

February 2011

# Paper 3: Department Review

Summary of change proposals

## DEPARTMENT STRUCTURAL CHANGE – SHORT/MEDIUM/LONG TERM RECOMMENDATIONS

**The task:** Ministers have asked for candidates for structural reform that could be advanced on the short, medium and longer term.

### **The principles we are using:**

We have identified three potential aims for the overall change programme: *better priorities, better public services and better run government*. Departmental change options can contribute to all three, but the primary benefits will be in delivering better coordination on priorities.

The principles used in reaching recommendations on departmental options are:

- Fewer agencies with clearer responsibilities and fewer overlaps – [REDACTED]  
*Withheld under s9(2)(g)(i)*
- Better performance
  - By building agencies around long term priorities to get better decision points where it matters most. Machinery of Government can be a powerful signal of a change in focus for an area.
  - By having the “best edges” - putting the key areas of co-ordination together rather than relying on networks and co-operation.
  - By improving ease of access to services for businesses and individuals.

The Government’s six policy drivers of economic growth can be used to test organisational focus. Coordination in the social sector is more difficult.

### **Fit with clusters/votes/governance:**

For most options there is a continuum from better coordination via networks to more formalised policy hubs/lead agencies through to agency mergers that should be considered from a cost-benefit perspective.

In the ‘*Smaller and Better*’ report, the project team emphasised the importance of considering vote, accountability and governance arrangements alongside any significant structural options. Most of the medium and longer-term options recommended for further consideration should include a review of vote arrangements and cluster connections and tools (either as a complement or alternative to structural change).

We consider that in some sectors non-structural options are likely to be the best means to drive improvement in coordination and prioritisation.

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### **Overall picture:**

The case for change in *Smaller and Better* deemphasised cash in hand savings, but promoted reconfiguration and refocus to improve trade-off considerations and service coordination.

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**Recommended Candidates for Active Consideration:**

		Fewer Entities	Better Efficiency	Better Focus on Priorities	Changes for Public
<b>Short-term</b> Start implementation next 6 months	<b>Fisheries into MAF</b> Better policy coordination Some savings - ~\$10m pa				
<b>Medium-term</b> Commission further investigation and implementation design over next 9 months	<b>Human Capital/Skills focus</b> Increase policy coherence <i>Withheld under s9(2)(f)(iv)</i>				

<p><b>Longer-term</b> Analysis as part of 2 year work-programme</p>	<p><i>Withheld under s9(2)(f)(iv)</i></p>				

**Other candidates that can be considered, but are not prioritised for attention:**

Some of these are very important areas, e.g *Withheld under s9(2)(f)(iv)* but currently are more a statement of an issue, rather than having a potential solution in mind.

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<p><b>Short-term</b></p>	<p><b>Response to Welfare Working Group recommendations</b> Will drive priorities for any policy, operational or structural change in MSD over next 12 months.</p> <p><b>Servicelink</b> Initial business case March 2011 may establish service transformation programme for IRD, MSD and DIA.</p>
<p><b>Medium-term</b></p>	<p><i>Withheld under s9(2)(f)(iv)</i></p>
<p><b>Longer-term</b></p>	

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## **ANNEX 1: Recommended short, medium and longer-term projects**

### **Ministry of Fisheries merged into Ministry of Agriculture and Forestry – SHORT TERM ANNOUNCEABLE**

**Overview:** The SSC has been investigating options to merge the Ministry of Fisheries into the Ministry of Agriculture and Forestry (effectively reversing the 1995 separation). Ministers asked for clarification of the financial implications of the merger option as the next step before deciding how to proceed. This analysis has been carried out and reviewed by an independent reviewer.

The SSC is now drafting a Cabinet Paper aiming for CBC on 28 February seeking agreement to advance the merger.

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#### **Rationale for a merger of MFish and MAF [Summary based on SSC Report 2/11-MoSS/1701]**

Merging MFish and MAF would create one agency with a focus on the protection and sustainable management of natural resources used in primary production. There is not a large amount of frontline operations synergy, but the merger would create an agency with greater capacity and capability in: strategic policy development, engagement with iwi and international partners, and science and risk management. It could also lead to more efficient management of interactions with the primary industries on regulatory issues, biosecurity, and food safety.

#### **Financial implications**

Net annual savings of at least \$8.5 million are achievable from the first full year after merger. A net reduction of at least 64 positions is expected. The chief executive of MAF has undertaken to deliver net annual savings of \$10 million from a merger of MFish and MAF, from 1 July 2012 (9.7% of the projected baseline for MFish in 2012/13). Savings could be shared by the Government and reduced cost recovery from the fishing industry. (The level of cost reduction for industry is uncertain.)

The merger would generate upfront costs of between \$5 million and \$6.5 million, depending on the final organisation structure and level of redundancies. The chief executive of MAF considers that the upfront costs could be met within baseline without impacting on service delivery.

#### **Risks and mitigations**

SSC has not tested the views of stakeholders and expect that some will have concerns; others will support the merger.

MAF is managing significant structural and cultural change as it amalgamates with New Zealand Food Safety Authority (NZFSA). Merger with MFish could disrupt or slow the existing MAF change programme. A mitigating factor is that the chief executive of MAF has come from MFish, bringing knowledge of MFish strategy and risks as well as effective relationships with its stakeholders.

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*Withheld under s9(2)(f)(iv)*



**Timing and Next Steps**

A merger date of 1 February 2012 would be optimal for planning and implementation, and is achievable provided the decision to proceed is made in the next two months.

A Cabinet paper is being drafted for consideration at CBC on 28 February.

## SKILLS AGENCY – MEDIUM TERM REVIEW

### Increasing the co-ordination across the Skills area

**Overview:** The performance of the skills development and utilization is important for New Zealand's economic growth. At the moment the overall policy is fragmented both across the relevant areas (immigration, labour markets, and education) and within the education system across the key 15-19 year old level (Ministry of Education and TEC).

**Recommend:** Active consideration of trying to gain greater policy coherence through amalgamating the Ministry of Education <sup>9(2)(f)(iv)</sup> and the Department of Labour functions for <sup>9(2)(f)(iv)</sup> and labour force skills development, forecasting and monitoring.. Re-amalgamate the smaller education Crown Entities into the new entity (particularly part of NZQA <sup>9(2)(f)(iv)</sup> but consider the need for independence for quality assurance (ERO and part of NZQA).

### Why are we considering the skills sector?

- Increasing the skill level of the New Zealand labour force is one of the key pillars for achieving higher living standards.
- However, currently policy developing relating to skills is split across a range of agencies, with the result of a lack of co-ordination and long term perspective across a key area. In particular a number of the key agencies appear to be focused on just part of the picture. Repeated initiatives over recent years to get greater coordination have had limited success.
- The issue is exacerbated some features that are unique to New Zealand. We have a very high overlap between senior secondary school and the lower levels of the tertiary system making coordination at this level particular important but often problematic. We also have used immigration as a significant source of skills relative to other countries, meaning that coordination between the education and immigration settings is more important here than elsewhere. We believe that improving coordination and quality assurance across these two areas is a key issue for enhancing the value of the spend in this area, and this has only partially been assisted by the recent shift of tertiary policy into the wider education policy area.
- We think the goal of any agency change should be:
  - Enhancing the focus on co-ordination across the skills development spectrum <sup>Withheld under s9(2)(f)(iv)</sup>
  - Shifting the various players into a greater awareness of the economic implications of their decisions;
  - Moving the thinking in this area into a longer term perspective (particularly, though not solely, in the area of labour force skills needs).

## Why recommend a review – rather than recommending change?

The sector is cluttered – but:

- It is unclear whether the solution is structural change. On one hand the sector is fragmented, and despite repeated attempts at coordination since the 2005 Education Sector Review, adequate coordination has not been achieved.

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- Even if it is best to have structural change, there are many ways in which the sector could be organised, each with its own potential gains and costs. These issues are sufficiently complex that they will take time to be thought through.
- It is obvious that if all of the existing skills related functions were just put together the new organisation would be both unwieldy and unfocused. Since this is not an option, the Government needs to consider what are the “best edges” for the skill sector and what processes need to be put in place to get the necessary coordination with the functions that remain outside.

## What do we mean by “the sector is cluttered”?

The following agencies could be seen as part of the skills sector. Some are more centrally involved than others, and the role played (such as policy, production or regulation) varies.

We recommend that the goal of any review should be that these agencies are aligned to meeting the Government’s objectives for skills development and utilization.

### ***Skill development in the New Zealand population***

- Ministry of Education – ECE, Schools, Tertiary policy
- TEC – tertiary funding and TEI oversight
- MSD - WINZ funding for training for job seekers
- NZQA – quality assurance and school exams
- ERO – quality assurance
- DoL – Skills strategy and labour market training
- ITOs with responsibility for identifying skills gaps and formulating strategies at industry level
- Schools and tertiary level providers

### ***The import of skilled workers***

- Labour –immigration policy

### ***Skill demand and utilization***

- Labour – skills forecasting
- MSD – unemployment policy and assistance (including job search and employer assistance)
- MED – business assistance (tilting the playing field – which may imply higher demand for some skills relative to others)

Estimates of the current expenditure and staff numbers in each of these areas is provided in the Appendix

**Are there any overseas examples we could draw upon?**

Most commonly the equivalent of the Ministry of Education is a standalone agency, though frequently it encompasses the roles of both the Ministry of Education and the TEC.

Where education has been part of a wider framework, then it has either been aligned with:

- social services to children and their families, or
- skills and work place policy, or
- with innovation or science, though this is usually only at tertiary level because of the importance of research in universities

<b>Some overseas examples</b>	
Australia (federal level)	<ul style="list-style-type: none"><li>• Have a Department of Employment, Education and Workplace Relations. However, the actual running of the schools system is largely done at state level so the organisation has quite a different range of operations compared to the NZ Ministry of Education</li></ul>
Britain	<ul style="list-style-type: none"><li>• Had a Department of Education and Skills from 2001 to 2007.</li><li>• Then it was split into a Department of Children, Schools and Families and a Department of Innovation, Universities and Skills.</li><li>• Since 2010 it has been re-established as a separate Department of Education.</li></ul>
Singapore	<ul style="list-style-type: none"><li>• The Ministry of Education covers both school and tertiary.</li></ul>

*Withheld under s9(2)(f)(iv). Pages 11 and 12 also withheld under s9(2)(f)(iv)*

## Appendix: Current expenditure in the skills area

Area	Approximate total funding for the sector (ie not just to run the agency). \$m	Approx staff numbers in the main Ministries as at 30/6/10
<b>Skills development</b>		
MoE - Early childhood	\$1,260	2,710
MoE - Schools – operations grants	\$4,550	
MoE - Schools – special ed/teachers resources etc	\$440	
MoE - Schools - property	\$1,360	
TEC - Tertiary education	\$1,830	298
MSD - vocational skills training <i>(there may be some other programmes as well)</i>	\$85	n.a.
NZQA – NCEA (school exams)	\$77	*
DoL - Immigration policy	c. \$15 ??	*
<b>Workplace</b>		
Careers Services	\$15	146
DoL - labour market	\$14	*
MSD - job subsidies and placement		n.a.
DoL - Immigration operations	c. \$200	2,024*
MED – business assistance (tilting the playing field – which may imply higher demand for some skills relative to others)		n.a.
<b>Quality assurance</b>		
ERO – school assurance	\$30	226*
NZQA – tertiary qualifications assurance (NZVCC for universities)	\$40	420
TEI - ownership monitoring	\$2	*

\* We have the total numbers for the agency but not the split within functions. We have put the total figure in the area where we believe staff numbers are highest.

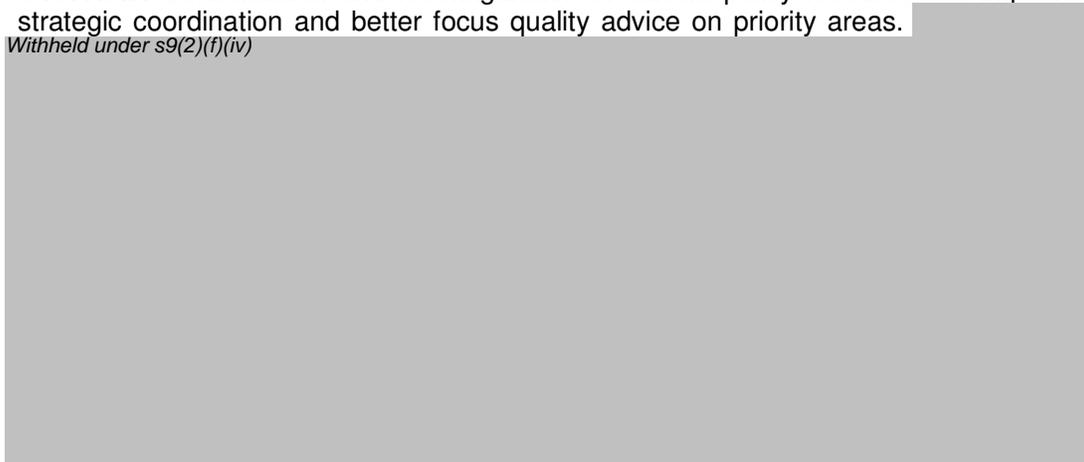
n.a. Numbers not available at this point in time.

Pages 14-23 withheld under s9(2)(f)(iv)

## POLICY HUBS – MEDIUM TERM OPTION

**Overview:** Consolidation and reconfiguration of current policy resource can improve strategic coordination and better focus quality advice on priority areas.

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*The Scott Review recommendations included:*

- Cabinet should mandate a lead agency in a cluster
- Clusters could facilitate the movement of policy resources, including policy staff, among agencies, or, going further, integrate policy advice and research into one agency.
- A 2% policy efficiency dividend should be collected and redistributed by STR to cross-portfolio and/or long-term work on big questions for NZ. DPMC to advise STR in consultation with lead cluster agencies.
- Central Agencies and Chief executives to advise on people for teams and support clear governance arrangements.

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## DEPARTMENT OF BUILDING AND HOUSING (DBH) – MEDIUM TERM REVIEW

**Overview:** The social housing area is currently under review, with the view to increasing the coordination with wider social welfare provision and increasing third sector involvement.

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### Background

1. The Government's social housing role, particularly the purpose and operation of Housing New Zealand Corporation (HNZC), has recently been reviewed following the report of the Housing Shareholders' Advisory Group (HSAG). Ministers considered their response to the HSAG report late in 2010 and agreed a new direction for social housing. The "New Direction" has four main underlying dimensions related to growing use of the third sector in the provision of social housing, more effective financial assistance for housing, clearer and more targeted role for HNZC

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**Appendix:** Current estimated breakdown of the expenditure by DBH (from the Estimates and their 2009/10 report)

<b>Role</b>	<b>Total expenses</b>	<b>Crown contribution</b>
<b>Regulating the building sector</b>		
• Building regulation and control	\$15.4	\$0.7
• Occupational licensing	\$7.6	-
• Sector and Regulatory policy	\$4.6	\$4.4
• Weathertight homes resolution service	\$12.6	\$15.1
<b>Tenancy services</b>		
• Residential Tenancy & Unit title service	\$21.3	\$4.8
<b>Government operations</b>		
• Monitoring HNZC	\$1.3	\$1.3
• Policy advice (was purchased from HNZC)	\$2.6	\$2.6
• Departmental capex	\$5.5	\$5.5
<b>Social housing expenditure</b>		
• Housing support from HNZC	\$25.0	\$25.0
• To HNZC to make up for income related rents	\$528.0	\$528.0
• Misc other community housing type funds	\$36.0	\$36.0
• Non-departmental capex (mainly HNZC)	\$388.0	\$388.0
<b>Total</b>	<b>c. \$1050</b>	<b>c.\$1010</b>

Pages 31-38 withheld under s9(2)(f)(iv)

## **ANNEX 2: Other short, medium and longer-term options for consideration or watching brief**

### **MINISTRY OF SOCIAL DEVELOPMENT**

#### **– configuration options and role in Social Sector – LONGER TERM**

##### **Overview:**

- The Government's response to recommendations from the Welfare Working Group (WWG) regarding changes in the nature of the benefit system or any shift of Work and Income to a Crown entity, or other more arms-length arrangement, may have a potential significant impact on the role and configuration of MSD.
- Responding to the WWG will require short-term work and determine the priority given to MSD options over a medium and longer work programme. This is best handled by existing processes.

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##### **Why might you consider structural change?**

- Welfare Working Group recommendations likely to raise significant choices about the benefit model (moving closer to social insurance with actuarial consideration of future liability) and structural changes (e.g. Work and Income as a Crown entity). These options will in turn raise significant questions about the focus of MSD and the treatment of any residual MSD functions if Work and Income were separated.

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- Are resources and services optimally coordinated across the wider social sector to improve traction on cross-agency social issues and present a more seamless user interface? MSD is playing an increasing policy and service coordination role which may drive a rethink of agency roles in the longer term as delivery and integration models change.
  - Whanau Ora and 'new approach to service delivery' Community pilots appear to introduce a new service bundling and purchase devolution model. If successful these may have longer-term implications for MSD role.
  - MSD provided secretariat support for Social Forum. MSD strategy team essentially operating as cross-agency policy shop on interconnected issues. It could develop this into basis for policy hub model.

##### **Recommend watching brief on WWG process:**

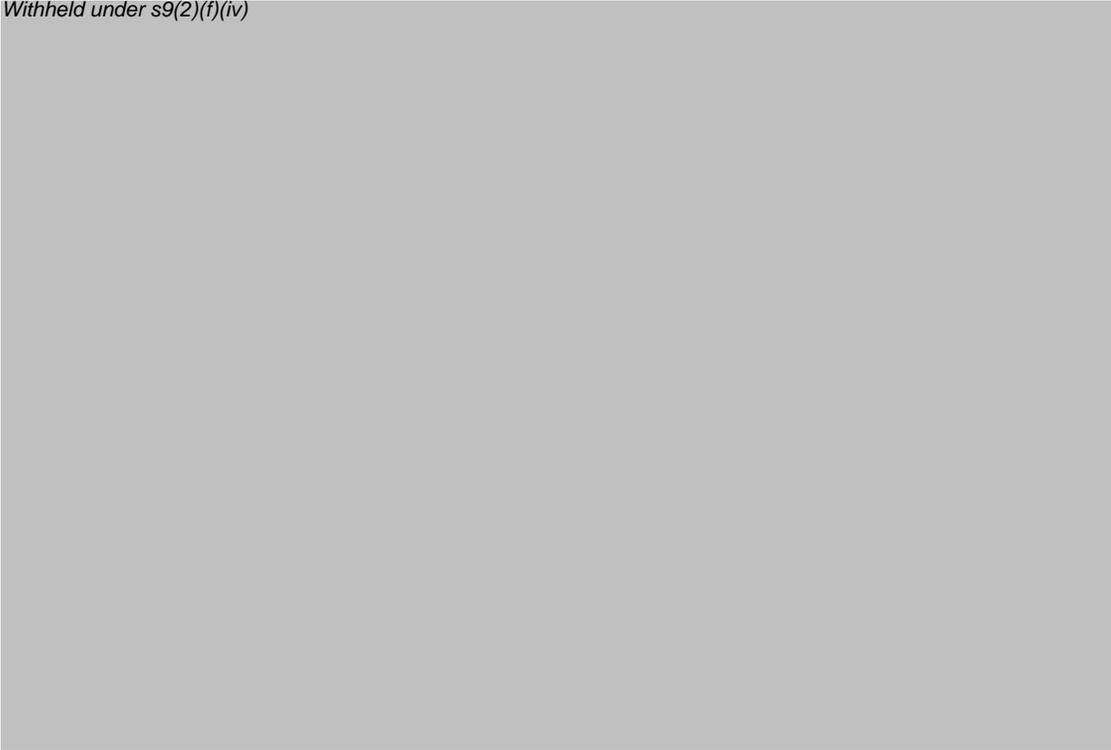
The nature of the WWG recommendations and the government's response to them will determine the priorities for any MSD changes (policy, operational or structural) over the next twelve months. As such the work programme is best left with the team responsible for responding to the WWG.

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## **SERVICELINK**

### **– SHORT-TERM decision on progressing business case**

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## **OTHER OPTIONS FOR CONSIDERATION**

- **A scan of other options that have not been closely examined.**

There are a range of additional options available for Ministers to consider that have not been closely examined in the current review. Further analysis could be commissioned on any of these.

### **Medium-term Options**

*Withheld under s9(2)(f)(iv)*



### **Longer-term Options**

*Withheld under s9(2)(f)(iv)*

