lives, and there are good reasons why they would remain on benefit. Conversely, evidence shows that there are a number of clients that can and want to work.

Successfully supporting clients from this group into sustainable employment will make a significant contribution to achieving the 2018 BPS 1 target, but will require a co-ordinated effort with other agencies and NGO’s across the social sector.

To help address some of the issues associated with mental health, the Ministry of Health is leading the development of a cross-agency mental health strategy. This aims to:

* provide the Government’s direction for mental health and subsequently identify areas for social investment
* take a more collective, preventative and early intervention approach
* include the broader social impacts of mental health, such as employment and housing.

*Jobseeker Support Health and Disability*

JS-HCD clients contribute 10.5 per cent ($8.0 billion) to the total main benefit liability. Clients who have been on JS-HCD for less than one year have an average lifetime cost of $128,000 and those who have been on JS-HCD for more than one year have an average lifetime cost of $149,000. About 45 per cent of JS-HCD clients have a mild to moderate mental health condition, and many could work with the right support. However, when developing interventions to address these clients, it is important to keep in mind that off-benefit outcomes will not always be the end goal – part-time work may be the most appropriate outcome.

*Supported Living Payment Health and Disability*

SLP clients contribute 29.1 per cent ($22.2 billion) to the total main benefit liability and have an average life time cost of $195,000.

Compared to JS-HCD clients, SLP-HCD clients have different reasons for receiving benefits, with average lifetime duration on benefit of 12.4 years due to the permanency of their health condition, injury or disability.

*Māori*

Māori make up a significant proportion of those in both the benefit system and on the social housing register. Although Māori only make up 15 per cent of the population, they account for 31 per cent of the benefit system (where they represent 42 per cent of JS-WR and 48 per cent of SPS clients) and 36 per cent of social housing recipients.

The 2016 valuation shows that the average future lifetime cost for Māori clients is $55,000 higher (about 50 per cent) than for non-Māori clients. Furthermore, Māori are over-represented in each of the risk factors associated with higher benefit system cost, and when compared to non-Māori, they are:

* 1.8 times more likely to have had low educational attainment – achieving NCEA level 1 or lower
* 1.5 times more likely to have had a child protection event
* 2 times more likely to have had an adult corrections spell (as a result of a criminal conviction)
* 1.8 times more likely to have had a parent on benefits for 80 per cent or more of the time during their teenage years
* 1.4 times more likely to have spent at least eight quarters on a JS benefit
* 2 times more likely to have had some social housing history.

Consequently, Māori have a higher forward liability profile than any other ethnic group in the welfare system. Māori clients are more likely to be on benefit for a long time and go on and off benefit more regularly than other ethnic groups.

Although Māori clients receive the same services as non-Māori, we have limited targeted interventions to address the various factors that lead many Māori to be in the benefit system, including intergenerational participation, low education and poor health. Current case management services are not as effective in achieving outcomes for Māori clients as they have been for clients of other ethnicities. Māori will be a key priority group for targeted investment in 2017/18. From the data we collect, we know there is a relatively low level of exits (28 per cent compared to 35.2 per cent for non-Māori) and less sustainable off-benefits outcomes with exits having less than a 60 per cent likelihood of being sustainable, compared to over 71 per cent for non-Māori.

The lower sustainability rate for Māori is telling – because Māori return to benefit sooner, and in greater numbers, they tend to have higher rates of long-term dependence. Any focus on Māori, therefore, needs to address the sustainability of exits as a means to reduce long-term benefit dependency.

*Intergenerational benefit receipt*

Previous actuarial valuations have identified that intergenerational benefit receipt is a major risk factor for long-term benefit dependency and is associated with higher and more complex barriers to employment (i.e. early contact with the benefit system, difficult childhoods, history of family violence, low education and skills, and mental or physical health problems). Around 75 per cent of the current liability is attributable to those clients that entered the benefit system before the age of 20.

**Table 1: average lifetime cost for clients by age at valuation and age at entry, for clients less than 40**

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| --- | --- | --- | --- | --- | --- | --- |
| **Age at valuation** | **Age first entering the system** | | | | | **Average** |
| **16-19** | **20-24** | **25-29** | **30-34** | **35-39** |
|  | $k | $k | $k | $k | $k | $k |
| 16-19 | 159 |  |  |  |  | 159 |
| 20-24 | 173 | 80 |  |  |  | 147 |
| 25-29 | 192 | 105 | 59 |  |  | 152 |
| 30-34 | 186 | 113 | 70 | 50 |  | 145 |
| 35-39 | 175 | 109 | 86 | 61 | 49 | 140 |
| **Average** | **178** | **98** | **69** | **55** | **49** | **147** |

Table 1 above shows that more variation in average lifetime cost is seen across age of entry, compared to age at valuation date. The future liability for clients currently aged 35-39 but entering in the 16-19 age band (about $175,000) is almost 60 per cent higher than those entering in the 20-24 band (about $109,000), more than double those entering in the 25-29 age band (about $86,000) and more than triple the average liability for those entering age 35-39 (about $49,000). On this simple tabulation, age of entry is in fact more predictive than current age in determining future cost.

These 18-24 year-old NEET clients are often distant from the labour market, as they generally lack the education or skill levels to make them employable – getting them closer to the labour market is a crucial step towards employment and this requires working on their employability.

**Performance of the System**

The setting of the Work Programme requires an understanding of what works and what does not work. Trials are an important component of the investment approach, and the evaluation of trials will continue to provide the insights as to the impacts a trial is having on client outcomes – at which time MSD will decide whether to stop, continue or expand, and make trade-off decisions against existing interventions.

The performance of the system is essentially encompassed in the effectiveness of our employment-related interventions funded through the MCA. Determining the effectiveness of all the supports and services funded through MCA requires a diverse range of tools, chief amongst them a Return on Investment (RoI) framework. There is a significant amount of work underway across MSD to align its existing effectiveness measurement tools with additional ones to enable a more precise and timely assessment of how well our interventions are performing.

A key piece of future work to help assess the impact of our interventions in improving client outcomes is the RoI work being developed by iMSD together with the actuaries and the Planning and Analysis team.

*Return on Investment*

Knowing the effectiveness of employment assistance (EA) interventions is a pre-condition for calculating the RoI. Now that we have built a strong evidence base on EA effectiveness, the next stage is to build our capability to calculate the RoI for EA interventions. We plan to take a staged approach:

1. *Welfare Return on Investment*: working with the MSD actuaries, we are developing a measure of the actuarial RoI from a purely welfare perspective for each of the EA interventions. This measure will be in line with that reported in the Benefit System Performance Report, and will be included in this year’s annual effectiveness of MSD employment assistance report which is expected to be available mid-2017.
2. *Social Return on Investment*: our ultimate goal is to be able to assess the RoI of EA interventions from a society-wide perspective. The Social RoI will help MSD understand and quantify a broader spectrum of social costs and benefits e.g. taxable earnings, justice and health outcomes. The Social RoI will be developed in collaboration with the MSD actuarial team, The Treasury and other agencies to ensure consistency across the social sector in measuring and valuing social impacts. We intend to be able to include the Social RoI in the Cost-Effectiveness 2018 report.

***Employment Outcomes Multi-Category Appropriation***

MSD’s employment and income support activities are funded through the MCA. The funding flexibility provided by the MCA structure and the delegation of decision-making rights from Ministers to the MSD Chief Executive are key components to the investment approach. Understanding the effectiveness of current spend under the MCA allows MSD to shift funding to where it will have the highest impact on clients.

In the 2016/17 year, around $384 million, or 57 per cent, of total MCA funding was spent on employment activities, with the remainder spent on income support. As we move into 2017/18, total MCA funding is forecast to reduce to $644 million, with the reduction principally occurring in income support activities, as transactional activities from the Simplification Programme flow through to a reduced cost to serve in this area. Employment investment remains relatively constant.

MCA funding movements between 2016/17 and 2017/18 are summarised in Figure 9 overpage.

**Figure 9: Consolidation of Movements from 2016/17 to 2017/18**



Figure 10 below summarises 2016/17 investment and proposed 2017/18 investment assuming no change to the mix of clients receiving employment services.

**Figure 10: Consolidated MCA Financial Spend Comparison (2016/17 to 2017/18)[[2]](#footnote-2)**



*Nature of costs that make up the MCA*

Overall the MCA reduces by $35 million in 2017/18, entirely in the Income Support category. This largely reflects the continuing impact of the Simplification programme, which is driving an increasing proportion of income support activity towards digital channels, with a corresponding reduction in cost.

It is important to note that in 2016/17, around 46 per cent of total costs underlying the MCA comprised direct personnel and administration costs relating to 3,750 staff, around 29 per cent related to third-party contracted services such as Training for Work and Flexi-Wage, and the remaining 25 per cent is supporting infrastructure, such as IT, property and corporate support costs.

**2017/18 *MCA Investment Mix***

As MSD continues to strive to achieve BPS 1, we have to increasingly invest in clients with high barriers to employment who are generally further away from the labour market. Current interventions are not working for all these clients, requiring new ways of working with clients that have health conditions or disabilities, and NEET clients (many of which are Māori).

The proposed percentage spend on employment and work-readiness interventions has increased compared to 2016/17 to reflect the increased focus on the supports and services that will enable us to achieve improved employment outcomes for the clients that are the focus of the 2017/18 Strategy.

In the 2016/17 Strategy, MSD set out a new contract funding mix to reflect a different approach to investing in clients, essentially:

* JS-WR: 50 per cent
* SPS: 30 per cent
* JS-HCD and SLP-HCD: 20 per cent

Reducing the proportion of spend on JS-WR without an adverse effect to the overall liability does take time to implement, as although this client segment has shorter durations on benefit, large numbers of people flow through benefit category.

This new structure was a significant shift in contracted services for regions and specifically for providers. Regions have been working with providers to ensure the right clients are receiving all the available support to ensure improved employment outcomes. Regions and their providers are still learning about how to best manage this increase in contracted funding for HCD clients, building provider capability and understanding what the right interventions are to successfully work with this cohort.

Consistently achieving the 20 per cent spend on the right clients (which includes JS-HCD and SLP-HCD, some of which have permanent, severe disabilities) across all regions will require more time, so it is proposed that the contracted funding split continue at the same levels as in 2016/17. We expect more accountability by regions in meeting the different spend. To that end, regions will report the expected spend and volume for each group within their plans. Further, National Office will report and measure the volume and investment for each cohort by region.

However, achieving BPS 1 is likely to require a bigger shift towards working with HCD or higher liability clients. To try and determine what a reasonable shift would be, different scenarios were calculated showing what increasing the number of HCD clients streamed into active case management would achieve, in terms of increased exits and actuarial release.

Currently, we stream around 33 per cent of HCD clients into active case management (this is equivalent to around 20,000 clients). The different scenarios we have developed are based on an increase from this 33 per cent. For example, based on past experience, if we compare the “status quo” (i.e. streaming the same number of clients in each segment), with an increase to 40 per cent of HCD clients into active case management, we would expect 100 less exits and $5 million less in actuarial release. The comparison is even starker when viewed against an increase to 50 per cent of HCD clients into active case management, where we estimate achieving 230 less exits and $10 million less in actuarial release.

These estimates use average exit rates over the last 4 years which had higher outcomes for JS-WR.  Over the last 2 years’ experience, the exit differences are closer between JS-WR, JS-HCD and SPS, which indicates that there could be small gains in BPS results if more HCD clients are streamed to one-to-one case management services.

In line with this proposed shift, the MCA spending profile for 2017/18 accounts for an increased focus on HCD clients where MSD aims to achieve improved off-benefit outcomes. MSD has set an internal target to reduce clients with a medical barrier to employment from 148,476 to 147,244, which equates to a decrease of 1,232 clients (or 0.8 per cent decrease).

MSD also aims to align the proportion of Māori clients on benefit with the proportion of the total population, as well as reducing the number of 18-24 year-olds in receipt of a benefit (from 44,496 to 42,690) and reduce the number of children growing up in benefit dependent households.

**Future Focus and Areas of Opportunity**

*Encouraging Innovation*

In order to improve outcomes for clients with complex barriers to employment, MSD will need to be more innovative in the range of interventions it offers. The 2016/17 Strategy outlined the need for MSD to ensure there is a systematic, inclusive process in place which encourages contestability in the generation, development and testing of ideas for reducing liability. MSD needs to gather and encourage the generation of ideas from as diverse a range of sources as possible, including other government agencies, NGOs, academia and the private sector.

This has been a strong focus for MSD over the first half of the 2016/17 year, and good progress has been made in developing approaches that are effective for Māori and HCD clients in line with the focus areas of the Strategy.

MSD has been increasingly working with a range of organisations (such as Non-Government Organisations (NGO), District Health Boards and Primary Health Organisations) over the last year to identify a commonality of clients and new ways of working with these clients. These working relationships confirm that the clients identified in the 2016/17 Investment Strategy are the correct ones to target more closely; and that their high barriers to employment – meaning they are increasingly more distant from the labour market – require more intensive support and innovative ways of working with them.

We are in the process of establishing a strategic partnership with the Health Research Council to engage the research community to test innovative ideas to help clients live better lives by achieving employment outcomes and to fill knowledge gaps related to clients with mental health conditions.

Additional on-going work aimed at understanding approaches that will help achieve improved outcomes for HCD clients is the Proof of Concept with Orion Health, which tests whether integrating health and welfare data helps achieve improved outcomes for mutual clients; and the work with the National Hauora Coalition that tests new approaches around the provision of Work Capacity Medical Certificates by GPs and associated interventions to support mutual clients to return to work sooner.

MSD will continue to build on its growing relationships with NGOs. Where there are existing joint relationships in place, MSD will alert these agencies of the upcoming public release of the Strategies and use these existing relationships to help MSD tap into a wider pool of organisations to ensure as wide coverage as possible of new and innovative ideas to help achieve BPS 1.

*Testing our approach and ideas*

In terms of testing any new and innovative approaches, MSD set up a BPS 1 Senior Officials’ Group (SOG) to test any different approach to working with clients that have complex needs. The idea is that the SOG will act as a sounding board to ensure the cohorts of clients identified within the Strategy are the right ones, to help determine where there may be a crossover of interest and to help implement where appropriate. We will outline the contents of the Strategy at the May 2017 SOG meeting.

MSD will also engage with existing reference groups to test the Strategy, for example with the Māori Innovation Reference Group – a group consisting of prominent Māori leaders from across the New Zealand private sector. We expect to share the contents of the Strategy, especially how it relates to Māori, at the next meeting which is likely to be in June 2017.

***Taking an investment approach to social housing***

MSD established its social housing function in 2014, with the transition of social housing needs assessments and associated functions from Housing New Zealand. Since then, MSD’s primary focus in this area has been on assessing people’s need for social housing, securing the supply of social and emergency housing places and managing social housing demand. In October 2016, MSD secured funding to develop an investment approach and strategic purchaser function for social housing. MSD is now in the process of putting the building blocks for an investment approach to social housing in place, which will enable us to take a more strategic approach to social housing and utilise social housing to achieve wider social outcomes, such as improved health, further education and training and sustainable employment.

The first Housing Investment Strategy will be a starting point based on the information that is currently available – housing data is challenging and complex due to unreliable elements and the underlying complexity of the system; much of it is also managed manually as the systems that hold this data are not yet well integrated. In addition, a number of the building blocks for an investment approach are not yet in place and will be developed in tandem with the first Strategy. MSD’s approach will mature over time as new data, subsequent evaluations and an understanding of cross-sector impacts enable MSD to hone its approach.

The welfare and social housing valuations have been built using the same model which enables a view of joint liability and will allow MSD to design and evaluate interventions across both systems. In future years, the Housing Investment Strategy and Employment Outcomes Investment Strategy will be combined to enhance how it delivers services across both welfare and housing, based on a more holistic view of the drivers of clients’ risk factors for dependency across both systems.

***Working differently with Employers***

Employer Services are currently implementing an Employer Strategy, which will use various data sources to build the foundation for the delivery of differentiated employer service offerings based on an employer’s ability to provide sustainable employment outcomes for clients – investing more where we are likely to see a greater impact.

The redesigned Employer Strategy went live in the Auckland region in late 2016 supported by Job Connect through centralised vacancy management and a new centralised work brokerage function. This will be expanded to Northland and Central regions early-2017.

The regions have begun the iterative-design and monitoring phase, ensuring the development and practical application of the Strategy’s elements. Evaluation and assessment in mid-2017 will give Employer Services an opportunity to further refine, analyse and plan for the further implementation of regions during late 2017.

Some of the intended improvements to Employer Services investments are outlined below:

* Taking a wider view of the labour market through the introduction of analytics and data-matching to help inform employer engagement and to build a better understanding of the businesses and sectors that are likely to support greater outcomes for our clients.
* Assisting in the development of training material for work brokerage and testing the specialisation of the Work Broker function.
* Employer and Provider contracts will be negotiated based on an increased focus on HCD clients.
* A focus on an increased share of SPS and HCD clients into programmes by deliberately engaging with employers who have a corporate social responsibility lens.
* Support Immigration New Zealand’s policy change whereby employers must engage with Work and Income as a recruitment source prior to supporting an immigrant’s visa application (giving us access to around 10,000 vacancies we previously did not have).

**Conclusion**

Since the implementation of the investment approach, MSD has made considerable strides in reducing long-term benefit dependence. Most of the supports and services available to clients enable them to achieve improved outcomes, ideally resulting in sustainable employment. However, not all our current mix of services work for all of our clients – there are a growing number of clients who have high barriers to enter employment, who require different types of services to those we currently offer.

Working more intensively with clients that have high barriers to employment requires not only the need to understand what some of the underlying issues are that clients may be facing, but designing and implementing bespoke interventions (usually in the form of trials) that will help them achieve improved outcomes.

Increased focus on the cohort of clients identified as areas of “management concern” will require a shift in how and where we invest our resources. We have already made a start by working more intensively with HCD clients, by streaming a greater number into active case management, and by increasing the amount of contracted spend. This is another step towards understanding what works best for these clients.

Similarly, we need to better understand what works best for the other cohorts of “management concern” and implement interventions with new and innovative ideas, as current interventions are not achieving the desired outcomes. Designing and implementing innovative interventions requires funding, which MSD has successfully bid for through recent Budget processes.

MSD is striving to fully comprehend and manage its employment-related funding within the MCA in order to use its flexibility to fund any new trials or other interventions by prioritising investment decisions based on RoI or in some cases, its predicted success in stair casing clients into employment.

The development of the tools that will allow the measurement of the efficiency and effectiveness of our investments, along with the knowledge we are continually acquiring and the trialling of new and innovative approaches will be invaluable in helping us achieve the targets established for the cohorts of clients identified in this Strategy.

1. Actuarial release is defined as the difference between a current and previous estimate of the liability. The measure attempts to isolate the impact of collective Government management on beneficiary numbers. Adjustments are made to remove the impact of interest and inflation rate changes on the liability and other factors beyond the control of management. [↑](#footnote-ref-1)
2. The 2017/18 cost allocations are indicative only and will be completed when Service Delivery 2017/18 budget allocations are finalised. [↑](#footnote-ref-2)