

SECTION ONE: GENERAL CONSIDERATIONS

A. INTRODUCTION

1.1 The Government decided shortly after taking office to initiate a Ministerial review of the Department of Work and Income (DWI) in the light of the public controversy which has persisted, virtually from the inception of the organisation. Prior to making decisions on its future direction Ministers wanted to have an independent, external view of the reasons for the establishment of the department, whether the objectives set for it by the previous Government had been achieved and what further changes might be necessary to ensure DWI had the capacity to implement the new Government's policies and programmes. The terms of reference for the review, agreed by Cabinet at its meeting on 14 February 2000, are attached at Annex A.

1.2 The Minister of State Services was asked to direct the review and he obtained the agreement of his colleagues to the appointment of Don Hunn, former State Services Commissioner, as the reviewer. In turn, Mr Hunn (in consultation with the Minister, the State Services Commissioner and the CE of DWI) put together a team to assist him with the review comprising, in addition to himself:

- Mel Smith, Consultant, former Acting CE of Government Superannuation Fund and Deputy Secretary for Justice
- Catherine Cooper, Service Development Manager, DWI
- Tanya Howlett, Advisor, State Services Commission
- Anne Jackson, Consultant (formerly of SSC and the Department of PM and Cabinet)
- Kim Shannon, Consultant (formerly of SSC and the Ministry of Education)
- Ann McAdam, Research Assistant (formerly of the Department of Social Welfare and Telecom)

Sue Loughlin and Gordon Thomson of the State Services Commission were made available by the Commissioner to assist with some staff focus groups.

B. METHODOLOGY AND FORMAT OF REPORT

2.1 The review commenced on 14 February 2000 and was completed on 8 May 2000. At the outset the Minister stipulated that the maximum use was to be made of Public Service resources. This has been done throughout the review. Significant contributions have been made by DWI management and staff, the Ministry of Social Policy, the Department of Labour, the State Services Commission, the Treasury and the Department of the Prime Minister and Cabinet. Other departments have provided comment from their perspectives.

2.2 Initially it had been intended to conduct a formal survey of DWI clients and stakeholders. However, after discussing this proposal with the Government Statistician and his staff, it was decided that the difficulty, time and cost of formulating a survey methodology which would provide meaningful results were such that it was preferable to rely on other approaches. Accordingly, the following were the principal sources of information:

- a) a wide range of documents provided by Parliament and Government departments, (and particularly from DWI itself);

- b) a questionnaire to chief executives of 18 government departments and Crown entities and follow up interviews with 17 of them;
- c) a questionnaire to 249 DWI stakeholders;
- d) 153 public submissions in response to an invitation issued by the Minister of State Services;
- e) 108 submissions representing 228 DWI staff;
- f) meetings with 35 focus groups drawn from DWI staff around the country;
- g) 4 meetings with beneficiary advocacy groups representing 14 beneficiary advocacy organisations;
- h) interviews with a range of groups and persons with particular knowledge of, or interest in, DWI.
- i) interviews with current Ministers and with Ministers of the previous Government.

Overall almost 1000 persons have contributed to the review.

2.3 The information gathered as a result of (b), (c), (d), (e) (f) and (g) above has been summarised and is presented both in this overview and in some detail at Annexes B, C, D, E, F and G. Undertakings of confidentiality have been given to DWI staff members but the remaining submissions will be available to Ministers and policy advisers should they be required.

2.4 In order to provide Ministers with the essence of this extensive range of information and opinion, indicative of the widespread interest in the review, this report is presented in the form of an overview which includes a summary of findings and suggestions, together with a series of annexes. The annexes cover some of the information sources, as outlined in the previous paragraph, as well as a number of specific issues on which it was thought Ministers might like detailed comment.

2.5 While the whole team was involved in putting together elements of the report, the judgments made in both the overview and the specific issue annexes are the sole responsibility of the reviewer. The review team would like to acknowledge here all the assistance it was given in compiling this report. The co-operation it received from all those who provided information and comment was greatly appreciated. Regrettably in a document of this kind it is not possible to record all of the concerns and reflect all of the perspectives, but it is hoped the major issues have been revealed for Ministerial consideration and decision.

C. NATURE OF THE REVIEW

3.1 It is essential, at the outset, to define the nature of the review. This can best be done by describing what it is and what it is not.

3.2 It is an organisation review which is to say that it is concerned with the origins, objectives and performance of DWI as an agency of Government. The purpose of the review is to examine the reasons for the establishment of DWI, whether it has achieved the objectives set for it, what issues have arisen in the first 18 months of its existence and what adjustments may be necessary in the light of the new Government's preferences and directions (from both an owner and a purchaser perspective). The Minister of Social Services and Employment described the review as being tasked with "issuing a warrant of fitness".

3.3 It is not:

- a) a review of individual performance or accountability. The Solicitor-General has made it clear that the State Sector Act is explicit in respect of these matters as they apply to Chief Executives and members of the Public Service. Only the State Services Commissioner may review the performance of a chief executive and only a chief executive may review the performance of an individual employee. In the case of DWI, given the active leadership style that has been adopted, it is difficult to separate the person of the chief executive from any consideration of the organisation. Equally, reference has had to be made to senior management: this is not directed at any individual. Consequently, the judgements made in this review should be seen in the wider organisational context described above and should not be seen as a performance assessment either of the chief executive or of any staff member. Those personal judgements are for others to make;
- b) a review of welfare or employment policy. At the same time it must be recognised that policy and organisational issues are so entwined that it is not possible to avoid commentary on some aspects of policy, particularly as it affects strategy, capability and performance measurement;
- c) a review of particular cases raised by DWI clients. The team has received a great deal of information concerning the difficulties faced by individual clients, particularly as the review coincided with the public outcry over student loans. The team is not in a position to investigate in these cases, this will have to be sought by other means. However, the information itself has been invaluable in providing an insight into the problems encountered by clients as they interact with DWI.
- d) a review of student loans and allowances, the Community Employment Group or the Wairakei “charter” incident. While the team has commented on these matters, since they bear directly on the organisation’s performance, detailed reports have been or are being prepared by others and it was not thought necessary to duplicate them. However, these reports and the subsequent work on them should be included in the documentation for any follow-up to this review.

3.4 In setting down the limits to this review it is worth noting that inquiries of this kind are normally carried out under the State Sector Act or the Commission of Inquiries Act. In this case Ministers preferred an approach which was more directly tied to their decision-making processes. They may do so in future in other, similar, situations. It would be inappropriate for this review to make any recommendations on the matter but Ministers may want to consider the general questions arising from Ministerial reviews and perhaps include some reference to them in the Cabinet Manual. The essential point is that the limits on a Ministerial review are such that it can be difficult to get to the nub of the problem.

D. THE NATURE OF THE PROBLEM

4.1 As the submissions to this review show, and as our interviews have confirmed, the nature of the problem depends on one’s perspective. The decisions that must now be made by Ministers are at a different level from those which will make it possible for staff to do their job. Nevertheless, because all the parties from Cabinet to Case Managers and their clients must work together to achieve the ultimate objectives of Government and the electorate, it is important to understand and deal with the issues at each level. This review is one attempt to do so: because of the complexity of the matters involved, however, other contributions will be necessary for balanced decisions and clarity of future directions.

4.2 On the face of it we are confronted with a paradox. On the one hand the organisation has achieved a great deal in a relatively short time, given the size of the task and the period of years normally required for a major restructuring of this kind to succeed. In broad terms these achievements were acknowledged by the previous Government which was responsible for the concept of the department, the policies on which it was based and the implementation framework during its first twelve months of existence. DWI has fulfilled its organisation integration goals before time and within budget, it has put together the largest government department in the country with extraordinarily difficult tasks to perform, it has introduced significant new policies and accepted additions to its responsibilities and it has done all this while covering the Government's main risk, namely the possible failure of the benefit system.

4.3 On the other hand, the organisation finds itself the object of severe criticism and ridicule around the country. In twelve months it has managed to alienate the public, parliamentarians, colleagues, clients and their advocates, tertiary students and university administrators, the media and members of its own staff. It is not surprising that Ministers have concerns as to the department's ability to implement their decisions. The cost of success has been very high indeed.

4.4 The Annexes to this report illustrate the criticism that has been levelled at the department. They also describe the formation process and attempt to reach a balanced view on the organisation's performance - it has met the organisational goals for the initial period but the principal employment policy objectives, the *raison d'être* for DWI's existence, remain elusive. Some annexes deal with specific issues within the review's terms of reference.

4.5 But none of this material explains fully what has marred a potentially impressive performance. Some of the criticism was to have been expected as part of the teething problems of setting up such a large and sometimes unwieldy enterprise. Some of it has stemmed from the "shoot the messenger" syndrome: work first and benefit reductions are not universally popular. Some of it derives from disagreements during both the design and implementation phases which have yet to be settled and cannot be settled by DWI alone.

4.6 There is a great deal more to it than this, of course, but this review can only go part of the way in exploring the reasons for apparent failure. It has been made clear to us, as we have already pointed out, that certain matters are beyond our authority while others are not within our terms of reference. Ministers will need to take those other matters into account as well as those described in this report.

4.7 We have referred in a subsequent passage to the "unique" nature of the "experiment". Equally significant has been the political context. The welfare sector and its administration are at the heart of politics in this country. Nothing and no-one can escape criticism. While media attention has not been as unrelenting as it has been over the past year, welfare departments have always had to work within a highly politicized environment which generates constant criticism. From a media perspective, also, individual hardships (often arising from a few mistakes among hundreds of thousands of routine successes) generate human interest stories which support the journalists' central theme that inherently bureaucrats are bunglers. The special feature in the case of DWI was that the structural solution was a political solution. The department was not set up, as most are, to provide people and processes to implement whatever policies are directed to it: in this instance the department was the policy. It was natural, therefore, that it attracted political attention from the beginning being seen as the instrument of a particular point of view which was not accepted

by many. Consequently any failure has been drawn on as evidence that DWI is flawed - in the eyes of some, fatally.

4.8 The department has not helped itself by continually adding to this volatile mixture, or, rather, by appearing not to be able to avoid mistakes. It can claim that a number of its errors were no worse and, in some cases, not as bad as those in other public sector organisations. But it cannot overcome the poor impression created by what seems to the public to be a series of mishaps. Perceptions have been formed from a regular diet of stories office fit-outs; the sale of personal information; the disastrous Wairakei affair; corporate activities such as mock weddings at managers' meetings; the pay-offs and resignations of staff; the problems first with student allowances and then, despite assurances to Parliament, with student loans. All of these, with the inexorability of Gresham's Law, have overshadowed the achievements and undermined the department's public credibility. It is to be hoped that the department has learned from this that it does not matter whether others have sinned more than it has or that others must share the responsibility for some of these things, it is inescapable that it is working in an environment where a reputation either for waste and extravagance or for systems failure will create so many difficulties and divert so much management attention that it will not be able to do its job properly. As much as anything the contrast between what is perceived to be carelessness with the taxpayers' money and the distressed circumstances of many of the department's clients, has raised doubts over appropriateness and thus of competence, which will take some time for DWI to dispel.

4.9 One aspect to consider in the light of the current Government's views is the corporate business culture which DWI has pursued - initially, the product both of the origins of the former Employment and Income Support Services and of the service delivery approach of the ITT. The current DWI management has added its own dimension to the original concept. Reference is often made to DWI "running one of the largest businesses in the country". One businessman has commented to us that a Government monopoly in facilitating transfer payments is not a business and that to portray itself as such is misleading - DWI has no competitors and therefore it has no "customers" because its clients have no choice.

4.10 There are other examples of the influence of the corporate culture. For the purposes of this discussion of the nature of the problem perhaps the most important is the "*can do*" style which typifies DWI's approach to problem solution. The upside of it is the drive to achieve and to overcome major obstacles. It took well-developed organisational skills and highly focused managers to put in place the full structural integration model and to implement *work first* and the community wage within DWI's first 18 months. The reverse side is the danger of over confidence, as would seem to have been partly the reason for the student allowances/student loans episodes, and the danger that staff will be put under such pressure that demotivation will lead to an inability to cope. "*Can do*" has also left the impression with others that DWI is insufficiently analytical when it is faced with problems and that it tends to say "just leave it with us and we'll get it done our way". Unfortunately, in the light of the matters already mentioned along with others such as the use of consultants, "our way" has become identified with the notion that "if you throw enough money at it, you'll solve it". In fact, DWI points to all the work it has done since the Wairakei incident to improve its financial controls, to tighten expenditure and to establish a probity programme. For our part we have noted in the annex on IT, the department's risk averse approach in that area. Nevertheless, DWI is still left with the problem that it takes considerable time to repair damage of this kind and it will have to prepare itself for the long haul of allowing observed changes in behaviour to speak for themselves.

4.11 One final point to be made in this definition of the problem which faces the Government arises from its wish that DWI become more departmental in its style. There are two aspects to this – one internal, the other external. Internally, the dominant culture, as described below, is that which derived from the Income Support Service and it tends to be process driven and prone to rigidity. If Ministers make decisions, which, for example, split the employment and benefit functions within the organisation, there will have to be a corresponding culture shift to encourage greater flexibility on the employment side. Moreover, the high performance culture DWI has encouraged has certainly improved productivity in some areas but it has created tensions and the organisation will need to be careful its demands on staff do not outstrip their capability.

4.12 The Review Team has discussed the matter of external relationships with DWI and while we both agree there is an urgent need to improve them, we differ considerably on the extent of the task and the cause of the problem. As we understand it DWI's view is that it is not inherently inwardly focused but it has been obliged by the need to concentrate all its efforts on achieving structural integration, to give priority to internal issues. This has been exacerbated by the diversion of management attention to deal with all the enquiries and reviews that have taken place (including this one). DWI can now see its way ahead to giving a higher priority to developing external relationships and has already begun to do so.

4.13 For our part we see the issue as more fundamental than this. It is a result both of the corporate business culture and of inexperience in what the rest of the country calls "the Wellington game". The corporate approach tends to emphasise the importance of the single organisation as it strives to compete in an unforgiving world. It stresses difference, taking charge of one's own destiny, a unique mission, vision and strategy - all of which are aimed at the bottom-line. There is less emphasis on collegiality, the collective interest and a shared set of values across many organisations, which are essential to the running of the Public Service.

4.14 In our view this has its genesis in the origins as well as the experience of senior managers - again an observation which DWI disputes. There is no doubt the senior management group can demonstrate considerable Public Service experience, including working with Ministers, but the majority of them came from the Income Support Service where they were not part of the policy making or government relations functions. This is not a criticism; it is simply the product of a particular career development path. Certainly, it is an issue which is apparent to DWI's colleagues in other departments. In our discussions with departmental chief executives they felt DWI had failed to recognise the need for external consultation, seeking advice from senior colleagues and building useful relationships with those who had had long experience in the political/constitutional/legal environment. Even sharper were their comments on the effect of DWI's mistakes. While acknowledging that in most cases they were not aware of all of the background and that the media were giving the issues a very high profile, chief executives were perturbed about the behaviour that appeared to give rise to the political and public criticism. There was real concern that this was reflecting very badly on the Public Service in general and that the management, credibility and political and public faith in the integrity of the Public Service was being badly damaged. It was felt that the "corporate style" was not appropriate in public sector management. This style was not seen as a necessary prerequisite to good programme delivery.

E. CONTEXT AND SCOPE OF DECISION-MAKING

5.1 In considering the mass of material presented to the review, one is struck by the complexity of the issues and the degree of difficulty confronting any government agency operating in the welfare and employment sectors. There is nothing new in this, DWI's predecessors were subject to similar pressures and encountered similar hostility at some periods in the past.

5.2 In DWI's case the ambitious nature of the experiment in attempting to bring together such disparate streams of activity has been complicated by the problems the organisation itself has created. Some of the mistakes were the inevitable accompaniment of trying to do too much too soon. Others have demonstrated lack of judgement and experience. For their part the public and political leaders have made it very clear that certain behaviours are unacceptable and DWI has gone some way to meet the criticism. More will be needed to restore public confidence. Whatever else remains to be done to achieve this, the time has come to look beyond the personal issues and to focus on the big picture. DWI has an essential role to play in a sector which is fundamental to the well-being of our society. All of us as citizens have an interest in the success of the organisation charged with such important responsibilities.

5.3 The matters on which Ministers must deliberate can be viewed at various levels. The development of new strategies to give effect to the Government's social policies will require further articulation at each of these levels so that public servants who have the task of implementing the new policies are in no doubt as to what is expected of them. Once Ministers have made the major policy and strategy decisions and indicated their preferred method of implementation, it will be the responsibility of chief executives and their senior managers to ensure these directions are understood and acted on throughout their departments. To ensure this hierarchical management process works there must be clarity of purpose and procedure at each level.

Government Policy

5.4 For several decades unemployment has been at the forefront of governmental concerns and a number of solutions have been attempted with varying degrees of success. At times the problem has seemed well nigh intractable.

5.5 The previous Government's policies were directed to developing individual responsibility and self-respect and with reducing both welfare dependence and welfare budgets. One means of achieving this was seen to lie in establishing a single process together with the appropriate structure to manage it, by means of which all the elements of the benefit and skill training systems could be brought together with those government functions responsible for the employment service, community work and community employment. The idea was that if all the relevant tools could be assembled in the one place the chances of solving the problem of long term unemployment could be maximised. The result was DWI and "work first".

5.6 The Minister of Social Services and Employment has indicated he wishes to move immediately to introduce certain elements of his Government's platform, the first five priorities being:

- resolving the role and placement of the Community Employment Group;
- increasing the employment focus of the department;

- introducing a number of service delivery developments arising from the beneficiary advocacy consultation process he has initiated;
- improving the department's services to Maori and Pacific peoples; and
- bringing about a culture change in DWI – a culture which would appropriately reflect the role and responsibilities of a core Public Service department and encourage collaboration and co-operation with other departments to achieve Government's objectives.

5.7 In order to ensure the best fit between the new policy objectives and any consequent modification of the existing organisation, Ministers will need to satisfy themselves the problem to be solved has been defined satisfactorily. At present, a number of initiatives are being explored. The danger is that pursuing each of these initiatives separately will result in a series of ad hoc decisions. In making decisions about new structures or procedures it is advisable that Ministers should reach consensus on welfare and labour market policies; the nature and extent of Government interventions; economic, social and financial implications; strategic and capability frameworks; preferred modus operandi and so on. It would be advisable also to get a handle on the implementation and resource issues. Already there have been discussions in Cabinet on these matters. The Minister of Social Services and Employment has gone some way in defining both the Government's social policies and his own expectations, in public statements and in directions to his officials. Other Ministers have also contributed to the clarification of the Government's position from the viewpoint of their portfolios. It would now be useful to bring all this material together into a cohesive and consistent document approved by Cabinet which is transparent to the public, to the stakeholder groups and to public sector officials whose job it is to implement the Government's new social policy directions. This does not need to be a massive task nor take months to complete. Past experience has shown, however, that time taken at the outset to provide a policy setting and clarify objectives leads to smoother implementation.

The Future of the Public Service

5.8 The Government has indicated that it wants to bring about changes in the Public Service as a whole. This is not the place to explore that issue in detail. The point to be made in this context is that it is the duty of the Public Service to serve the Ministers of the day to the best of their ability and with the utmost professionalism; to implement the policies of the Government in power, and to give objective, high quality advice freely and frankly. The Public Service must do this in accordance with the law, the prevailing constitutional conventions and Parliamentary procedures and the Public Service ethic as set out in the Acts of Parliament, Codes of Conduct, guidance from Cabinet and the State Services Commission and elsewhere. Within this framework a wide range of behaviours is possible and it is open to any Government to determine what these are to be during its term of office. As far as DWI is concerned it would value greater detail on how the general requirements that are to be laid on the Public Service should impart on its service delivery role and its daily operations with its clients.

Governance

5.9 The governance arrangements for DWI are more complex and demanding than they are for almost any other department. Ministers will recall that during the establishment phase the previous Government debated whether the desired employment/benefit process could be achieved more effectively through "virtual integration" (i.e. a unified process through co-located units still attached to their parent departments) or through full structural integration. Having decided on the latter (and also decided to include the whole of the benefit system and not just that part of it related to unemployment) the question arose as to whether the new

organisation should be a Crown entity, based on a corporate business model, or a Government department.

5.10 In retrospect one has the impression that in deciding on the departmental option somehow the corporate business model became incorporated with it. (Certainly, corporate concepts of business practice, service delivery, branding and references to “customers” all pre-dated the establishment of DWI and the appointment of the chief executive). In a sense this was reinforced by the deliberate move to focus DWI on service delivery with limited policy functions, dependent on another Ministry for its IT and data management. In addition the dual MSP/DOL monitoring, purchase advice and performance evaluation process placed DWI in a unique position to which it has had some difficulty in adjusting.

5.11 The Responsible Minister in the previous Government (who has no objection to his view being recorded) remains convinced that the governance arrangements were appropriate in the context of his Government’s policy objectives. He considers that it would not have been possible for DWI to have achieved so much in such a short time if it had not been driven hard along the service delivery track. Equally, it was his Government’s clear preference to divorce DWI from a policy role (other than operational policy), to have separate purchase advice and, in view of its size and expenditure, to set up special monitoring arrangements - although the previous Minister has also observed that the monitoring and performance assessment arrangements could have become burdensome and it had been his intention, in due course, to concentrate them in the Ministry of Social Policy. In the event DWI had developed into a modern organisation which could have been a model to other Government agencies: he thought that the errors DWI had made had obscured its very real achievements.

5.12 There is no doubt, therefore, that the previous Government remained satisfied with the governance arrangements, involving DWI and other departments, and was generally happy with DWI’s overall performance in its first year. This is not to say the previous Government condoned the department’s mistakes; on the contrary they made their strong views known at the time. Nevertheless, it is probably fair to say that previous Ministers, being aware of the magnitude of the task and that it was likely to take at least 4 years before DWI would settle down, were more understanding than others of the pressures and the likelihood that errors would be committed. The important point is that the governance arrangements were seen by the previous Government as appropriate “within the context of its policy objectives.” The question that will arise, once the current government has decided on its overall policy direction, which is likely to have a somewhat different emphasis, is whether the existing governance arrangements should remain in place. At the least it will be essential to clarify DWI’s peculiar role as “solely a service delivery agency” and how the Government wants DWI to conduct its relationship with the two departments responsible for policy, purchase advice and performance assessment.

5.13 Without in any way reflecting on the integrity of the departments concerned, the question arises in the context of current evaluation theory and practice elsewhere, whether the same organisations should be responsible for both policy and purchase advice on the one hand and ex post performance assessment on the other. In this case, in the light of the major adjustments that are likely to be made and the continued uncertainty over the attainment of the principal policy objectives, it would make sense to confirm the current monitoring arrangements for the time being.

Organisation Design

5.14 The most interesting insight into the desired organising principle for DWI derives from the views of the Ministers, both the previous and current ones, and from the Cabinet paper which authorised the department's establishment and defined its two major objectives. In setting up DWI and in deliberately excluding it from a policy role (other than operational policy), the previous Government had it in mind that eventually DWI would become the State's principal delivery arm of social services and that the Ministers would provide the overall policy and purchase direction through MSP. It was for this reason that the Government passed the responsibility for student loans and allowances to DWI at such an early stage in its existence. The Government at that time was dissatisfied with the way the student schemes were being managed and satisfied that despite the risk of overload, DWI was the appropriate place for them.

5.15 The current Government, on the other hand, sees a more limited, albeit important, role for the department. The emphasis the new Government intends to place on economic development and the new structure it has set up for that purpose has meant that some of the activities which DWI has, or might have, undertaken at the local level might best be directed through the Ministry for Economic Development. The Minister of Social Services has indicated that this would refocus DWI on the task of managing part of the Government's investment in human capital development. The implication of this shift in emphasis needs to be worked through but it could have a significant effect on DWI's configuration and modus operandi.

5.16 Turning to the original Cabinet paper it is instructive to recall that the decision to establish DWI was taken in the context of a radical shift in employment policy and in the planning stage the organisation was referred to as the Integrated Employment Service. While the functions originally envisaged for the department included benefit reform and a contribution to "Strengthening Families", the emphasis was on minimising long-term unemployment and maximising community work.

5.17 In fact the largest proportion of DWI's core business is in paying benefits. (It is difficult to make a definitive calculation but one estimate puts the ratio at 30% employment placement/70% benefit related). Given that the performance of DWI was intended to emphasise employment placement it is little wonder that the systems which have driven performance management have produced some distortionary effects.

5.18 For example, the main service delivery model is based around case management and the relationship between case managers and work brokers. According to DWI this has proved a powerful tool, although its full potential has yet to be realised. Steps are in train to evaluate the model formally, following which it should be clearer as to what modifications are likely to enhance the delivery of the Government's outcomes.

5.19 Currently consideration is being given to going back, albeit within the one organisation, to the separation of income support and employment services. The majority of staff would prefer separation along the lines of work-tested and non work-tested clients. Whichever of these alternatives is preferred the problem of overload has to be solved. Further siphoning off the front end of the client base and reserving case management to be used in the most cost effective manner could be one way of doing it. Tied with greater specialisation and more flexible locally based work processes, the burden on case managers

could be lifted while the difficulties over benefit entitlements and special needs grants could be relieved.

5.20 The first step in dealing with these process issues would be to recognise that the dominant part of DWI's core business is the payment of benefits and that the main risk to the Government would be an inability or failure to deliver that service - as the publicity over the student loan episode has amply demonstrated. It is likely that such a recognition of reality in any redesign of the organisation, following the reformulation of the policy framework, would also help to ameliorate some of the other difficulties encountered by staff including the mismatch, as they see it, between what performance areas are measured and what they actually do.

Staff Matters

5.21 It is clear from the summaries of submissions presented in this report that the staff have come under immense pressure to meet the demands placed on the organisation. It was always going to be a difficult task to bring together such disparate elements and forge them into a single purpose organisation of a kind which has few parallels internationally. From the outset there has been a consciousness that DWI would be breaking new and uncertain ground. The task has been made immeasurably greater by some of the events of the past 12 months which have shaken the public's confidence in the "experiment".

5.22 The effect on management and staff has been profound. The constant criticism, the strength of what are often personal attacks, the perception that DWI lacks support "from the system" and the continuous reviews have had a demoralising effect and strengthened the inward focus which was implicit in the corporate business model. It was clearly understood from the beginning that it would take at least four years for an organisation of this size and complexity to shake down into the seamless operation that was planned. The unfavourable publicity that has been the accompaniment of the past twelve months has complicated the transition phase. In order to assist the organisation to emerge from this difficult period and to move forward, it will be essential to listen carefully to what the staff and field managers have to say about their experience at the coal face.

5.23 As it has moved around the country the review team has been impressed with the quality of the staff and their dedication to the success of the department's policy objectives. Despite both the public battering they have had to endure and their current uncertainty as to what is now expected of them, there appears to be a general consensus (with some significant exceptions) that the "one stop shop", the range of interventions available to them and the case management approach and the close working relationship between case managers and work brokers have produced an environment which they claim has increased substantially their ability to achieve the objective of reducing the percentage of long term unemployed. The enthusiasm of staff who have been able to exploit the new opportunities and resolve difficult cases (some clients who have been out of work for up to 10 years are now back in stable employment) is in marked contrast to other staff who are weighed down by the case loads or by the immediacy of meeting pressing needs for benefit assistance and are unable to apply the "work first" philosophy. (It is necessary to distinguish between the staff enthusiasm for the service delivery model, which is not questioned, and the efficacy of the model, which is).

5.24 To a degree the "one stop shop" has become a "one stop person" in the sense that clients (other than superannuitants, invalid beneficiaries and those on special programmes like Compass) tend to be directed to a single case manager when greater specialisation and a

team or cluster-based approach, together with other processes for groups with special requirements, might be more cost effective - and indeed this is already happening in some centres.

5.25 There is a call for much greater flexibility at regional and service centre levels so that local solutions can be tailored to local circumstances. The “one stop shop” should not be based on “one size fits all”. For its part, DWI accepts the time is opportune to consider greater flexibility but would prefer to see it expressed within the service delivery model rather than as a series of separate processes.

5.26 “Multi-skilling”, on which case management is currently founded is seen as an ideal but one which is difficult to attain. The complexity of the benefit system is such that staff estimate it takes up to two years to understand all its permutations. Taking into account the staff turnover rates of 13% overall it is evident that at any one time a substantial proportion of staff are not fully trained and require continual support. These turnover rates are not out of the way – the overall rate is in line with the Public Service average. But the implications of basing a substantial part of the operational model on multi-skilling need to be reconsidered.

5.27 Reinforcing this view of multi-skilling is the staff concern over training. The importance of training and the development of a range of skills to cope with the complexity of the task cannot be over-emphasized. There is already a huge investment in training - around \$9 m annually or 6% of payroll - and it is not likely that further funding will be made available even if that were the answer. Listening to the comments of staff there would appear to be considerable scope for reviewing the training programme once Government has decided on its future policy and implementation frameworks.

SECTION TWO: SPECIFIC MATTERS

The first part of this review has attempted to sketch out the broad issues which Ministers will have to consider in determining the future of DWI. This section is concerned with a number of specific matters which bear on the terms of reference and where some further comment may be useful to Ministers.

A. ORIGINS AND THEIR CONTINUING EFFECT

6.1 At Annex I the review has summarised the origins of DWI. It was not a simple process whether it is viewed from a political, policy or organisational perspective. It is not the purpose of this review to revive all the arguments that were traversed in 1997 and 1998, nor to assess the mistakes made and the lessons learned. Much of that is water under the bridge and we now need to move on. As far as concerns the lessons learned, that was covered in a joint SSC/Treasury report completed in December 1998 and the subsequent comments on it, which are part of the official record. A wealth of material exists for an in-depth assessment of the problems of merger in the public sector, but this is not the place for it. What is relevant to forward decision-making are those factors which survive from the organisation's origins and which need to be borne in mind so that any still unresolved matters can be settled.

Unique Nature of the Experiment

6.2 While New Zealand was not the first country to attempt an holistic approach to welfare and employment, there were a number of aspects of the "New Zealand way" which broke new ground. Certainly the previous Government was encouraged by international comment from some quarters that DWI was an innovative model of considerable significance to other countries with similar problems. In this respect it was at the cutting edge of international thinking with all the risks and potential benefits that that implies.

6.3 DWI was unique in other ways also. It was the first institutional expression of coalition politics - the personal "dream" of a senior member of one of the coalition partners which was redesigned to fit with the agenda of the other partner (and in that respect was seen as part of a continuum over a decade and a half of a progressive solution to the country's welfare and unemployment problems). It was part of the last major public sector reform in the social area which had, from the outset, been much more difficult to bring off than the economic reforms - and by the time it took place the electorate's taste for reform had dissolved. The unique quality of the experiment was intensified by the fact that it was an attempt at merger, whereas most of the change management experience had been learned in situations of down-sizing and the transfer of departments outside the Public Service. Organisationally DWI was unusual in that its focus was on reducing unemployment while the bulk of its work derived from managing the benefit system; it was set up as a single purpose service delivery agency without some of the functions normally associated with a Government department; it was subject to a dual monitoring regime in addition to the usual performance management and accountability structure - and differences of opinion on all three of these matters persist to the present day.

Establishment Issues

6.4 The questions described in the two previous paragraphs arose in the design phase. Other matters have become more apparent during implementation (some of these have been mentioned already). The original concept for amalgamating income support and employment

services had been developed when Government functions related to unemployment were separately identifiable. By the time of DWI's establishment the unemployment benefit had been integrated within the welfare delivery system as a whole and Cabinet had agreed that the client base for the employment strategy should be broadened to cover all working age beneficiaries. The result was that rather than attempting to disassemble the complex network of income support it was thought preferable to keep it all together in the one organisation. The practical effect of this was to render virtually unattainable any possibility of merger. One part of the new agency, with its own distinct culture and client orientation, was three times the size of the second largest component whose culture and orientation were quite different - the one internally focussed, the other externally; the one process driven, the other relationship driven; the one stressing uniformity and consistency, the other more free-wheeling and diverse. In the event it was not surprising that the larger took over the smaller; that the senior management team reflected one stream rather than the other; that the business process dominated the relationship one; that the service delivery corporate culture which had been evolving within Income Support and Employment Service over the previous decade became accentuated; and that centralisation and strong direction were the levers required to impose unity.

B. FUNDING

7.1 It would be foolish to comment in detail on the funding of an operation of this size without undertaking a full financial analysis - something which the review was not asked to do. It is necessary to point out, however, that the implication of some of the suggestions made to improve the management of the system - e.g. an increase in case managers, work brokers and receptionists - would be to increase substantially the cost of service delivery.

7.2 In view of the other demands on resources, it is unlikely the Government will be in a position to increase the organisation's operating budget. The choice then becomes one either of a reduction in service levels (since the problem of overload must be fixed) or of modifying the delivery model - for example, through differentiation or specialisation - so that the same level of service can continue. It could be that confining case management to the area of largest pay-off and intensifying and diversifying its use, while at the same time providing less resource intensive services for the bulk of the clientele, could lead to a higher level of performance overall. Only a thorough analysis of the various service models and the testing of options would clarify the cost of operating a system adjusted to meeting the Government's revised policy objectives.

7.3 Proposals have been made to enhance the current system so that it will be in a better position to fulfil the Government's objectives (e.g. the nation-wide introduction of "application line") but these also will depend on new funding or the transfer of funding from elsewhere in the operational budget. Such decisions cannot be made in isolation; they must be taken as part of the overall review of the organisation's future directions. Until the full scope of the Government's policy and delivery framework has been determined it would be unwise to foreshadow resource allocation alternatives.

7.4 A further general point on funding stems from the Government's intention to improve DWI's response to special needs and emergency benefit requests. Undoubtedly there is room for improvement, something the staff freely admit. There is equally no doubt the department must act as the gatekeeper to ensure the system overall provides the full entitlement to those

in need while simultaneously preventing abuse. It is not an easy task, often DWI is damned if it does and damned if it doesn't. Again, because of the strain on resources generally, however, it will be crucial to avoid the risk of fiscal blow-out. The implementation of new processes will require fine judgement, the exercise of informed discretion and careful listening on the part of hundreds of DWI employees. The maintenance of good records will be an essential requirement to protect both the client and the employee.

C. MAORI ISSUES

8.1 The significance of unemployment among Maori and its effect on Maori aspirations and development has been an issue for policy makers for many years. It has been re-emphasized recently in Te Puni Kokiri's publication "Closing the Gap". The sad truth is that as a nation we are making little progress in solving the problem. The proportion of Maori unemployed is twice that of the Maori population ratio (and very much higher than that in some regions). The proportion of Maori among the target group of long term unemployment is even higher. Viewed from this perspective, it would suggest that service to the Maori community should be DWI's prime focus. This, in turn, should be a major influence on the strategies, priorities and activities of the organisation and one of the determining factors of its modus operandi. The evidence produced to this review indicates that DWI has a long way to go in achieving the government's goals in this area and indeed, in some respects, the way in which the organisation has developed is at odds with the objective.

8.2 The Integration Transition Team picked up the issue in the strategic plan formulated for the launch of DWI, recognising "the significance of Maori as Tangata Whenua will continue to grow as will the aspirations of Maori for political, social and economic self-determination. At the same time the current disparity between the economic and social circumstances, including unemployment rates, of Maori and other groups in society looks likely to increase".

8.3 The ITT plan proposed "a regional and national partnership which recognizes the special place of Maori as Tangata Whenua in developing regional and national responses to address the barriers to self-sufficiency experienced by Maori". This was a promising opening but it was far as it went: there was no strategy to turn the goal into reality.

8.4 In the 18 months of its existence DWI has taken the concepts a step further with one of its four key goals being "to close the social and economic gap of Maori through work, education and training". The DWI Strategic Plan for 1999-2004 sees the outcome of this goal being achieved by:

- "participation of Maori providers delivering assistance and support to Maori;
- greater participation of Maori delivering response strategies;
- increased Maori participation and success in education and training; and
- the proportion of Maori customers (sic) not exceeding the proportion of Maori in New Zealand."

8.5 Like its predecessor, this plan contains no strategies as to how these outcomes are to be pursued at the national level. We understand the reason for this is that DWI thought the overall outcome was more likely to be achieved at the regional level through partnerships between the Regional Commissioners and iwi or other local Maori groups. In reporting to the

SSC in August 1999 DWI pointed out that the Maori outcome in the department's Strategic Plan was reflected in all the 1998/99 Regional Plans and included the following:

- establishing close working relationships and joint ventures with Maori and iwi organisations;
- consulting and seeking mutual solutions to Maori unemployment with Maori;
- developing and implementing specific local initiatives that meet local needs, particularly through Community Employment projects;
- utilising increased numbers of Maori providers contracted to deliver programmes and services;
- delivery of specific targeted initiatives designed to assist Maori; and
- tailoring mainstream programmes and services to Maori.

8.6 Certainly there is greater specificity in the regions: for example, the business plans for Northland and the East Coast (where Maori unemployment is reaching 60%) both have detailed programmes tailored specifically to Maori needs. We have not seen any documentation of the results of these programmes but at least there is a regional emphasis on the issue. Judging from the submissions to this review and the performance monitoring results this emphasis has yet to be realised in tangible results at the national level.

8.7 DWI appears to be aware of the distance it has yet to travel. The Ministerial Briefing Paper of December 1999 concedes that the significant income support and employment representation disparities in the Maori community "in large measure have been resistant to current interventions." The most recent (April 2000) DWI monthly overview of service delivery performance refers to the purchase agreement objective to reduce the volume of registered Maori unemployed to 28.5% by 30 June 2000 and says this "is proving to be a significant challenge". The same publication shows that the figures for customer development activity (training) and job placement are ahead of target, but the key figure for stable employment persists below target – and if anything the gap between the target and performance is increasing (at a time when the Statistics Department Household Labour Force Survey shows a drop in Maori unemployment).

8.8 While it is probably too soon to reach any firm conclusion, the question has to be asked whether DWI's current directions are likely to be any more successful than its predecessors. During 1999 DWI commissioned a comprehensive report on "the best approach for the delivery of high quality Maori advice on improving Maori outcomes". The report contains some good analysis and advice but it does not appear to have been taken very far as yet. Rather more promising is a recent DWI paper to the Associate Minister of Social Services and Employment which initiates discussion on "self-determining solutions for iwi and Maori to close the employment and economic gaps" and proposes the development of partnerships together with collaboration with Te Puni Kokiri, Ministry of Social Policy and the Department of Labour to forge new strategies and action plans.

8.9 In fact work on improving linkages with other departments has already begun. As part of the Government's "Closing the Gaps" programme, one of the work streams, led by the Department of Labour and including TPK, is tasked with producing a DWI Maori service delivery strategy. The Associate Minister of Social Services and Employment (Employment) has reinforced this in a letter of 21 March to the department directing that DWI work with DoL and TPK and setting out his expectations. For his part, the Minister of Social Services and Employment has also directed the CE that "the Government's focus on closing the gaps needs to be reflected throughout your Purchase Agreement (for 2000/2001). A more

comprehensive focus on, and specification of, the results achieved for Maori and Pacific Island clients across DWI's areas of responsibility is needed.”

8.10 The instructions are clear. Successful delivery will depend on the quality of the relationships DWI now forms with the Maori community which in turn will depend on the quality of DWI's understanding of Maori issues and the best ways of approaching them. The submissions received by the review team, which should be studied carefully by DWI, indicate that there is a considerable degree of scepticism to be overcome. The fundamental problem would appear to be that the culture, style and methods DWI has evolved to deal with individuals fail to strike a chord with many Maori. There is also disagreement with some of the basic concepts on which DWI operates. Te Puni Kokiri has presented an excellent submission to the review which contains some interesting recommendations. In the light of the higher profile the current Government sees for TPK it would be useful for DWI to establish close working links with that department and to involve it both in the planned discussions with iwi and other Maori groups and in the formulation of the detailed strategies that are now being considered.

D. KEY PERFORMANCE INDICATORS

9.1 There is a discussion in Annex L on the department's performance arrangements, including details on the key performance indicators and their links to the purchase agreement. This passage is intended to provide further comment on a matter which many have raised with the Review Team.

9.2 The department's key performance indicators (KPIs) generate considerable feeling, amongst staff, purchase and monitoring agencies through to beneficiary advocacy groups. DWI uses the indicators to focus staff attention on achieving Government's outcomes and to assist in individual, centre, regional and organisational performance management. KPIs also play a part in determining performance bonuses.

9.3 This emphasis and reliance on KPIs means it is imperative that they are an accurate reflection of the organisation's total operation, they are fair, transparent and achievable and able to reflect changes in the Government's priorities.

9.4 Staff have expressed concern about the strong focus on KPIs in their day to day working lives. There is a view that KPIs do not necessarily reflect the entirety of their workload and that individualising some performance measures makes staff responsible for achieving outcomes outside of their control. At the same time, staff do not deny the need for some form of personal performance measures or for site/regional performance targets.

9.5 The monitoring organisations have expressed concern about KPIs at a number of levels. There are unresolved debates about the feasibility of measuring quality employment outcomes, which are contentious internationally. Competing demands about what to measure place the organisation in a difficult position. The department has a wide range of responsibilities. If all tasks are to be measured, this begs the question of the number of performance indicators necessary to provide assurance and the subsequent compliance cost to the department.

9.6 The purpose of performance indicators in any form is to drive desired behaviours. An issue raised by both performance monitoring organisations and other stakeholders such as beneficiary advocacy groups is whether the current KPIs are designed to do this. Concerns are expressed about whether the indicators are driving the right behaviours or possibly skewing behaviour towards “undesirable” responses. This is exacerbated by the link to performance pay.

9.7 In terms of encouraging the “right behaviours” including high levels of performance distinctions need to be drawn between the organisation as a whole, the separate business units, regions, service centres and individual staff. At the highest level KPIs should indeed be “key” as those limited number of indicators which are the most important signals of performance. They are unlikely to be the same as those at the frontline and indeed a definition of “right behaviour” at that level might show that team indicators, as well as individual ones, could be preferable. The KPIs could be redesigned to ensure the right results are being obtained, and to include indicators that are material to the organisation’s performance and more meaningful to staff.

9.8 There is a need to get the right balance for the Crown in terms of assurance about achieving performance in crucial areas and managing risk, balanced against the potential for high compliance costs. KPIs are not the only means of measuring the department’s performance – the purchase agreement, the chief executive’s performance agreement and the State Services Commission’s departmental performance assessment provide other streams of performance advice.

9.9 At present organisational KPIs are not published externally. Publishing KPIs would eliminate misconceptions held in the community about rewards given for not granting beneficiaries their full entitlements. This is unfair to staff, who are measured on benefit accuracy and turnaround, amongst others, and are not encouraged by performance indicators, or any other means, to deny people their proper assistance.

E. STUDENT LOANS

10.1 The issue of Student Loans has been a high profile one since this review was established. The Terms of Reference for the review do not specifically refer to it but there is no doubt the handling of student allowances and loans bear directly on the perceptions of the organisation’s success or failure.

10.2 We have received a number of submissions about the student loan process and members of the review team have been contacted by students, parents and others expressing strong concern about what they have experienced or what they perceive to be a failure in the system and the management in DWI.

10.3 We have become aware that the Minister of Social Services has approved Terms of Reference to the Ministry of Social Policy requiring that Ministry, as part of its monitoring function, to undertake an evaluation of the processing by DWI of student loan applications. The MSP review will be required to identify and clarify delivery problems involving student loans and the extent to which students were affected; identify issues that contributed to delivery problems regarding loans, including delivery of student allowances; and to

recommend solutions to the problems to ensure that in the future the processing and management of student loan applications is efficient and timely.

10.4 In light of this parallel MSP exercise, we think it would confuse the issue if this review also commented at length on the issue of student loans processing and management. The information we have obtained and the submissions made to us will be made available to MSP to be incorporated in their findings and recommendations. It should be noted, however, that problems with student allowances, similar to those with student loans, were encountered when that responsibility was added to DWI's functions in 1998. At a subsequent hearing of the Social Services Select Committee, DWI gave assurances to Parliament that the experience with student allowances would assist DWI in coping with any problems anticipated with student loans. Following the evident implementation problems with Student Loans (the accountability for which has yet to be established) the Social Services Select Committee has recorded, at its Financial Review hearing in March, its strong views and serious concerns. DWI has been given notice that Parliament will be evaluating the programme again in twelve months' time. Parliament will then assess whether DWI's success in ironing out the initial difficulties with student allowances can be repeated with student loans. DWI is in no doubt, therefore, that Parliament expects a substantial improvement in this area.

SECTION THREE

SUBMISSIONS AND MEETINGS

A full analysis of each of these subsections are attached as annexes to this overview.

A. SUBMISSIONS FROM GOVERNMENT DEPARTMENTS AND CROWN ENTITIES

11.1 The review team sought to obtain a view of the policy and operational environment in which the department operates, including during the period of integration. The team also asked for any suggestions for improvements to the capability and performance of the department and associated organisations that could contribute to the achievement of Government's outcomes in the social service delivery area.

11.2 The questionnaire that formed the basis for responses was sent to 18 departments and Crown entities that have a working relationship with the department. Responses were received from 14. Interviews with departmental and Crown entity chief executives were carried out in tandem with the written questionnaire.

11.3 Respondents saw the integration and establishment of the new department as an enormous task, particularly in the short timeframe allowed and with concurrent substantial policy change. The subsequent addition of further responsibilities may have made effective performance in some areas unrealistic.

11.4 The process of integration is believed by those involved to have been difficult. This was exacerbated by sometimes difficult relationships between the parent departments and the Integration Transition Team.

11.5 The department is seen to be focused on internal management, to the detriment of external relationships. Respondents state that if these crucial stakeholder relationships are not nurtured there is a risk to the department that it will not be able to contribute to the delivery of the outcomes Government expects.

11.6 Many respondents acknowledge that in recent times the department is making more effort in building relationships, mainly within the Public Service. Some respondents report positive working relationships with the department, whilst others indicate difficult interactions.

11.7 There is some confusion around policy boundaries between the department, the Ministry of Social Policy and the Department of Labour on the part of other agencies. Related to this, some respondents suggested that the department would benefit from having a strategic policy capability, as well as operational policy capacity.

11.8 The majority of respondents feel that a high level of stability and certainty in the social service policy and delivery area would enable the department to focus on achieving Government's goals in this area.

11.9 Many believe that the department is capable of achieving high quality performance, albeit with changes to its operating style. These changes focus on moving from a somewhat

inflexible and doctrinaire approach to management, to one that reaps the benefits of diversity of opinion and approach. This includes encouraging flexibility of delivery solutions, inclusion of Maori and community groups in decision making processes, an appreciation of complementary working styles and the necessity of healthy debate and discussion in order to achieve positive, whole of government outcomes, particularly for Maori.

B. STAFF FOCUS GROUPS

12.1 Focus groups were held with 351 staff of DWI, from different positions and locations around the country.

12.2 Staff were mainly positive about the Department and integration, particularly integrated case management but were keen to raise issues they felt needed to be resolved in moving forward. They were consistent across the country although some, particularly those in the larger metropolitan areas, where the pressures tend to be greater, felt more strongly about them than others.

Service Delivery

12.3 Service Delivery staff were, in the main, supportive of integrated case management. They felt it improved their job satisfaction and allowed them to understand their clients' needs better. Many staff felt strongly about this and gave a clear message they did not want a separation of work and income functions. Rather staff preferred the idea of specialisation of work-tested and non-work tested clients to reduce the breadth of their role and the knowledge required.

12.4 A consistent issue for Service Delivery staff was workloads. Case Managers, Work Brokers and Managers all felt their workloads were too great and that this was limiting their effectiveness. Staff suggested a range of solutions including more Case Managers and Work Brokers, permanent receptionists, more support staff and reduction in administration.

12.5 KPIs were raised as a concern at all of the focus groups. The need for performance measures was acknowledged, but staff felt the focus on KPIs was too strong and that KPIs were did not count all their outcomes and were driving the wrong behaviours. Related was concern about performance appraisals. The linkage to KPIs, the individual nature of appraisals and the frequency were the key points. Some staff were positive about the new performance appraisals and felt they were an improvement on the previous system.

12.6 A theme that emerged from the focus groups was need for increased local flexibility to provide solutions for the widely varying needs in different sites. Consequently staff wanted to see more National Office consultation and front-line involvement in decision making.

12.7 Staff commented that training for Case Managers needed to better prepare staff for the reality of front-line work. The Team Coach role was viewed positively by most although, some staff saw the need for more support and training on site particularly for new staff on return from formal training courses.

12.8 Other issues for Service Delivery staff included the reliability and integration of information technology systems and the impact that media coverage and political criticism,

had on their morale and interaction with clients. (They reported an increase in tension with clients over the past twelve months).

12.9 A variety of views on culture and style emerged from the focus groups. Many staff supported the efforts the Chief Executive made to keep in touch with staff through visits and communication. Views were mixed on brand, offices, corporate wardrobe and terminology - while some expressed very strong views, others did not discuss them, did not see them as an issue or supported them.

12.10 Another theme to emerge from several of the focus groups was a desire for more consultation and discussion between front-line and National Office. Some felt that criticism was discouraged as being negative and that a safer environment for discussion was required.

12.11 Maori staff raised the need for more of a partnership approach with the Maori community and more focus on the needs of Maori staff and clients. Staff wanted more hui and developmental opportunities.

Call Centres

12.12 Call Centre staff feedback varied according to the Call Centre they worked in. The theme that emerged most consistently was frustration with technology, particularly issues with reliability and the inability to get new technology tools as required. Call Centre staff also talked about the need for better relationships with front-line Service Delivery staff and some Call Centre staff talked about their need for a clearer understanding of their direction and contribution to the DWI strategy.

Debt and Benefit Control

12.13 Debt and Benefit Control staff were generally satisfied with their areas but wanted more certainty about future their direction and what the new Government could expect from them. Like their Service Delivery counterparts Debt and Benefit Control staff were concerned about the media coverage and political criticism.

Overall Consensus

12.14 Overall staff who attended the focus groups were positive about DWI as an integrated organisation and many gave a strong message about not wanting to 'go back'. Staff did however, stress the need for improvement to be made in moving forward.

C. STAFF SUBMISSIONS

13.1 The staff of DWI were encouraged to make written submissions to the Review Team and 228 employees responded, mainly frontline staff. These submissions were given to the team in confidence.

13.2 A number of problems and suggested solutions were offered. These issues should be considered in light of the strong support for the 'one stop shop'. Staff feel that the integrated department is a step forward and should not be tampered with. Changes to the department to improve service to clients and achieving the Government's outcomes should be made within the current framework.

13.3 Identified problems from the staff were:

- the role of the Case Manager;
- the culture of the Department;
- staff morale;
- staff turnover;
- information technology;
- Key Performance Indicators;
- the impact of the integration of employment services; and
- Community Employment.

13.4 Service delivery staff identified these problems as they relate to their ability to perform for their clients. In order to achieve improved performance, those involved in service delivery would appreciate greater recognition of workload (as opposed to caseload), less rigidity in the use of KPIs and an IT system that is wholly owned by the department and that has a high level of reliability.

13.5 Specific issues mentioned were:

- case manager workload and the complexity of information required by an individual to provide an accurate service needs to be reviewed;
- some type of specialisation for case manager and work broker positions should be considered;
- the culture of the organisation must be able to recognise diversity of thought and allow for honest feedback;
- the need for a single national information technology infrastructure that is owned by DWI;
- Key Performance Indicators need to recognise quality of work alongside placement numbers;
- further work is required on enhancing the proactive role of DWI to help job seekers find employment and to work proactively with employers; and
- Community Employment requires urgent attention.

13.6 The desire for specialisation either by benefit type, work-tested/non-work tested or a demographic group or duration band is high on the list of solvable problems for service delivery staff.

13.7 Community Employment staff requested an urgent review of their place in the department. There were strong feelings that the community approach does not blend in well with the individualised focus of DWI and that the risk of being submerged in the department is very high, thus endangering the achievement of Government's objectives for community development.

13.8 A major theme running through many staff submissions was request for recognition of diversity of thought and honest feedback. The department is not seen by some staff to be a safe place to offer up constructive criticism.

D. STAKEHOLDER GROUPS

14.1 A letter was sent to over 200 stakeholder organisations that have a working relationship with DWI. Of these, 90 responded with a written answer. The majority of

respondents were voluntary groups but others included contractors with the department, tertiary institutions and local government.

14.2 The majority of organisations expressed qualified support with the services that the department provides. The “one stop shop” concept was generally supported, with a call for some degree of specialisation and a raft of suggestions for operational improvements.

14.3 All recommendations seemed to centre around an increase in resourcing levels or a business process review and resource reallocation: shorter waiting times for appointments; more private rooms; shorter waiting times for calls.

14.4 There was a strong call for improvements that revolve around being more externally “aware” – adaptation of offices, processes, communication to suit more than the elusive “standard client”. Such suggestions included forms in several languages, availability of policy manuals on disc and employment of liaison officers for migrant and other groups.

14.5 Stakeholder groups required more consultation and discussion, both nationally and locally. At present consultation was not felt by parties to have any meaning.

14.6 There were several recommendations to improve the quality of the training for case managers, including a focus on non-technical skills like conflict resolution, customer relations and understanding the needs of special client groups.

14.7 There was a suite of recommendations around student loans and allowances. Institutions felt that either the use of institutional staff by the department or a return to institutions managing the process would ensure that this year’s situation would not occur again. Greater liaison, such as institution staff having access to the department’s database, was another suggestion.

14.8 A few internal management improvements were suggested, including the establishment of an internal audit team to audit applications and quality of service delivery. Improvements needed to be made around benefit review committees to ensure neutrality. Wider communication of people’s rights in relation to review procedures also needed to occur.

14.9 Respondents stated that these issues could be remedied by a change in focus of management attention, not restructuring or other possible solutions.

E. BENEFICIARY ADVOCACY GROUPS

15.1 During March the review team held four meetings with a total of 24 representatives from advocacy groups around the country. Many of the issues raised were not new to DWI, but also existed in the previous organisations. An added complexity with the feedback from advocacy groups is separating what is linked to Government policy or direction, from issues related to DWI itself.

15.2 Advocates were concerned about the concept of benefit dependency and the assumption that benefit dependency is negative. While some advocates acknowledged that

this stemmed from previous Government policy they felt it was applied with inappropriate enthusiasm within DWI.

15.3 Restrictive implementation of policy was a particular concern with special benefit and emergency assistance policy and in their view resulted in front-line staff not applying the discretion or flexibility allowed in the legislation. They also raised concern that staff were encouraged to reduce payments through DWI's KPIs.

15.4 While some advocates were positive about individual DWI staff others complained that they had had difficulties with some staff and that Case Managers needed more training and should have lower case loads.

15.5 Advocates held mixed views on Call Centres - some talked about frustrations in access while others said Call Centres had made access to Case Managers easier.

15.6 Of major concern to the advocates was the area of benefit crime. Their view was that much 'crime' is not actually crime - it is either inadvertent or based on flawed legislation. They also claimed that DWI pursues benefit crime too far in investigation and prosecution.

15.7 Advocacy groups all appeared to have regular contact with DWI, both on an individual case basis and in terms of networking. They thought that, if adequately funded, they could play a larger role in providing clients with information and training DWI staff.

F. PUBLIC SUBMISSIONS

16.1 The Minister of State Services invited members of the public to make their views known. Written responses were received from 153 groups or individuals. There were also separate petitions presented to the Minister of State Services from students after a protest march through Wellington, (This contained 101 signatures) and a second petition from a political party (with 333 signatures) sent directly to the review team.

Staff attitude, knowledge and availability

16.2 The majority of submissions felt that staff were unavailable when needed for emergency appointments or phone access. Many of the submissions felt this was a result of high caseloads. Over half of the submissions commented on staff having a bad attitude towards them, i.e. "staff attitudes threaten and intimidate beneficiaries". On the other hand a number of submissions were complimentary about individual staff members. Submissions also commented on the fact that;

- often decisions and advice about entitlement were inconsistent and incorrect;
- the need for staff to receive more training in legislation and policy;
- that a level of specialisation might assist.

Communication problems

16.3 The 0800 service was perceived as not working by beneficiaries who responded. In almost all the submissions no one had been able to get through to a call centre on the first attempt. In fact many of the submissions stated that they had stayed on the phone for periods of between 30 minutes and one hour only to be cut off. There was also a number who commented that it took days for their case manager to get back to them, after leaving a

message with the call centre staff. The general demand was for this service to be urgently reviewed.

Beneficiary autonomy

16.4 Submissions from beneficiaries felt that what autonomy they had has been completely taken away by the removal of job boards and computers on which to complete their CVs. There was a unanimous request from all that raised this, to have these tools reinstated.

Environmental aspects of the office

16.5 There were a large number of submissions that asked the Department of Work and Income to provide areas where beneficiaries and staff could discuss information in a more private environment. Every one who spoke to this subject disliked having to discuss personal details within hearing of the person next to them.

Payment issues

16.6 All submissions that discussed student allowances and loans asked for this system to be reviewed. The issues with student loans include the staff issues and communication problems noted above as well as the delays in processing applications, causing hardship for applicants.

16.7 The new child care subsidy procedures (introduced in Feb 99) were also an issue for a number of submissions all of which requested this system to be reviewed and replaced with a more effective one.

Community Employment Grant Administration

16.8 There were a number of issues, mainly from training organisations that called for changes in the community employment area. The main criticisms were that the application process was not timely, the staff were very hard to contact and the system itself was inflexible and that there needed to be more delegation at the local level. There was a strong call for all these issues to be addressed as soon as possible.

SECTION FOUR

CONCLUSIONS AND SUGGESTIONS

17.1 The evidence presented to this review has indicated that while the Department of Work and Income has achieved some of its organisational goals, the policy outcomes remain uncertain. The review has concluded that the early predictions have been vindicated, namely that it would take something in the order of four years for the new organisation to put in place and demonstrate the efficacy of the fully integrated benefit/employment model that was planned by the previous Government.

17.2 The establishment phase of the department has identified a range of issues, some of them internally derived, some externally, to which attention must be given urgently. In addition, the change of Government has introduced significant changes both in the social policy framework and in expectations of the Public Service generally, which will have profound effects on the further development of the organisation.

17.3 At its inception in October 1998 DWI was already a large organisation by New Zealand standards. With the addition of responsibility for student loans and allowances its responsibilities have been extended. In the initial stages the original concept had been much more limited, being confined to integrating a range of policy instruments to provide maximum focus on the problems of long term unemployment and benefit dependence. The degree of difficulty of achieving this was emphasized by the conclusion of the early design group that “virtual integration” was preferable, either permanently or as a first step, to full structural integration. A strong influence on early thinking also was that if a new, separate organisation was to be set up it should be a Crown entity freed from some of the operational constraints which apply to a government department.

17.4 In the event, the decisions were made (following a thorough, if somewhat strained, process of deliberation) which greatly expanded the scope to include the whole of the benefit system. Inevitably this changed the balance not only within the proposed organisation but as between the parties to what was to have been a merger. Secondly, the weight of the argument came down on the side of moving immediately to a full structural solution separating out the component parts from their parent organisations. The departmental form was preferred to that of the Crown entity but it was to include some of the trappings which are associated with the latter and its closer affinity to the corporate business model. It was also a department with a difference, being almost exclusively confined to service delivery and subject in a number of key respects to the direction and review of the departments from which it had sprung.

17.5 These determining decisions were made much closer to opening day than had been envisaged. The speed of the final phase of preparation between the appointment of the Chief Executive designate in July 1998 and the 1 October start-up compressed the normal change processes, which themselves had already been complicated in the transition from design to implementation by consultants who had had little Public Service experience. The fact that the CE and the majority of the senior managers were drawn from one of the partners, reinforced the dominance of the larger over the smaller. A significant proportion of those who participated in the process assert that it was not a merger but a takeover, so that there was no fusion of what were quite different styles and cultures but the preeminence of one at the expense of the other – a phenomenon which is often the accompaniment of attempted

mergers. The result in the succeeding months was the departure of some key personnel and the loss of their institutional memory particularly on the employment side ie from that part of the organisation where the emphasis of the integration was to be given.

17.6 The material submitted to this review records not only these initial teething problems which had a significant effect on the direction taken by DWI, but also a number of other major issues which have emerged during the first 18 months of establishment – and paramount among these, in our judgement, is the loss of public confidence in DWI’s ability to carry out its designated task. All of these matters, together with the substantial shifts in policy settings and policy objectives intended by the new Government, have produced a situation in which a fundamental review of DWI and its further development have become essential. Nor is it simply a question of the Government’s making a new round of decisions stemming from this review and the other work that is proceeding simultaneously. It will be necessary – having made the appropriate decisions – to set up a comprehensive process of change management involving all of those agencies with relevant responsibilities. Such is the scope of the requirement it is likely this process should continue for at least a further 18 months to two years. This need not delay Ministerial decisions or the implementation of new policy initiatives but it will need to be recognised that these will have to be incorporated within a wider process of change management.

17.7 The first question arising from the review documentation is whether the “experiment” has failed. There are those who claim it has and that it was bound to fail because the original analysis was flawed. The balance of the evidence produced to this review would indicate that this view is not a general one. While the jury is still out on whether the original policy objective is attainable, sufficient experience has been gained to show that the integrated approach, based on case management, has considerable promise where it can be applied as it was originally conceived. There is also the practical consideration that the staff of DWI have undergone such pressure and uncertainty over the past three years ie since the design phase commenced, that a second full scale restructuring could pose a significant risk to the benefit system.

17.8 It will not be possible, however, to avoid a substantial realignment of the organisation with the Government’s policies and preferred approaches. This could involve some or all of articulating in greater detail the new policy frameworks, reconsidering the overall governance arrangements, redrawing the department’s charter and strategies, re-examining its capabilities and resources, reconfiguring the management structure, re-engineering the principal work processes, developing a style and culture which is more appropriate to the current Government’s preferences, and improving a range of important relationships (whether they be with Parliament, with other Government agencies, with iwi or with community groups).

17.9 A line should be drawn under the first 18 months of DWI’s existence and a second stage of organisation design and development commenced. In this second stage it will be necessary to reshape professional attitudes, styles, values, understandings, relationships – it is in these areas of the intangible that the Public Service department is differentiated from other types of organisation.

17.10 This work has already commenced with the indications that the Prime Minister and her Cabinet have given in the Speech from the Throne and other statements; the directions foreshadowed by Cabinet decisions taken so far this year; the statements on the Public Service by the Minister of State Services and so on. For his part the Minister of Social

Services has outlined his views on social policy in speeches and press interviews; he has specified his expectations of all those departments for which he has responsibilities; he has directed that the cultural shift he prefers should commence with changes in language and the perceptions that creates (eg. “clients” not “customers”; Department of Work and Income not WINZ); he has indicated that the “work first” approach should be modified and greater attention paid to special needs and benefit entitlements; he has met with the advocacy groups and listened to their concerns; he has initiated work on the future placement of the Community Employment Group and whether there should be a separation between the delivery of benefit and employment services; and he has begun to formulate a new strategy and capability framework for DWI which will lead to substantial modifications to the outcomes to which it contributes. (In due course, also, this will be reflected in DWI’s outputs). These signs are unmistakable. The need now is to bring all these elements together into two documents – one on social policy, the other on the Public Service – to expand on their practical implications and to produce guidelines both for the social policy departments in particular and the Public Service in general.

17.11 The point has been made already that the policy emphasis leading to the establishment of DWI has overshadowed the organisation’s prime responsibility which is to manage the benefit system. At the time the department was launched the possible failure of this system was seen to be the greatest risk to the Government and it is to the credit of DWI staff that despite all their vicissitudes, including the public furore over charter flights, pay-offs and student loans, all of which have had a demoralising effect on those at the front line, they have continued to ensure the many thousands of transfer payments are made each week. One important realisation arising from this has been that the most satisfying aspect of the task – the placement of unemployed, especially long term unemployed, in a stable job – is often swamped by the needs of clients who must have urgent help or who are not work ready or who have some routine question to be answered. The implications of this for job design and staff motivation should be considered along with the other organisation issues.

17.12 In respect of organisation design, the next step does not need to be confined to making adjustments to the original design to reflect more accurately the department’s core business. Sufficient experience has been gained to consider making greater use of the Regional Commissioners and to decentralise responsibility in accordance with the founding principle of the integrated delivery model. Whatever the justification for strongly centralised control in the initial stages, the time has come to give more thought to devolving responsibility while continuing to provide an appropriate level of support and guidance from Wellington. Marked regional differences, the achievement of the best fit between the available resources and local needs through local employers and local community groups, the ability to respond flexibly to the requirements of individual clients – all of these lay behind the emphasis that was placed on the roles of the Regional Commissioner and the Service Centre managers, the full impact of which have yet to be realised.

17.13 As already mentioned, the Minister of Social Services and Employment has observed that the Government sees this review as providing it with a “warrant of fitness” for DWI. From an organisational standpoint it can be said that in terms of the department’s basic systems these have been tested in the normal way through the annual assessments of the Controller and Auditor-General, the State Services Commissioner and the Treasury (although these are now somewhat dated). In addition the new monitoring process managed by the Ministry of Social Policy and the Department of Labour has examined the policy objectives on a quarterly basis. None of these assessments have pointed to serious administrative failure

of a kind which would imply the organisation is incapable of doing its job. (This includes the two important areas of financial and IT management). All of them, as is to be expected, have pointed to areas where improvements are necessary and DWI asserts that it is giving attention to these. For its part, DWI, while admitting serious errors have been made, is confident that its record over the first 18 months demonstrates its ability to implement Government programmes.

17.14 In terms of the policy objectives, the reason for the department's existence, the assessments are mixed. Again as might have been expected, those relating to benefit administration have proved to be easier to attain than those concerned with employment. At the same time there appears to be general agreement that the original concept of full structural integration together with case management (albeit with some reservations) have proved to be sufficiently effective in the initial stages as to justify the continuation of the department. There is also general agreement that further major restructuring would be inadvisable.

17.15 Having said that, there remain serious problems of public credibility and Parliamentary confidence to be fixed, the Government has its own new welfare and employment policies it wishes to implement and there are organisational issues arising from the establishment phase which need to be dealt with. As mentioned above, this is likely to require significant reconfiguration of the organisation and the redirection of plans for organisation development.

17.16 As we see it, Ministers now need to formulate a strategy to drive these changes, suitable frameworks and principles to guide them and an action plan establishing timeframes and responsibilities. Elements of this work have been done. Advice could be sought from officials as to how the threads might be pulled together.

17.17 Elements of such a strategy could include:

- the development of a clear and effective social policy framework;
- the formulation of a Public Service charter and guidance as to how this is to be operationalised at the departmental level;
- finalisation of the welfare and employment outcomes to which DWI is to contribute;
- Cabinet decisions on the five priority areas proposed by the Minister of Social Services and Employment:
 - resolving the role and placement of the Community Employment Group;
 - increasing the employment focus of the department;
 - introducing a number of service delivery developments arising from the beneficiary advocacy consultation process he has initiated;
 - improving the department's services to Maori and Pacific peoples; and
 - bringing about a culture change in DWI – a culture which would appropriately reflect the role and responsibilities of a core Public Service department and encourage collaboration and co-operation with other departments to achieve Government's objectives.
- agreement on Government's principal ownership risks in respect of DWI and how these are to be managed;
- completion of the Purchase Agreement and Chief Executive Performance Agreement for 2000/2001 which would incorporate all of the above;

- reconfiguration of DWI within an overall programme of organisation development to ensure the best fit between the Government's objectives and DWI's capabilities and to benefit from the experience of the management and staff over the first 18 months; and
- redesign of the performance management system to incorporate the policy and organisational changes which will flow from all the above decisions.

17.18 A strategy of this kind would incorporate both the Government's new directives and the concerns expressed in the course of this review. To give it public credibility it would need to be explicit and transparent and be managed from outside DWI (bearing in mind the chief executive's legal responsibilities set out in the State Sector Act). It will be essential also to provide from the outset for the review of the strategy and its components in, say, two years' time. Some of that will be done in the normal way through the central agency annual assessments and the monitoring departments' reports. It would be advisable, however, to build into the strategy implementation process provision for some form of comprehensive review - either a performance and efficiency review, an impact review (as described in the Controller and Auditor-General's first report for 2000) or both. The principal point is, as this review has shown, that if the Government is to know in two years' time whether the policy approach represented by DWI is effective, there must be a baseline and agreement on the performance measures (and it is clear that the latter at least has proved to be very difficult to resolve).

17.19 We have refrained from making specific recommendations because the first set of decisions needed to deal with the problems described in this review will be political ones, for Ministers alone to take. These political strategic decisions will provide the essential framework for the rest to follow and until they have been taken it is difficult to be specific about possible options.

17.20 There are two areas, however, which were specifically mentioned in our terms of reference and on which we have particular suggestions to offer. These are information technology and property management.

Information Technology

17.26 We suggest that the Chief Executive consult with the State Services Commission in respect of arrangements for the recruitment, appointment and retention of IT staff. We also suggest that the CE consider processes to enhance the understanding between internal providers of IT and users within DWI including the development of Service Level Agreements or some other form of contractual arrangements between the IT Business Unit as a provider of services and the various Business Units as users of those IT systems. Treasury advice could be sought as to how such arrangements could be designed.

17.27 We suggest that the chief executives of both MSP and DWI should act with urgency to develop an SLA between the two organisations to cover the obligations of MSP to provide operational services to DWI, including appropriate co-operation in system development and enhancement, and the obligations of DWI, as the purchaser of services to use the system appropriately and participate actively and responsibly in any developmental work that may impact on the operational activities of DWI or be required to maintain the integrity of the IAP. Any issues over outages or system performance could be settled in this context.

17.28 We suggest that the arrangement included in the SLA dated 31 March 1998 which currently binds DWI into the arrangements with EDS (NZ) Ltd be renegotiated as a matter of urgency. This should be a priority for the Chief Executive.

Property Management

17.29 We suggest that the Controller and Auditor-General be invited to include a property audit in the next audit of DWI and report to the Minister of Social Services in his report for the year 2000.

D K Hunn
Wellington
8 May 2000